

**Toward a Hayekian Theory of Commodification and Systemic Contradiction:
Citizens, Consumers and the Media**

Gus diZerega

The Review of Politics 66:3, Summer, 2004. 445-468

F. A. Hayek developed a number of core insights into the nature of social and political reality. None are more central to his thought than his study of “spontaneous order:” patterns of coordination arising within systems of action which are not deliberate constructions of either those outside the system or those acting within it. This concept is analogous to terms increasingly encountered today in other fields, such as emergent order, self-organizing system, and mutual causality.¹ Among spontaneous orders, Hayek

¹ F. A. Hayek, *Law, legislation and Liberty: The Political Order of a Free People*, vol. III., (Chicago: University of Chicago Press, 1979), p. xii; Laurent Dobuzinskis, *The Self-Organizing Polity*, (Boulder: Westview Press, 1987), Gus diZerega, *Persuasion, Power and Polity: A Theory of Democratic Self-Organization*, (Cresskill, NJ: Hampton Press, 2000); Joanna Macy, *Mutual Causality in Buddhism and General Systems Theory: The Dharma of Natural Systems*, (Albany: State University of New York Press, 1991); and Steven Johnson, *Emergence: The Connected Lives of Ants, Brains, Cities, and Software*, (New York: Scribner, 2001). Perhaps the first time the term was used in this sense was by James Mill in his essay "Nature," *Collected Works*, Volume 10, p. 381. I am grateful to Linda Raeder for this information.

included the market, common law, custom, language, science, and society as a whole.² The concept has also been independently applied to liberal democracy.³

Spontaneous orders are distinguished from what Hayek termed “made orders,” such as bureaucracies and corporations, because their patterns of coherence arise from participants pursuing self-chosen goals, often in ignorance of the goals pursued by other participants. Consequently, any coordination of action that arises must be independent of participants’ intentions. Coordination in spontaneous orders is accomplished by signals participants pick up, enabling them to adapt to systemic changes engendered by earlier actions of others.

A spontaneous order is primarily a communication network. The signals it generates increase the likelihood that participants’ independently chosen plans will be successful. The signals take place through elaborate patterns of feedback arising out of the procedural rules that generate self-organizing process. Such rules are silent as to what goals can be sought, but specify how the seeking shall take place. At a general level, they must promote cooperation because the more participants expect reliable relationships the more they will pursue their goals within that system of rules.

As a spontaneous order, Hayek argued the market could integrate far more information than could deliberately imposed planning, and do so in a way that facilitated

² F. A. Hayek, *Law, Legislation and Liberty: Rules and Order*, (Chicago: University of Chicago, 1973).

³ R. J. Rummel, *Power Kills: Democracy as a Method of Nonviolence*, (New Brunswick, NJ: Transaction, 1997); Gus diZerega, Democracy as a Spontaneous Order, *Critical Review*, 3:2 (1989), 206-240.

successfully achieving more individual purposes than could any deliberately controlled social order. This ability to interpret enormous quantities of information independently of human planning, and making it available to others in simplified form characterizes spontaneous orders. This is why Hayek described them as “complex.”⁴ Within a complex order, no participant could have any but the most fragmentary knowledge of the whole. Whatever order exists arises independently of specific intentions by those acting within it. In principle there is no limit to the complexity attainable by such an order.

While the market was not the only spontaneous order Hayek identified, it always remained the focus of his attention. Writing during a time when opponents of markets appeared to be on the intellectual and political ascendancy, Hayek’s focus on the advantages of market over planned economies was understandable. But in defending the market against advocates of central planning he had little time or opportunity to explore more thoroughly the theoretical insights he had developed. Left largely unexamined was how different spontaneous orders act upon one another.

This paper argues relationships between different spontaneous orders in liberal society carry more tensions than usually acknowledged. In exploring these tensions, I develop a Hayekian theory of systemic contradiction. It will then be used to examine commodification in liberal society, particularly the growing subordination of public values to purely financial criteria in the news media.

Hayek’s Two Views of Public Policy

⁴ F. A. Hayek, *The Theory of Complex Phenomena, Studies in Philosophy, Politics and Economics*, (New York: Simon and Schuster, 1967).

Hayek often sought to delineate the appropriate bounds of political action in market societies. Interestingly, he allowed for governmental action far beyond what was believed appropriate by many classical liberals and libertarians.⁵ Acknowledging a need for substantial public policy combined with suspicion of its safety and efficacy, Hayek sought to discover its appropriate limits. He never resolved the matter, leaving us two very different perspectives on the issue.

The first Hayekian standard was expressed in terms of externalities and public goods in the economist's sense. But Hayek offered another more procedural and political standard. This second is in better keeping with his emphasis on the limits to human knowledge and the central role discovery must play in complex social institutions where no participant can have any but the most fragmentary knowledge of the whole.

Economistic Politics

In *Law, Legislation and Liberty*, Hayek wrote that while provision of and control over “commodities in the narrow sense” are most appropriately confined to the market order, with respect to land “this is true only to a limited degree.”⁶ “Neighborhood effects” as well as pollution and the like, may not be factored into decisions having

⁵ Gerard Radnitzky, Hayek on the Role of the State: A Radical Libertarian Critique. *Policy*, Autumn, 2000, pp. 16-20; Hans-Hermann Hoppe, F. A. Hayek on Government and Social Evolution: A Critique, Christoph Frei and Robert Nef, eds., *Contending With Hayek*, (New York: Peret Lang, AG. 1994), pp. 127-59.

⁶ Hayek, *Political Order of a Free People*, p. 43.

important impacts on others. These are the externalities, so familiar to economists and economically literate political scientists.

Hayek continued, sometimes “ it is either technically impossible, or . . . prohibitively costly, to confine certain services to particular persons” After providing a list of examples he added: "In many instances . . . such services [will] not be provided by the market. These are collective or public goods proper, the provision of which it will be necessary to devise some method other than that of sale to individual users."⁷

From this perspective government can appropriately be called upon to deal with significant positive and negative externalities and assist in the provision of true public goods. To objections that this approach expands the realm of governmental coercion beyond the classic “night-watchman state” enforcing rules of just conduct, Hayek replied⁸

. . . a truer way of looking at it is to regard it as a sort of exchange: each agreeing to contribute to a common pool according to the same uniform principles on the understanding that his wishes with regard to the services to be financed from that

⁷ op. cit., p. 44.

⁸ op. cit., p. 45. There is an ambiguity here. Benefiting proportionately to one's contributions and benefiting more than one contributes are different standards. I can benefit proportionately and still regard myself as worse off. I can benefit less than anyone else and regard myself as better off. Hayek's argument depends upon the latter meaning, which is also central to his defense of the legitimacy of market inequality. see *Law, Legislation and Liberty*, vol. II. *The Myth of Social Justice*, (Chicago: University of Chicago Press, 1976) 73-4, 94, 98-9.

pool will be satisfied in proportion to his contributions. So long as each may expect to get from this common pool services which are worth more to him than what he is made to contribute, it will be in his interest to submit to the coercion. . . . all we can aim at will be that each should feel that in the aggregate all the collective goods which are supplied to him are worth at least as much as the contribution he is required to make.

Here Hayek offers a market economist's approach to evaluating governmental action; distinguishing between private and public goods, and making ample allowance for a vigorous public sphere, but justifying it by purely economic reasoning. The market should provide all goods through contractual processes except when externalities are serious enough to require governmental action, or genuine public or collective goods are involved. Even so, Hayek reminds his readers, "in the case of public goods proper, as well as in some instances of these 'external effects' which make part of effects of individual activities a kind of collective good (or collective nuisance), we are resorting to an *inferior* method of providing these services because the conditions necessary for their being provided by the more efficient method of the market are absent."⁹

⁹ op. cit., p. 46.

A Very Different Alternative

Other passages in Hayek's work suggest a different view. In volume II of *Law, Legislation and Liberty*, Hayek wrote¹⁰

the services which the government can render beyond the enforcement of rules of just conduct are not only supplementary or subsidiary to the basic needs which the spontaneous order provides for. They are services which will grow in volume as wealth and the density of population increase, but . . . which must be fitted into [the] comprehensive order of private efforts which government neither does nor can determine, and which ought to be rendered under . . . the same rules of law to which the private efforts are subject

Later in the same volume, Hayek elaborated¹¹

There is no reason why in a free society government should not assure to all protection against severe deprivation in the form of an assured minimum income, or a floor below which nobody need descend. To enter into such an insurance may well be in the interest of all; or it may be felt to be a clear moral duty of all to assist, within the organized community, those who cannot help themselves. So long as such a uniform minimum income is provided outside the market . . . this need not lead to a restriction of freedom, or conflict with the Rule of Law."

¹⁰ F. A. Hayek, *Law, Legislation and Liberty: The Mirage of Social Justice*, vol. II. (Chicago: University of Chicago Press, 1976), p. 7.

¹¹ *op. sit.*, p. 87; see also 1979, p. 55.

By “outside the market” Hayek meant policy should not interfere with the basic rules of just conduct that generate the market order. “Interference, if the term is properly used, is therefore by definition an isolated act of coercion, undertaken for the purpose of achieving a particular result, and without committing oneself to do the same in all instances where some circumstances defined by a rule are the same.”¹² Unless a very wide conception of “externality” is adopted, this standard does not fit Hayek’s earlier strictures on the appropriate limits of government policy. His reference to “a clear moral duty of all” in particular is in some ways more Aristotelian than economic in tone since, as Aristotle wrote, “it is . . . for the sake of good actions, and not for the sake of social life, that political associations must be considered to exist.”¹³ (1958, 120) Hayek recognizes a political community can legislate for moral as well as prudential reasons.

Hayek also observed that over time people tend to benefit disproportionately from the success of family members devoting their wealth to improving their children’s lives. This is not necessarily a problem, though it will “tend to increase the discrepancy between the merits of a person’s current efforts and the benefits which he currently receives.”¹⁴ On balance, everyone, even the poor, benefit from the market order, although not always equally.

¹² op. cit., p. 129.

¹³ Aristotle, *Politics*. Sir Ernest Barker, ed. (London: Oxford University Press, 1958), p. 120.

¹⁴ Hayek, 1976, p, 131.

However, “This is not to say that there may not be a case in justice for correcting positions which have been determined by earlier unjust acts or institutions. But unless such injustice is clear and recent, it will generally be impracticable to correct it. . . .”¹⁵ Again, he offers a cautious acknowledgement of moral standards and obligations to one another as a basis for public policy. Prudence cautions against carrying attempts to alleviate past injustices or present misfortunes too far, but there is nothing in principle illegitimate about such efforts.

Hayek also favored government support for the costs of general education.¹⁶ Children, he argued, could not be expected to understand the need for education nor are parents always “able or prepared to invest in the children’s education as much as would make the returns on this intangible capital correspond to those on material capital.” Even for adults, “education may awaken . . . capacities they did not know they possessed. Here, too, it may often be the case that only if the individual is assisted during the first stages will he be able to develop his potentialities further by his own initiative.”¹⁷

This argument easily fits neither Hayek’s public goods analysis nor his discussion of negative and positive externalities as reasons for governmental action. Neither consumer choice nor economic efficiency count much here except as a result of policies adopted for, it seems to me, other reasons. (One could argue that cultivation of human potential creates a critical condition for consumer choice and economic efficiency, but Hayek himself does not use these concepts as ultimate values.)

¹⁵ op. sit., p. 131.

¹⁶ Hayek, 1979, p. 61.

¹⁷ op. sit., p. 61

As I read him, Hayek offers instead an argument for the public cultivation of human potential, one more Jeffersonian than economic because the argument is not promoting prosperity but “developing one’s capacities.” Such a view can be found in the older liberal tradition with its concern for autonomy, but not in the contemporary “classical” liberal perspective with which Hayek is often associated.¹⁸

The *Constitution of Liberty* constituted Hayek’s most complete attempt to outline the case for a liberal political and economic order. There he wrote¹⁹

"While most of the arguments advanced in favor of government control of private activity in the interest of conservation of natural resources are. . . invalid . . . the situation is different where the aim is the provision of amenities of or opportunities for recreation, or the preservation of natural beauty or of historical sites or places of scientific interest, etc. . . .

"The case for national parks, nature reservations, etc., is exactly of the same sort as that for similar amenities which municipalities provide on a smaller scale. There is much to be said for their being provided as far as

¹⁸ On the importance of autonomy over both liberty and equality in early liberal thought, see Thomas A. Spragens, *Civic Liberalism: Reflections on Our Democratic Ideals*, (Lanham, MD: Rowman and Littlefield, 1999), pp. 113-145.

¹⁹ F. A. Hayek, *The Constitution of Liberty*. Chicago: University of Chicago Press, 1960), pp. 374-5.

possible by voluntary organizations But there can be no objection to the government's providing such amenities . . . so long as the community approves this, in full awareness of the cost . . .²⁰

Hayek is clearly not writing about traditional public goods for, from one perspective, these values can be made available on a pay per visit basis.²¹ Yet if we adopt the language of externalities to account for these possibilities the concept is again stretched to the breaking point. Perhaps I feel good knowing that a public wildlife refuge exists, which constitutes an externality if the transaction costs of collecting support from me are prohibitive. But if my good feelings are a significant “externality” almost anything might be.

Hayek offers two different (although not strictly contradictory) approaches for determining appropriate political action. One is economic and technical in nature. Citizens and public discussion are not needed to determine policy. In principle, economists can do it all by themselves, although judgment is still required to distinguish significant from insignificant externalities. Such a perspective need not endorse political democracy.

²⁰ This way of putting the matter suggests that there can be more than a single public good for a single person because a person may be a member of more than a single public. Other than bringing this to attention, this paper will not explore these observations. But see diZerega, 2000, p. 266.

²¹ Terry L. Anderson and Donald R. Leal, *Free Market Environmentalism*, revised ed., (New York: Palgrave, 2001), pp. 59-74.

Hayek's second approach is rooted in citizen consent and cannot be determined by economic analysis alone. It requires ethical, prudential, and even aesthetic judgment. Why, we might well wonder, does he move beyond his more traditional economic framework?

Unlike the assumptions of orthodox economic theory, Hayek believed there is a tension between the market order and human psychology.²² We evolved in small groups and are inclined, he believed, to think in terms of control and responsibility in human society. This leads, he argued, to a long-term bias against impersonal social orders, however great their advantages to human well-being. Further, the market tended over time to undermine traditional networks of community welfare. Given the undeserved nature of much economic misfortune, public assistance was warranted.

Hayek argued for the importance of face-to-face organizations and groups not immersed in the market order for human well-being. He accepted Richard Cornuelle's distinction of an independent sector distinct from the traditional conceptions of public and private.²³ Hayek explicitly accepted the importance of values ill served by traditional market mechanisms, and not reducible to dollars and cents calculation. He acknowledged the legitimacy of what are often termed public values, but hoped they would be well

²² Hayek, *Law, Legislation and Liberty, Vol. III: The Political Order of a Free People*, (Chicago: University of Chicago Press, 1979), 153-176.

²³ Hayek, (1979) 50-51. See also Richard C. Cornuelle, *Reclaiming the American Dream: The Role of Private Individuals and Voluntary Associations*, (New Brunswick: Transaction, 1993), 35-41.

served by the independent sector. However, if that failed to happen, he acknowledged the legitimacy of democratic political action.

While Hayek never developed an explicit theory of democratic politics, he came tantalizingly close.

In *Constitution of Liberty*, Hayek observed, that²⁴

Democracy is, above all, a process of forming opinion. Its chief advantage lies not in its method of selecting those who govern but in the fact that, because a great part of the population takes an active part in the formulation of opinion, a correspondingly wide range of persons is available from which to select. . . . It is its dynamic, rather than in its static, aspects that the value of democracy proves itself. As is true of liberty, the benefits of democracy will show themselves only in the long run, while its more immediate achievements may well be inferior to . . . other forms of government.”

Hayek argues that democracy is a process of discovery, writing “It is because we do not yet know which of the many competing new opinions will prove the best that we wait until it has gained sufficient support.” Further, “It is because we normally do not know who knows best that we leave the decision to a process which we do not control.”²⁵ Hayek’s praise is remarkably similar to his praise of spontaneous orders.

These are isolated insights, interspersed in texts filled with warnings about the inferiority and dangers of governmental power. Hayek never explored very deeply what

²⁴ Hayek, 1960, pp. 108-9.

²⁵ op. cit., pp. 109-10.

kind of discovery was involved. As we have seen, he mostly considered it inferior to the kinds of discoveries made in markets. But what if democracy is oriented towards making *different* kinds of discoveries? Hayek's many examples in the passages above suggest it is. For these moral and prudential values, politics is not reducible to monetary terms, which is why extra market means were needed. If democracy can discover values markets cannot, then it is not the case that democracies are inferior to markets. They may be inferior to markets for doing what it is that markets do best, but for different kinds of discovery democracies may be superior to markets.

Context and Consent

In *The Economy of the Earth*, Mark Sagoff described a dilemma with traditional economic approaches to evaluating consumer choice and consent. A number of years ago, when the Disney Corporation proposed building a ski resort in California's Mineral King valley, Sagoff asked his students whether they would want to visit the resort if it were built. Most indicated they would. He then asked them whether the resort should be built. Most regarded the idea as an abomination.²⁶

A superficial analysis would hold that the students' choices contradicted one another. A cynic would say money speaks louder than words, and so it should be built. A more insightful approach would note that the students chose within two different contexts. First, assuming the resort existed, what would they do? Second, should the

²⁶ Mark Sagoff, *The Economy of the Earth: Philosophy, Law and the Environment*, (Cambridge University Press, 1990), pp. 50-1.

resort exist? These are different questions, and there is no contradiction in the answers the students gave.

The situation Sagoff describes is hardly unusual. I can coherently approve of high “sin” taxes on cigarettes and alcoholic beverages, and also buy my cigarettes, beer and wine where they are sold most cheaply. I can support a wide variety of governmental programs and taxes to pay for them, and take advantage of every tax loophole I can find.

These examples illustrate how context influences choice. In one instance I am asked what should be the context of general rules and values within which I will act. In the other, the context of rules and enforced values under which I act is taken for granted, and I seek to obtain the most advantageous outcome for myself, given the concrete choices confronting me.

We can in principle adopt a mutually acceptable constitutional framework for promoting values we think important for our community. This is true even if we expect sometimes to lose. This framework establishes a “common good” for the community concerned. It creates a different, and appropriately prior, context for decision-making than does the market.

Determining public values and goods for a society involves our acting in a different capacity than when acting as private individuals seeking our goals within the framework set up by our acting in that first capacity.²⁷ Both kinds of action are rooted in consent, but what we consent to is different. When acting privately, consent is between individuals concerned with private goods. These goods, or values, need not be

²⁷ Bernard Crick, *In Defense of Politics*, (Harmondsworth, England: Penguin, 1962).

commercial. Friendship is a private good. But all involve individually chosen actions in narrower contexts than choosing public goods and values.

Discovery and the Public Good

Public goods in this sense are different from the term in economic theory. They are goods for us as a community. Discovering them depends on public decision-making. We ask “what do I think is best for *us*?” And at some point we decide. Of course, any of us *can* ask “What do *I* want?” But in this context, when the “us” is lost from sight, such reasoning becomes corruption. Corruption is an ongoing problem in public discussion and decision-making, just as fraud and deception is an ongoing problem in private exchange.

The procedural rules of formal political equality, freedom of speech, organization, and the press, generate the spontaneous order we term liberal democracy. “Democracy” in this sense includes the entire field of political communication and discovery, and not just formal political institutions such as parties and legislatures. Like the rules generating the market, they apply to all equally do not specify particular goals. Like the market, they generate as much a system of discovery as a framework for action.²⁸ In his discussion of policy formation, John Kingdon calls democracy an “organized anarchy,” comparable to evolutionary processes or “organized complexity” such as Hayek

²⁸ On democracy as a spontaneous order, see Gus diZerega, (1989); *Elites and Democratic Theory*, *ROP*, 53:2. (1991), 340-372; *Democracies and Peace: The Self-Organizing Foundation of the Democratic Peace*, *ROP* 57:2, (1995) 279-309, and (2000).

emphasized, although he appears unaware of Hayek's relevance.²⁹ From this perspective the public good has two levels: the formal or constitutional, encompassing decision-making rules, broadly conceived; and the substantive: the laws and policies adopted under those rules.

Ideally, the public good is discovered and constituted by a process of political discussion and decision-making under fair rules for political equals. Only such rules could reasonably win universal rational assent. Equality in this case means that all citizens possess the same formal rights of participation, even if they make different use of such rights, and that all have a "reasonable" opportunity to influence decision-making.³⁰ Actual practice falls short of this ideal, but approaches it closely enough that democracies are not comprehensible as organized hierarchies of rule.

We have described a conception of the public good closer to Jefferson, or perhaps even Aristotle than to neoclassical economics, and have done so entirely through Hayekian reasoning. The only new element added is the observation that our choices are strongly influenced by the context in which we act. In a different context Hayek acknowledges this insight in his analysis of how market processes teach rationality.³¹

From this perspective the public good is whatever arises out of a context of public decision-making under fair procedural rules. Of course, it can be mistaken. Still, like the

²⁹ John Kingdon, *Agendas, Alternatives, and Public Policies*, 2nd. ed., (New York: Longman, 1995) p. 86, and p. 223; Hayek, 1967.

³⁰ diZerega, (1991)

³¹ Hayek, 1979, pp. 75-6.

market, democratic politics is fundamentally a discovery process aided or hindered by the structure of rules within which it operates.

Different spontaneous orders arise out of different facilitating rules. No single set of rules suffices for all kinds of complex cooperation because we seek different kinds of values through working with others. For example, the rules promoting market exchange are not well suited for investigating the character of physical reality. In turn, the rules of scientific inquiry are also poorly suited for producing consumer goods. Yet science, as Hayek acknowledged, is as much a spontaneous order as the market.³²

Any signals generated by the rules maintaining a spontaneous order simplify the values motivating human action. With respect to the market, democracy, and science, we need not agree on anything but prices, the number of votes, or the quality of research. These simplifications necessarily involve a loss of potentially relevant information.

Systemic and Individual resources

Building on our distinction of democratic politics as serving different values from market action enables us to begin developing a Hayekian theory of systemic contradiction. As used in this paper, “systemic contradiction” refers to clashes at the systemic rather than the individual level between either two self-organizing systems of social coordination, each promoting incommensurable values, or between instrumental or

³² Hayek, 1979, p. 68. See also Michael Polanyi, *The Republic of Science: Its Political and Economic Theory*, in Marjorie Grene (ed.) *Knowing and Being: Essays by Michael Polanyi*, (Chicago: University of Chicago Press, 1969) pp. 49-72; *The Logic of Liberty*, (Chicago: University of Chicago Press, 1951) pp. 49-90.

“made” organizations within a system and the system itself. (Such orders can also assist one another as well, as when economic development makes new kinds of scientific investigation possible. But this is not the focus of the present paper.)

Spontaneous orders enable individuals to pursue self-chosen goals they deem compatible within the framework of procedural rules they confront. Markets, and the habits of monetary and other instrumental calculation they encourage, help develop greater acceptance and appreciation for commercial values of trading and selling, in great contrast to pre-market societies.³³ Science developed procedural rules of investigation aimed at finding “reliable knowledge” in John Ziman’s terms.³⁴ That is, knowledge that ideally could be relied upon regardless of people’s personal philosophies and preferences. Liberal democracies, as Hayek almost grasped, rely on rules whose purpose is to facilitate a political community’s peaceful discovery and implementation of the public good.

In a liberal order, various coordinating systems interact in complex ways. Within that order, each person independently weighs what values can be effectively pursued within their frameworks, as well as values that may not be well suited for pursuit within such orders, such as love and friendship. There is no contradiction at the level of the actor. Each person ranks these values in whatever way seems to them most fitting.

However, there is another level of analysis beyond the individual, that of a system of coordination as a whole. Neither markets nor science nor liberal democracy are

³³ Hayek, 1979, pp. 75-6.

³⁴ John Ziman, *Reliable Knowledge: An Exploration of the Grounds for Belief in Science*, (Cambridge: Cambridge University Press, 1978).

closely coupled with the complexities of individual psychology. Because they are the impersonal result of countless individual acts, these spontaneous orders exist independently of the particular intentions of those participating within them, confronting their participants as objective realities. So long as they follow the relevant procedural rules, human beings will generate these orders regardless of their personal qualities and motivations.

Distinguishing between individual and systemic characteristics allows us to differentiate between individual and systemic resources. Individual resources are whatever a person finds useful in the pursuit of whatever goals he or she seeks to accomplish. Systemic resources are defined by a system's feedback mechanism, and may or may not be particularly important to individuals acting within them. In the market, feedback occurs through profit and loss, and the market's systemic resource is money. In science, feedback occurs through peer recognition of a scientist's work. Science's systemic resource is professional recognition. In liberal democracy feedback occurs through votes. Democracy's systemic resource is political influence.³⁵

Systemic success is defined as increasing a participant's access to systemic resources. Systemic failure reduces that store. But personal satisfaction is logically and empirically disconnected from being defined in terms of systemic resources. Systemic success is not the same as individual success. I can have few systemic resources and regard myself, and be regarded by others, as having led a good, happy, and successful life. I can acquire many systemic resources and be utterly miserable.

³⁵ Gus diZerega, Market Non-neutrality: Systemic Bias in Spontaneous Orders. *Critical Review*, 11:1 (1997).

In modern society people participate in several spontaneous orders, whose values rarely if ever perfectly reflect their individual values. However, by participating within an order, people increase its complexity, that is, the amount of information it coordinates independently of human intent. In doing so they strengthen its relative independence from concrete human intentions.

By participating, people increase or decrease their supply of systemic resources, and therefore their ability to influence the system within which they participate. However, because each person is motivated by more values than are served by any particular spontaneous order, they will often seek to convert resources obtained within one system into another system, the better to pursue their personal goals. All this intricacy plays out not only at the level of individual satisfaction, it also influences the interactions of these systems with one another, as mediated through the minds and plans of participants. And these systems are experienced by their participants as operating largely independently of human intent.

Systemic Conflict

We can now locate three points of systemic conflict:

I.

Those with systemic resources can try to expand their success within the system through creating ever stronger goal pursuing organizations seeking to subject the system's self-organizing character to explicit organizational priorities. There are of course other ways to seek systemic success, but this approach brings the seeker into conflict with the rules generating the system itself.

A major example of this conflict concerns the role information plays in spontaneous orders and instrumental organizations. Spontaneous orders benefit from information-rich environments because we can never tell in advance who will find the what piece of information useful. Instrumental organizations, by contrast, regard information as a valuable resource, one best controlled for the benefit of the organization or its leadership. Freely available information is valuable within a spontaneous order because we cannot tell in advance what information will be used productively whereas in an instrumental organization this same characteristic can be a threat.

A spontaneous order depends on no organization being able to free itself significantly from its subordination to self-organizing processes. Organizations must continually adapt to situations outside their control. When holders of substantial systemic resources experience the need to adapt as a burden, they will have private interests at odds with the values generating the system as a whole. This, of course, describes the appeal of monopoly and oligopoly to organizations in the market, academic science, and democracy. This is an internal systemic contradiction in the sense that the interests of the organization are opposed to the interests of the order within which it exists.³⁶

II.

³⁶ Of course, organizations can also take on an additional relative independence from their members, but that is another matter. James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It*, (New York: Basic Books, 1989), pp. 90-110.

Those with systemic resources acquired in one spontaneous order can seek to use them to acquire systemic resources in another order. The partial convertibility of systemic resources from one spontaneous order to resources in another is an advantage for individuals. The narrowness of systemic resources compared to the values most people seek makes this convertibility a benefit because no single system of action can encompass the full complexity of individual values. Here I think Michael Walzer's *Spheres of Justice* goes much too far in attempting ideally to seal different spheres of human activity off from one another.³⁷ Walzer apparently assumes that individual lives should be as compartmentalized as the spheres of justice he describes. But we do not usually live such compartmentalized lives, and systemic resources by themselves are rarely our goals. Their convertibility is important for their coordinating capacity by making them more valuable to us as means.

I can use my political influence to acquire money or my money to acquire political influence. Perhaps I make major scientific discoveries, winning professional recognition. I then use my reputation and the promise of my future work to obtain financial backing developing patents spun off from my research. The same can hold in politics. Perhaps my public prominence leads to opportunities for money making upon my retirement. Bob Dole's advertising of viagra is an ethically benign example. In all these cases I am *better* able to pursue my life goals by virtue of the convertibility of resources from one system into those of another.

However, there is also the systemic level of analysis, existing independently of the concrete content of individual choices, values, and goals. At this level, resources

³⁷ Michael Walzer, *Spheres of Justice*. (New York: Basic Books, 1983) p. 298.

generated from outside a system but converted to resources for acting within can influence the system's coordination process by generating alternative sources of feedback not generated within the system itself. A relatively clear example is when there are attempts to control scientific conclusions by political or economic interests, generating negative or positive feedback not connected to the system's own integrity.³⁸

This kind of systemic contradiction is a natural outgrowth of individuals pursuing ends that comprise a human life, rather than staying within the less dimensional model of values underlying the rules generating any particular spontaneous order. Fortunately, established spontaneous orders appear to be quite robust, and apparently can absorb considerable "spill-over" of this kind. However, if the influx of extra-systemic resources is great enough, the system's capacity to pursue its own values is undermined. Here is our second systemic contradiction: one system essentially colonizes another by distorting and even overwhelming its feedback processes.

III.

Related to this contradiction is a third: the problem of systemic actors using their resources to expand these systems within society as a whole, encompassing new areas of human life. Insofar as these new areas are compatible with systemic values we have simply expanded the realm of impersonal cooperation and productivity. This, of course, is the typical free-market liberal position with respect to the market order. But as with

³⁸ For examples in field biology, see Alston Chase, *Playing God in Yellowstone: The Destruction of America's First National Park*, (New York: Harcourt Brace Jovanovich 1987), pp.170-94; Karl Hess, jr., *Rocky Times in Rocky Mountain National Park*, (Niwot, CO: University Press of Colorado.1993), pp. 86-93.

our previous example, the expansion may also be a kind of colonization, where new values are imposed upon the old, independently of the wishes and values of most involved.

I use the term “imposed” because this process happens in the transformation of contexts that follows. Because the new context is not deliberately constructed, it arises independently of intent “the result of human action but not of . . . human design.”³⁹ Because in this latter example this new context harms key values participants pursued within that order, it is imposed. But no one did the imposing.

What makes spontaneous orders so effective at facilitating complex cooperation is their simplification of what participants need to know in order to act effectively within them. This is most obviously true within the market order, where all goods and services are made commensurable through money prices. But simplification occurs in other orders as well. In science, scientists value relatively impersonal criteria such as prediction, explanation, and measurement over more purely “subjective” evaluations, facilitating agreement. Science thus pursues truth as defined by discoveries compatible with scientific procedures. Democracy also simplifies the information that most people need to make the best of the political decisions open to them. Party affiliation, recommendations from trusted sources, and party history, enable citizens to act more effectively than their actual knowledge of politics might suggest.

Simplification eliminates the need for detailed information. However, if they knew what had been filtered out, some participants might consider these details

³⁹ Adam Ferguson, *An Essay on the History of Civil Society*, (New Brunswick: Transaction, 1980) [1767], p. 122.

important. On balance, and within limits, a compelling case can be made that systemic simplification of knowledge required for effective action produces more desirable than undesirable results. But there are limits. For example, many consumers are willing to pay a premium for “fair trade” coffee even if they cannot taste a difference. Others object to buying goods made by Chinese prison labor. Here there is nothing in the commodity itself that reveals differences between acceptable and unacceptable products. It must be provided as additional information. *Once known*, it can profoundly affect prices.

I hope it is clear that systemic expansion is neither automatically desirable nor undesirable. When expansion occurs through informed persuasion, it probably produces more benefits than losses because the tradeoffs are mostly made by deliberate choice. However, when expansion happens largely independently of persuasion, through transforming the context of choice within a way of life *without any deliberate decision to do so* the value of the trade off from reducing the importance of some values in order to facilitate action within a spontaneous order becomes more problematic.

In such cases spontaneous orders tend to subvert or subordinate one another or ways of life that have heretofore not been incorporated into those particular self-organizing processes.⁴⁰ Values many of us prefer pursuing instead of single mindedly acquiring systemic resources, are weakened, and diminished without any deliberate choice or decision to do so. What is formally a realm of freedom of choice and

⁴⁰ See Tyler Cowan, *Creative Destruction*, (Princeton: Princeton University press, 2002).

persuasion may, at another level, be experienced as quite otherwise.⁴¹ One example of these problems occurs in the form of commodification subverting the public good. How it happens within the market order is the subject of the remainder of this paper.

Commodification

Commodification has traditionally been associated with Marxist and neo-Marxist analysis. Marx began his analysis of Capitalism with a dissection of the commodity as containing within it social relations of exploitation. This paper offers a different model rooted within the core of free market Austrian economic theory in its Hayekian form. From the perspective of spontaneous order theory, commodification can be understood as a continuum where market values overwhelm the non-market values contained within the practices being drawn into the market order. This process takes place in many areas of life, with both desirable and undesirable effects.

Free market advocates have generally been uninterested in the question of commodification, especially its shadow side. Insofar as the market is equated with voluntary cooperation, they see only its positive aspect as a further development of the

⁴¹ When this process happens in the lifeworld (briefly, world of cultural meaning) rather than between impersonal systems, we have what Jürgen Habermas calls the “colonization of the lifeworld.” To explore this important insight further here takes us beyond the limits of this paper. See Jürgen Habermas, *The Theory of Communicative Action, vol. II: Lifeworld and System: A Critique of Functionalist Reason*, (Boston: Beacon Press, 1987), 153-197, 332-373

realm of human cooperation. As commodities proliferate the sphere of peaceful exchange for mutual advantage is seen by them as growing ever more inclusive.

This argument depends on the central assumption that the market is a neutral tool for facilitating exchange.⁴² Our discussion of systemic contradiction demonstrates that this assumption is false. Markets establish one context for exchange, a context that can be extraordinarily productive, but biased in favor of particular values. Other spontaneous orders are similarly biased, but towards different values. Therefore we cannot simply assume that the interaction of these orders will be harmonious, even though they are all predicated on formally voluntary relationships.

Individuals pursuing their plans give what they believe to be appropriate weight to the differing values not only of the market, science, and democracy. They also balance these values with others, such as love and friendship, play and spirituality. Each person balances these values in his or her own way.

To the degree that a system of human cooperation is able to free itself from sensitivity to individual values, it becomes inhuman. Because it is divorced from the world of human values yet powerfully determinative of concrete human actions, *it becomes coercive through its transformation and domination of context*. Sagoff's example of the ski resort fits perfectly here.

⁴² James Buchanan and Viktor Vanberg. The Market as a Creative Process, *Economics and Philosophy*, 7:2, (1992), p. 181 and Israel Kirzner, Self-Interest and the New Bashing of Economics: A Fresh Opportunity in the Perennial Debate? *Critical Review* 4:1-2, (1990), p. 34.

Domination need not be complete to be a problem. To the degree context systemically favors certain values or choices removed from the full world of human values, and expands into ever wider realms of human life, freedom of choice is undermined or even trivialized.⁴³ Insofar as we see commodification as appropriating spheres of interaction more appropriately seen as belonging to other value communities, or other spontaneous orders, commodification takes on an ambiguous or even negative aspect.

To illustrate this observation, I will use the commodification of the print media as it transforms the media's relationship to public and consumer values; that is, to liberal democracy and the market. However, similar kinds of analyses could be made of any institution which straddles different spontaneous orders. Consequently, this framework could evaluate institutions dependent on any intersection of spontaneous or emergent orders based on different coordinating and feedback principles. This includes not only social analysis narrowly conceived, it also encompasses the intersection of the social world with the emergent order of nature.

Newspapers and the Public Good

Historically the best way for citizens to obtain the information necessary to keep an eye on those in power has been through a network of many independent newspapers and other media. This is more than simply a market function. Serving citizen values

⁴³ Hence the criticism of elevating consumer choice to the standard of freedom that just because we can choose between dozens of varieties of toothpaste does not mean we are free in the traditional sense of being autonomous.

often involves telling readers what they do not want to hear, and stirring up issues that anger important political and economic interests.

Today newspapers and most other media are increasingly owned by public corporations. Corporations are deliberately designed to respond only to market values. One difference between corporate ownership and individual human ownership is to observe that when a human being owns a paper, he or she adjusts many competing values, including the desire for money profit, in making business decisions. For human beings, profitability is a signal, not a command. The mix of value trade offs will vary from owner to owner, some rating money profit as simply a means to other ends they serve through their paper, at the other extreme others think of their paper as only a means for making money.

By contrast, corporations tend to subordinate every other value to money profit values. Management is legally obligated to serve shareholders and shareholders generally invest for financial return. Voting is weighted by financial investment. Further, ownership of public corporations is increasingly mediated by mutual funds. Today most shareholders do not even know what stocks their mutual funds have invested in. As share ownership become increasingly divorced from the other kinds of responsibilities traditionally associated with ownership – particularly through mutual funds - these systemic biases increase.

The difference between these two kinds of ownership - one dependent on the market but able to make complex trade offs with competing values, the other increasingly a pure case of serving market values, becomes important when we look at the public/political services of a free press.

In a liberal democratic order the press straddles two separate self-organizing value systems: the market and democracy. Balancing the different values promoted by these systems used to be done through the personal decisions of individual newspaper publishers and their staffs. Today this is less and less the case.

From a pure market perspective, consumers historically “subsidized” the advocacy and protection of democratic public values. Political news has primarily been of immediate value to citizens who, in different ways, disseminate their political influence throughout society.⁴⁴ The paper’s news sections were subsidized by sections devoted to generating revenue.

Any such ‘subsidy’ deprives the owner of some market resources which might have been acquired if, instead of serving public values, he or she had only sought market resources. Therefore a newspaper solely interested in serving market values, that is consumer interests, will tend to acquire more market resources than will one choosing otherwise. In a competitive newspaper market, over time market values will tend to have a competitive edge over public values because, in general, the paper that puts financial values above all others will be more likely to acquire them than will others. This is particularly the case when a newspaper is up for sale. A buyer seeking to take advantage of unexploited market opportunities will be able to offer more than one more interested in taking advantage of maximizing acquisition of public resources.⁴⁵

⁴⁴ Kingdon, (1995), and diZerega, (1991).

⁴⁵ In purely market terms this is an advantage. In a public corporation the take over threat keeps companies acting more efficiently in market terms. See Henry Manne, Mergers and the Market for Corporate Control, *Journal of Political Economy*, April, 73 (1965).

When technology reduced the cost of printing in the mid-nineteenth century, enabling the “penny press” to arise, papers became free from the party control that had hitherto dominated newspaper publishing in the US. The lowered costs of production enabled papers to seek a mass rather than a partisan market. Partisanship now reflected the views of editors and owners rather than political sponsors. A large market opened up new sources for income, particularly advertising. But to acquire that market papers had to offer less partisan reporting in order to appeal to all readers. James Q. Wilson observed that the quality of reporting improved as particular papers became better established, having bought up competitors, particularly in large cities.⁴⁶

Such papers serve a “border” role. They are market institutions seeking to make profits and also political institutions serving public purposes: keeping tabs on and sometimes challenging the government. Historically, the balance between these roles was maintained in large part by the journalistic practice of keeping newsrooms separate from other departments of the paper serving more purely commercial goals. No inner logic requires this in order for papers to be profitable. It reflects instead journalists and publishers *choosing* not to subordinate every element of the paper to acquiring market resources. The best safeguards for newspapers serving public values while depending on consumers and advertisers for their financial success are the power of journalistic ethics and culture, individual or family ownership, and the relative ease of successful paper start-ups.

⁴⁶ James Q. Wilson, *American Government* 5th ed., (Boston: Houghton-Mifflin, 2000), pp. 79-80.

Public corporations consolidating newspaper ownership, and the influence of mutual funds which strengthen the impact of purely market values on corporate business decisions, increase the influence of purely market values. Owners acting as complex human beings are increasingly replaced by corporate chains devoted only to the bottom line. Adequate profitability is no longer enough. Maximum profitability is what counts. Conflict still lies between the share of income going to shareholders vs. that going to management, but trade-offs by owners between market and non-market values becomes a thing of the past. In fact *there are no owners in the traditional sense*. The business is no longer controlled so much by human beings as it is by the market process itself. The more the media is consolidated by large corporations the worse this problem becomes. The public is the loser.

Three anecdotes illustrate this point.

Walter C. Woodward owned the only paper on Bainbridge Island in Washington State during WWII. When about 200 Japanese Americans who lived there were removed to internment camps during WWII, not only did he editorialize against the internment - the only paper on the West Coast to do so - he continued reporting their activities to Bainbridge residents during the war - their births and marriages, ball game scores, deaths, and so on. Woodward did everything he could to keep these imprisoned people within the community. His doing so enabled many to return more easily at the war's end.

Woodward's actions during the war led to cancellations of subscriptions and ads. He was later quoted as saying "We were frightened that if we really lost paid circulation, we'd lose everything." However, it turned out that street sales surged. Woodward's paper survived while continuing to serve the public interest as well as operating within

the framework of a market order. Woodward was obviously not primarily motivated by market incentives although equally obviously he had to run at least a minimally profitable paper in order to survive.⁴⁷

Now consider papers owned by large publicly held corporations.

A few years ago Mark Willes, the CEO of Times-Mirror, made himself publisher of the *LA Times*. Willes had no experience in journalism, having served instead as the Vice Chairman of General Mills. About a month later the editor resigned rather than implement Willes' new policy of making marketing executives more involved in news planning. Each section of the *LA Times* was to have a business executive assigned to it.

Willes claimed his changes would have no impact on news decisions: the purpose of his policy was only to gain readers and revenue. Willes is very good at gaining revenue: Times-Mirror prospered under his direction. But soon the *Times* was in the midst of a serious scandal when others discovered it had a financial stake in a story it ran about the new sports arena in LA, where news had clearly been subordinated to other purposes. By this time Willes had been promoted to head of the newspaper's parent company, Times-Mirror, and the new publisher, Kathryn Downing, and editor, Michael Parks, apologized for the paper's lapse in journalistic ethics. It is hard to imagine Wilson spending the time and money of putting extra executives in newspaper departments

⁴⁷ This account is drawn from Brenda Bell, Bainbridge Recalls Editor's Courage During Wartime, *The Seattle Times*, March 25, 2001 and Florangela Davila, Bainbridge Editor Who Decried Japanese Internment Dies at 91. *The Seattle Times*, March 14, 2001.

unless he expected their presence to change decisions that were being made, and they apparently did.⁴⁸

A final example is the story of Jay Harris, the former publisher of the San Jose *Mercury News*. The *News* is owned by the Knight Ridder chain. At the time of his resignation as publisher, the *News* was reportedly making between 22 and 29 percent profit. Knight Ridder demanded higher profits, which could have come only through severe cuts in the paper's staff. In the face of this demand, Harris resigned. While Harris's action was applauded by journalists, Theodore Glasser, head of Stanford University's graduate journalism program remarked "Impact? There will be absolutely none. Shareholders have no interest in journalism."⁴⁹

What has happened here is a profound shift in the role profit plays from traditional free market arguments to today's economic reality. From a individual standpoint, profit serves as a signal as to whether an enterprise is meeting sufficient human needs and desires to continue to be self-supporting. Very high profits signal the demand for additional production. If there is no profit, supporters must either hope for a change or treat the enterprise as in some way a charitable project. Profitable enterprises can continue indefinitely, enabling owners to pursue whatever goals they desire. This is

⁴⁸ This account is drawn from Pete Golis, *Without Credibility We've Got Nothing*. *Santa Rosa Press Democrat*. Nov. 10, 1999. and Eric Efron, *No More Virgins*. *Brill's Content*. February, 2000, pp. 45-6.

⁴⁹ Shawn Hubler, *Ex-Publisher Becomes Hero for Quitting Over Profit Goal*. *The Seattle Times*, April 22, 2001.

the argument of the market as a vehicle for serving freedom. There is considerable truth to it.

With the rise of public corporations the structure of the market also *constrains* human freedom. To survive not only must an enterprise be profitable, it must seek only profits. All other goals, including most of what human beings regard as important, must be subordinated to maximizing profit. Profit shifts from being an important aid in assisting people in the pursuit of their projects to an implacable and inhuman authority to which all other values must be subordinated. It may be that the market's optimal contribution to human well-being requires decisions within the market not being too effectively guided by market values alone.

I hope that this analysis has shown that Hayek's theoretical framework is a rich one indeed, offering insights that do not fit easily into contemporary ideological categories. Careful examination of his concept of spontaneous orders frees his work from its subordination to a particular school of political and economic thought, enabling it to address a wide range of theoretical problems in political theory from a new vantage point. Indeed, any time the major systemic orders of modernity interact with one another, or with the equally emergent processes of the natural world, the Hayekian framework offers us a rich framework for investigation.