

# SPONTANEOUS ORDER

## *Cooperation in the marketplace*

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The phrase “spontaneous order” is of twentieth century origin, but the concept underlying it has been at the core of economics and arguments for economic freedom for over 200 years. Spontaneous order (or “emergent order”) refers to the way in which the beneficial outcomes of the market economy are, in the words of eighteenth century philosopher Adam Ferguson, “the products of human action but not human design.” The beneficial order of the market is not the product of one person’s or one group’s conscious design, but the unintended outcome of all of the freely chosen actions of human beings. In this way, spontaneous order is a broader restatement of Adam Smith’s famous “invisible hand,” which leads people acting out of self-interest to produce a result that was not part of their intention.

We see examples of spontaneous order around us all the time. Consider an open square on a college campus after an overnight snowfall. Over the course of the next morning, pathways will appear through the snow, most of which represent very efficient ways of getting from one building to another across the square. This collection of paths is, however, *not* the product of human design. It is a spontaneous order that emerged as a result of the self-interested behavior of students who are only trying to get to class as quickly as possible. The early-rising trailblazers first trample down the snow, which makes following in their footsteps the easier choice for the next group and eventually results in an easily navigable path through the snow. Without intentional human design, we get an orderly and socially beneficial outcome.

How is it possible that the independent decisions of millions of market participants just so happen to lead to beneficial outcomes for society as a whole, without any prior conscious agreement on what to do or how to do it? The answer is that prices and profits provide people with the incentives and knowledge they need in order to know how best to serve others. As people buy and sell

in the market, the prices of goods move up and down, signaling to producers that their products are now more or less valuable, and providing them with information about which inputs are the most cost-effective. Profits are made when buyers value a product more highly than the seller values the inputs that went into making it. Profits signal that both parties believe they are benefitting from the exchange and provide an incentive for sellers to make

the things that buyers want. These features of markets lead self-interested buyers and sellers to produce order without design.

However, individual freedom will only produce undesigned order if the institutional framework of a society is good. Self-interest will not lead to a beneficial order if people are free to steal and murder. Spontaneous order theory does not contend that greed is always good. What it does argue is that when individuals can own and freely exchange private property and their lives and property are protected against coercion, then their self-interest will be guided by market signals that lead them to take actions that cause a socially beneficial order to emerge. People’s actions will not produce spontaneous order unless their economic, political, and social institutions give them the freedom to act and protect them from the coercion of other individuals and the state.

Spontaneous ordering processes do not ensure that every single person is better off. For example, when people switch to MP3 players, the makers of portable CD players lose out in the short term because people no longer buy



### KEY CONCEPTS



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their products. But spontaneous ordering processes do provide the most benefits to the most people, and they enable the always-shifting minority who lose out to have the incentives and information necessary to adjust to the new circumstances.

One of the features of spontaneous orders such as markets is that they are, as F.A. Hayek termed them, “ends-independent.” This means that markets do not require us to agree on a set of goals in order for them to be useful. Instead, they are processes that can be used for the variety of ends that individuals might have. In this way, markets are like language, another spontaneous order: all English speakers need to understand are the basic grammatical rules and the meanings of words in order to use English for whatever purposes they wish. Markets are much the same in that agreement on basic rules enables us to use them to pursue a whole variety of ends. The spontaneous order of the marketplace is thus deeply connected with individuality and human freedom. We can leave people to act freely under good institutions and the market will produce better results than any other economic system.

Viewing the market as a spontaneous order illustrates why attempts to substitute economic planning for markets are doomed to fail, as with the Soviet Union and its imitators. Rather than seeing the complexity of modern markets as necessitating more intentional design, a spontaneous order perspective suggests that just the opposite

is true: our markets are incredibly complex because we have allowed them to be ordered spontaneously. The variety of ends people pursue and the millions of inputs that can be used to pursue them create a degree of complexity that no economic planning board could ever completely understand or design.

It is because of our ignorance that we must rely on the spontaneous ordering processes of the market to guide us to act in ways that benefit others. While economic planners try to gather the necessary knowledge in one place, markets enable us to use our individual knowledge in ways that make it available for others to use. In this way, the competitive market is a process that enables us to discover the knowledge we would need, but could not acquire, if we were going to try to plan the economy. As with science, giving people the freedom to experiment and compete produces a better outcome than dictating how things should be done.

Seeing the market as a spontaneous order gives us an appreciation for the way in which prices, profits, and the other institutions of the market enable us to coordinate our behavior with millions of other people, only a tiny fraction of whom we know personally. As markets extend this cooperation into the evolutionary spontaneous order process, they also expand the range of opportunities for individuals and enrich us all. Attempting to control or design the unplanned spontaneous order of the market will only lead to poverty and conflict. We should instead do our best to ensure that our economic institutions protect life and property and encourage entrepreneurship and competition.

## Suggestions for further reading

- Hayek, F. A. (1948). *The Use of Knowledge in Society*. In *Individualism and Economic Order* (University of Chicago Press): 77–91.
- Horwitz, Steven (2001). From Smith to Menger to Hayek: Liberalism in the Spontaneous Order Tradition. *Independent Review* 6, 1 (Summer): 81–97.
- Read, Leonard E. (2008). *I, Pencil: 50th Anniversary Edition*. Foundation for Economic Education. <<http://www.fee.org/pdf/books/I,%20Pencil%202006.pdf>>.
- Seabright, Paul (2004). *The Company of Strangers*. Princeton University Press. ■

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Please join us on December 10 at 11:00 am Pacific time for an online discussion of this essay with Prof. Steven Horwitz.