

# The Fatal Conceit Revisited

By Fred E. Foldvary and Daniel B. Klein

Only you know the fine points of your life. Only you know the changing details. Only you can know.

That's one of the classic economic arguments against government intervention. The vital stuff of the economy is unknowable to bureaucrats and politicians - and even to intellectuals and academics. Economic conditions and opportunities vary infinitely in time and place and, if grasped at all, are known to dispersed individuals with different facts and interpretations. The great economists Adam Smith and Friedrich Hayek concluded that the way to capitalize on market opportunities is to leave individuals free to act on their local knowledge.

But maybe technology can give policymakers the knowledge they need. Technology certainly enhances the informational capabilities of regulators. Can governments then improve markets by managing the economy?

Some might claim that we simply need to make sure the regulators are good people, working in the public interest. Does that mean we lay down arms against regulators and let them put their technology-enhanced competence to work for us?

No. Adam Smith and Friedrich Hayek remain as vital as ever. For technology strengthens the case for decontrolling the economy, no matter the advantages it may afford to the regulator. That's because technology enhances the capabilities of all facets of the economy, and the magnitude and rapidity of these decentralized connections expands greatly. The whole becomes much more complex than ever before.

Technology enhances the regulator's informational capabilities. But at the same time it complicates what it is the regulator seeks to know. An economy is more complex when it has more members and more interaction among them. Also, there is a greater variety of products, finer division of labor and capital goods, and more and varied communications among people. The pace of change accelerates.

Local workers, managers, and customers know their products and relationships. There are intuitive skills, information, and communications that even the people involved are not fully aware of and could not fully articulate. Each person's knowledge changes day by day. So, even if government had an army of data-gatherers, it could not possibly keep current with the data, let alone interpret it to create a coherent and useful interventionist policy.

It is not a matter of having better data collection and bigger computers. The basic fact is that greater complexity makes the processes increasingly unknowable. "Data" presuppose a scheme of classification, a formulation of categories, a practice of deciding what will be counted as what. Greater complexity makes any interpretation of the whole less complete and less definitive. The economic cosmos is unknowable because the categories of goods and services become so multitudinous and the relations among them impossible to

interpret in any useful way by central authority.

Because the hardest part of knowing is, not merely getting the facts, but getting the interpretation right, the complexity that technology brings tends to outstrip the informational capabilities of the regulator. The economy is less "masterable", not more.

Except in the most clear-cut cases of systemic harm, such as pollution, the idea that government officials can figure out how to improve upon the results of decentralized, voluntary decision-making becomes more and more questionable. In his Nobel lecture, Hayek called that supposition the "pretense of knowledge."

The economy is like the complex patterns of skating in a skating rink. Hayek called it a spontaneous order, as all the actors-consumers, investors, employees, managers, entrepreneurs-plan and act spontaneously on the basis of their local conditions. As with the skating rink, there is order in the market, so that resources are used and allocated in ways that people demonstrably want. Food from all over the planet ends up neatly packaged at your local supermarket, and people manage to commute from many origins to many destinations without a central hand to direct them.

When thinkers ponder the complex workings of the social world, they really know little aside from one hardy maxim: If those who participate in an activity do so voluntarily, each is probably bettering his own condition. The more complex the system, the more skeptical we ought to be about claims to knowledge that go beyond and against that maxim.

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