REMARKS OF THE PSYCHOLOGIST ON HAYEK’S IDEAS ABOUT THE ROLE OF KNOWLEDGE IN ECONOMIC PLANNING

1. It is well known that Hayek, opted for decentralized, i.e. divided between many entities, economic planning, was strongly against central planning exercised by a single entity governing the whole economic system. An important argument for decentralized planning was the dispersion of information in society. As Hayek claims, it is the technical knowledge concerning a specific situation and a specific moment in time that plays a decisive role in effective economic planning. Noteworthy, this kind of knowledge is inaccessible for economic experts, but is accessible for individuals engaged in an economic process.

As Friedrich Hayek (1945) wrote in “The Use of Knowledge in Society”, American Economic Review, 35, 519-30: If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them.

A psychological research on entrepreneurship gives Hayek’s line of argument an empirical support: a considerable proportion of successful businessmen are people with very low formal education, but who, at the same time, are able to react quickly to specific information concerning time and place.

2. Incomplete and imperfect knowledge of people planning economic actions does not prevent making accurate decisions as long as there exists a simple indicator which enables people to coordinate their activities. And this is the PRICE that plays such a role in economy. Hayek gives an example of a new application of tin which suddenly makes it more sought-after. Tin consumers (and not exactly all of them) only need to know that some of
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tin they used to consume is now utilized in a new and more profitable way, and, consequently, they should use it in a more efficient way. This will induce appropriate actions: making investments in tin, searching for its substitutes, supplying of tin goods etc. All of it will have impact on the price of tin. What is important is that nobody needs to reconstruct the whole chain of events that influences the price. The price itself is the simplest and most efficient mechanism of spreading the economic information. Indeed, to take an accurate economic action none has to trace the whole process that leads to a particular price.

The thesis about the importance of the simplest mechanisms of spreading information finds its empirical support in the psychological research. Starting from Herbert Simon, psychologists put emphasis on the fact that people have a limited capacity to process information. Consequently, human beings have to adopt the simplified rules of decision making, which Tversky and Kahneman referred to as heuristics. It is also known that an excess of information can deteriorate (instead of improving) the quality of human decisions. Ideas of Hayek fit very well to such a vision of human mind.

3. Yet, there is yet another intriguing problem, not mentioned by Hayek: not only the lack of knowledge, but even some cognitive illusions of economic agents may lead to the economic growth.

For example, the tendency to adopt illusions in the perception of risk and probabilities paradoxically quite frequently strengthens the willingness of entrepreneurs to get involved in risky ventures. Although the willingness to take up risky ventures may lead individual entrepreneurs to fail in business, undoubtedly it is the engine of the economic development of societies.

Another instructive example gives the way the investors act at stock exchange. On the level of individual decision making we can find an enormous number of illusions and biases. For instance, against the law of regression to average, the investors believe that the future will be the same as the past, and they are prone to buy the shares whose prices have recently risen, and avoid buying shares that recently have fallen down. Some of the researchers of the so-called behavioral finance try to demonstrate that these illusions are in fact the power that makes the stock market work. Moreover, they claim that due to these illusions stock markets function in such a way that all the new information about a company is immediately reflected in the price of its shares (i.e. market is effective).