

# Hayek Warns of the Misuse of Knowledge in Society

September 1945

## INTRODUCTION

The economist Friedrich Hayek (1899–1992) was one of the last century’s most influential classical liberal writers and intellectuals. The winner of the 1974 Nobel Prize for economics, Hayek was born in Austria-Hungary but taught in London and Chicago. In his most famous book, *The Road to Serfdom* (1944), he argued that “planning leads to dictatorship” and that the “direction of economic activity” inevitably means the “suppression of freedom.” Hayek proposed instead a different road—the road of individualism and classical liberalism. He disavowed the label conservative, preferring to emphasize his roots in classical liberal thought. *The Road to Serfdom* became a best-seller in America, reaching a wide readership through an abridged *Reader’s Digest* version.

In the following essay, Hayek challenges the pretensions of central planners in both Communist countries and democracies. Central planning’s goal is the perfect allocation of resources and goods. This presupposes that someone or a group of people possesses perfect information about everything and a complete understanding of what makes an

allocation “perfect.” But economists and planners fail to realize that this knowledge “is not given to anyone in its totality.”

Hayek retraces this central mistake in part to the “erroneous transfer” of the methods of the natural sciences to the study of “social phenomena,” like markets. Economics for Hayek cannot be reduced to “scientific knowledge” and statistics. It also includes “knowledge of the particular circumstance of time and place,” in which “practically every individual has some advantage over all others because he possesses unique information.” These arguments lead Hayek to support decentralization and free markets, rather than central planning and government by experts.

Even decentralization, however, requires that individual actors have the information relevant to their decisions. And they obtain this information not from a centralized administration, but only through the wonders of the price system. Hayek writes: “The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through

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many intermediaries the relevant information is communicated to all.” With the price system and free markets, Hayek argues, we can have both prosperity and liberty.

Hayek’s intellectual influence extends far beyond the field of economics, which he helped broaden considerably. Any discipline concerned with the problem

of rational choice—economics, politics, psychology, philosophy—owes Hayek an enormous debt.

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