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HAYEK'S SPONTANEOUS ORDER: COORDINATION AND THE CONVENTIONAL APPROACH

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Abstract: Nobel Prize laureate in economics Friedrich von Hayek (1899–1992) was interested in the way rules are formed and how they are understood. This approach is referred to as the theory of spontaneous order. It sees the evolution of social rules as the product of numerous interactions, the consequences of which are often unintended. At the same time, it investigates the spontaneous emergence of conventions concerning the ownership and division of valuable resources. Such conventions concern non-legislative rules of conduct, construed as impersonal or anonymous norms that are based on unorganised, informal sanctions. There are contexts in which coordination occurs spontaneously, without the intervention of any legal structure. A degree of assonance can be seen between Hayek's spontaneous order and the conventional approach.

Keywords: Conventional approach; coordination; Hayek; Spontaneous order

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1. Introduction: conventions, coordination and *spontaneous order*

Informal models of conduct are based on an implicit acceptance of the underlying configuration of rights, regulating social relations in a light-hearted manner. Thus, social domains are governed autonomously by the principles of *spontaneous order*. The corresponding institutional constraints do not require legal structures for enforcing guarantees, since social reality is voluntarily programmed through private constraints on behaviour, through adherence to fundamental norms of mutual tolerance and mutual respect for recognised rights (Buchanan, 1975).

By admitting one's cognitive limits, the individual's self-doubt becomes a tool to deal

rationally with uncertainty about the future, through the use of patterns of conduct that are associated with internalised rules (Elster, 1996). Although we are dealing with 'private norms', their observance by the members of a society is induced by the way their environment manifests itself in their minds (von Hayek, 1982, p. 60). Rules of this type show substantial uniformity in different societies and cultures, e.g. one thinks of rules on stealing or the observance of promises.

This category of rules includes, for example, common sense rules that allow disputes between private parties to be resolved informally, eliminating the costs associated with the need for the intervention of laws. According to Ellickson (1991), the use of informal rules to resolve disputes and autonomously apply sanctions becomes convenient if: (1) the group is not excessively large and the interaction between the components is repeated frequently enough; (2) there are high transaction costs associated with learning about existing legal norms and resorting to official procedures for the protection of rights.

Furthermore, there are conventions that can solve coordination problems, i.e. contexts in which it is convenient for each individual to follow a certain model of conduct, provided that the other members of the social group follow the same conduct. For example, think of the rule of driving on the right or left or the use of a currency or even aspects of market bargaining. Conventions concern: non-legislative rules of conduct; construed as impersonal or anonymous norms; based on non-institutionalised, unorganised, informal sanctions (Morselli, 2017).

Once a conventional constraint is formed, there is no incentive to defect, nor is there any need for mechanisms to monitor mutual compliance. This means that each individual who has established a strategy, whether consensually predetermined or inductively decided autonomously, is unable to achieve a better result by changing, unilaterally or as a group, his or her choice (Sugden, 1989).

Non-compliance with the informal rule causes, for an individual as for any other, a worse result than that obtainable by complying with the prevailing course of action. The pursuit of one's own interest and the stabilisation of consistent expectations ensure a high degree of predictability of other actors' actions, without the need for the intervention of an external authority. By pursuing their own ends, each individual helps to reduce social uncertainty because by adapting to informal constraints, they convey information about likely actions in their social context (Sunstein, 2003). Since there is no need for political direction or control, nor the costs of organisation and supervision, conventions, when they become established, are preferable to a formal arrangement

that guarantees equivalent levels of certainty. The self-binding character of conventions eliminates the tension between constitutional and action interests and the social capital constituted by the corresponding social norms (Vannucci, 2004, p. 215).

When a custom is consolidated, it will persist as long as disobedience causes sufficient loss of reputation. Thus, with a given set of social values, there are two stable equilibria: in the first equilibrium, the custom is obeyed and the values underlying it are largely supported by the members of the community; in the second equilibrium, the custom vanishes, since no one believes in the values underlying it, and it is not indulged (Akerlof, 1980).

In light of the analysis in this paper, one can see some assonance between Hayek's *spontaneous order* and the conventionalist approach.

2. Conventional equilibrium

The existence of rule X , which establishes A 's conduct and forbids B 's conduct, favours the coordination of expectations, since all the members of the group, knowing it, expect the other group members to behave like A and not like B . However, a similar result is achieved by rule Y , which prescribes B and forbids A . The existence of a multiplicity of equilibria, corresponding to different conventional rules of conduct, the repetition of the game or the agreement between the parties can produce a spontaneous convergence on one of the two equivalent equilibria, $(a1, b1)$ or $(a2, b2)$, in the game shown in Figure 1; or the outcome $(a1, b1)$, in the game of Figure 2, where one solution is from a Pareto point of view superior to the other.

		Player 2	
Player 1	a1	b2	b2
		2,2	0,0
	a1	0,0	2,2

Figure 1. Coordination game with 2 players

		Player 2	
		b1	b2
Player 1	a1	2,2	0,0
	a2	0,0	1,1

Figure 2. Coordination game with 2 players with a higher Pareto equilibrium

The achievement of conventional equilibrium, in a context corresponding to the first game (Figure 1), can be realised through: (1) the progressive adjustment of expectations, as a result of spontaneous coordination and repetition of the game. For example, certain conventions evolve as the corresponding strategies are adopted by a higher percentage of individuals at an early stage. Such conventions become stronger over time, as the experience of other group members shows that following them leads to better results¹; (2) comprehensive information on the structure of the game and the possibility of communicating at no cost, negotiating with the counterpart the choice of strategies that lead to one of the institutional equilibria, from which it is not advisable to deviate; (3) the ‘relevance’ of one of the balances that, for psychological reasons, make it seem more natural or likely to the players. The important factors of a normative option can be approached by its characteristics of simplicity, symmetry, and temporal order, which turn it into a ‘focal point’. As Schelling (1960, pp. 57-58) states, a fundamental characteristic of these focal points is stability, which depends on time, place and the identity of individuals.

In the second coordination game (Figure 2), a relevant factor is the *Pareto* dominance of one of the equilibria, i.e. the fact that it ensures a higher payoff for both players. Even without communication, the shared knowledge of the payout structure may induce players to tacitly adhere to the corresponding model of conduct (Liebowitz, Margolis, 1995).

The emergence of certain factors may cause a crisis in spontaneous coordination mechanisms, such as the multiplication of contracts between group members and other individuals adhering to alternative conventions, or the emergence of novelties that transform the structure of the game (Lewis, 1969; Morselli, 2022).

¹ Theoretical models based on this approach can be found in Young (1993), who introduces the notion of stochastic stable equilibrium.

Considering the coordination game in Figure 3, the players present different preferences regarding the two possible coordination equilibria, but a common interest in coordinating in order to evade an undesirable outcome for both. If the interaction is repeated even after the equilibrium $(a1, b1)$ has been established, player 2 presents an incentive to defect from the equilibrium strategy $(b1)$ in order to persuade player 1 to align with the equilibrium $(a2, b2)$ preferred by him. Similarly, in an N -player game, a group may decide to defect from a conventional norm in order to push the other members of the society to adapt to an alternative norm preferred by its members. Since the benefits of adhering to a convention are reduced the less it is adhered to, beyond a critical threshold of defection, it becomes convenient for the other members of the group to adhere to the alternative convention. However, if other groups resist, as they do not find the threat of permanent defection credible in the long run, the conventional equilibrium breaks down without being replaced by another, and an undesirable outcome for all participating players $(a1, b2)$ or $(a2, b1)$ materialises, as can be seen in Figure 3.

		Player 2	
		b1	b2
Player 1	a1	2,1	0,0
	a2	0,0	1,2

Figure 3. Coordination game with 2 players with partially conflicting interests

3. The existence of informal constraints

Informal constraints shape the structure of transaction costs, influencing the efficiency with which political and economic markets satisfy interests and expectations. For example, when considering work ethics, it positively influences the intensity of work effort and the productivity of economic agents. It is transmitted in a set of internalised norms of conduct that, through the market nexus, generate a positive externality (Vannucci, 2004, p. 220).

The assumptions of the perfectly competitive model make the individual's choice between work and leisure unimportant for the welfare of others, since the growth in value remunerates the additional effort of each agent, resulting in ethical independence.

If there are constant returns to scale in production, the competitive equilibrium compensates the factors of production in relation to their marginal productivity, leading to an allocation of resources to their most efficient uses and a distribution of output among the input holders, which exhausts all the surplus generated in the economy. There is no conflict in the allocation of product, nor are there any externalities arising from a subject's choice of whether or not to increase its labour supply. But if one sets aside such conditions that are difficult to find in reality, working more or less is ethically related to the social surplus produced and the well-being of other individuals (Buchanan, 1994, pp. 16-23).

The attainment of a socially efficient equilibrium, in which individual choices to work more are combined, requires institutional mechanisms that guarantee its enforcement by assigning property rights to the resulting social surplus. It is possible to hypothesise: (1) bargaining between the parties involved, which, however, has high transaction costs due to the large number of participants; (2) a labour policy by which subsidies are offered for work efforts, which also has high political transaction, control and implementation costs; (3) the emergence of informal constraints that spread such conduct and consolidate the perception of the social value of productive efforts (Vannucci, 2004, p. 221).

Considering this last point, the evolutionary explanation of social norms focuses on the mechanisms that, within different societies, favour the success of rules of conduct that incorporate efficiency attributes. According to Hayek (1982, p. 14), the institutional order of society, which greatly expanded the possibilities of successful individual action, was not only due to institutions and ways of acting invented for that specific purpose, but was largely due to a process described first as growth and then as evolution; a process in which rules and ways of acting, which were first adopted for other reasons, were maintained because they were able to make the group in which they arose prevail over others.

The cultural evolution of informal constraints is based on: (1) a selection mechanism, which depends on multiple trials and errors in dealing with problematic contexts, and rewards those models of conduct that have produced acceptable consequences; (2) a mutation mechanism, related to new patterns of action introduced and tested either voluntarily, as a result of the creative efforts of actors, or unintentionally, as a result of mistakes in following or interpreting existing rules; (3) a transmission mechanism, related to the imitation or coercive imposition of patterns that generate more satisfactory results and greater well-being (Vromen, 1995, p. 189).

Social institutions that are considered efficient in lowering transaction costs are only able to establish themselves if mechanisms exist that reinforce their selection (Morselli, 2024). In fact, the cause of the existence of informal constraints is not to be

found in their socially positive functions; even if we are faced with a scenario where a prescription improves everyone's situation, this does not explain why it exists, unless the feedback mechanism by which the positive consequences generated by it manage to keep it in place is illustrated (Elster, 1983).

One possible mechanism could be the interest of individuals and social entrepreneurs in rationally supporting the acceptance of norms that have emerged by chance, that they have thought of or recognised as such through experience, and that support cooperative conduct and political and social exchange. There are customs and norms, such as, for example, agreements that increase the efficiency of the economic system, which provide goods for which the price system cannot be applied (Arrow, 1963).

An important condition for the spontaneous emergence of an efficient institutional arrangement is the redistribution of the effects of externalities in a socially productive manner, since property rights develop to internalise externalities when the gains from internalisation become greater than the costs (Demsetz, 1969).

The pressure of possible institutional competition does not prevent inefficient norms from enduring as long as they ensure the level of member survival and group reproduction. Evolutionary pressure on informal constraints produces important feedback effects only in the presence of intense and frequent interactions and exchanges between groups. However, this process can take quite a long time if new and unpredictable environmental conditions cancel out learning by trial and error (Posner, 1980). Even the conventional nature of a social norm does not guarantee its efficiency. No matter how much the reasons that initially induced individuals to follow these strategies have disappeared, as long as expectations converge on them, the incentives to repeat them remain, even if better alternatives are present (Sugden, 1989). Indeed, every change in the rules of the game has a cost, linked to the information constraints of individuals, the costs of collective action, the need to invest in influencing activities and in obtaining new knowledge. Therefore, depending on the timing and expected benefits, change may be less cost-effective than conservation. Social conventions may be adaptive at their inception, but later become regressive. Achieving an agreement produces costs as much as changing it, and the disadvantages of change can be very costly (Buchanan, 1977, p. 36).

There is, therefore, the possibility that an efficient institutional equilibrium may not be formed as a result of delays in adapting to a changing environment, or, otherwise, that there may be several that are difficult to compare. If the environmental scenario in which both demand and supply of rules emerge is not crystallised and an instantaneous adaptation of rules to it does not materialise, the time lag between environmental change and change hinders the emergence of efficient institutional outcomes (Alchian, 1977, p. 31).

4. Social order, coordination and institutions

A social order can be represented by the set of institutions that establish the extent of autonomy spaces in the exercise of claims on scarce resources, reconciling expectations and setting the modalities for the pursuit of common goals (Morselli, 2018). Two conceptions of social order can be distinguished: one that refers to stable, regular and predictable patterns of behaviour, and one that refers to cooperative behaviour. Both conceptions refer to the notion of cooperation: minimal in the first case, when the social order derives from the mere coordination of individual conducts aimed at pursuing divergent goals; in the second case, cooperation is explicit and encompasses a broader range of actions, from which a *cooperative surplus* arises that can also be distributed to other subjects (Vannucci, 2004, p. 177).

Hayek (1982, p. 50) states that living as members of a society and depending for the satisfaction of most of our needs on some form of cooperation with others, we depend on the correspondence between what will actually happen and our expectations of others' plans, expectations on which our own plans are based. This favourable correspondence between expectations and intentions, which determine the actions of different individuals, is one of the different forms in which order manifests itself in social life.

In a society in which there are no affective or organic ties of primary solidarity between the members of the group, the institutional equilibrium can be traced back to the encounter between the *supply* of rules of conduct, based on mechanisms of spontaneous evolution or intentional construction, and the corresponding *demand* for the regulation of actions that produce external effects. The construction and *intentional* safeguarding of institutional constraints that set limits to permissible lines of conduct enshrine the boundaries of a particular structure of rights. Thus, coercive rules of conduct are established, which are overseen by a body that administers the application of sanctions (Homans, 1950; Coleman, 1990).

In contrast, according to Hayek (1982, p. 28), theories of spontaneous order privilege the unintentional reconciliation of interest in action and constitutional interest as a result of the involuntary establishment of rules containing decentralised mechanisms.

Informal constraints are passed on from one generation to the next, through processes of learning or spontaneous imitation that equip individuals with a body of knowledge. This is how the cultural and moral inheritance of a society is formed, steering individual conduct towards patterns of relative stability and predictability (Griswold, 1994).

According to North (1981), the sharing of these mental models supports the insertion of individuals into a fabric of non-conflictual relationships, favouring the

search for a solution to the first problem of social order, namely that of coordination.

The observance of informal rules of conduct is ensured by several mechanisms: (1) sanctions resulting from the violation of the conventional rule (such as the rule of driving on the right, or language rules); (2) inner sanctions, which concern the individual conscience (remorse, shame); multilateral sanctions, activated by a generality of subjects, as in the case of mechanisms of social stigma, ostracism or loss of reputation (Posner, Rasmusen, 1999).

In addition to fostering convergence of expectations and reducing uncertainty, these rules are able to increase the likelihood of cooperation, making each individual sympathetic to the condition of others, supportive and willing to cooperate. However, some limitations become apparent: (1) the evolution of cooperative rules must be shared. It is more likely to occur in the presence of interactions based on small group sizes (Olson, 1965; Ostrom, 1998); otherwise, the asymmetry between the outcomes obtained by unconditional cooperators may threaten the stability of the resulting order: when defection generates a competitive advantage, more and more individuals are driven to resort to it (Taylor, 1987); (2) rules that incentivise cooperation do not necessarily provide incentives oriented towards investing in the acquisition of knowledge that promotes economic development. The low transaction costs of a society formed by supportive individuals are counterbalanced by the high transformation costs resulting from the limited division of labour and technological development, which require the extension of the network of socio-economic relations beyond the perimeter of primary solidarity (North, 1994a).

The presence of informal constraints clashes with public regulation, and this may undermine the achievement of the intended positive effects. The coercive imposition of a formal order, in contrast to pre-existing informal rules, produces an interaction between divergent incentives, increasing transaction costs. For example, the transition to the market capitalist system in Eastern European countries, which took place through the approval of new formal rules that were not in harmony with the prevailing informal institutions, reinforced incentives for coalition formation aimed at rent-seeking, which played a key role in subverting outcomes (Pejovich, 1999). The expansion of state regulation could weaken the system of social norms that incentivise spontaneous cooperation and voluntary altruism. Thus, individuals would not feel the need to cooperate voluntarily with each other on a local basis, making them more dependent on the state.

5. The complexity of the social order

The social order describes a condition of peaceful coexistence between interacting and interdependent individuals through adherence to norms of conduct stemming from

ethical constraints, spontaneous obedience to customs and traditions, and respect for rules approved by an authority deemed legitimate. An individual who deviates from the rules of the game transforms the environment, altering the conditions of choice of others, disappointing their expectations. He causes a negative externality, consisting of behavioural pollution that, repeated over time and generalised, can undermine the very foundations of order. Although informal constraints represent a fundamental component of any institutional equilibrium, they do not offer an exclusive principle for regulating associated life. It is only in the absence of frictions and transaction costs that social order can occur spontaneously and without any external guarantee mechanism, in a society with delineated control rights. In reality, the differentiation of interests, knowledge and expectations that shape relations between the members of a social group can hinder the formation of behaviour conducive to the consolidation of orderly and peaceful relations (Vannucci, 2004, p. 230).

Based on the ways in which social institutions regulate themselves, a number of interaction models can be distinguished: the *market* (or *moral order*); the *community*; the *state* (or *hierarchical control*); the *association* (or *organisational concertation*) (Buchanan, 1989, p. 248).

Spontaneous order originates from dispersed competition, which fosters political and economic exchanges (Wiebe, 1967); individuals respect rights over resources, enshrined by adherence to informal norms of conduct that spread confidence in fulfilment. In fact, the *moral order* is realised when those who participate in a social interaction engage in behaviour that lacks a sense of common solidarity with a group or community. The institution that represents these patterns of conduct is the market, in which the rules of trust can develop as a result of the diffusion of a wider variety of cooperative norms based on reciprocity. No identification with common values, nor threat of coercive sanctions, is required for individuals to respect informal constraints that produce social capital and reduce transaction costs. Such rules of behaviour are not the product of genetic inheritance or a rational plan, but the result of a process of cultural selection guided by the advantages gained by the members of groups that follow such practices (von Hayek, 1945).

Community exists when the individual members of a group identify with a collective unit, a community, instead of thinking of themselves as independent and isolated individuals. The sharing of a common sense of belonging, transmitted from one generation to the next, is not only a fundamental instrument for regulating social life, but also the main constitutive element of personal identity. Within the most advanced societies, there is a multiplicity of partially overlapping community memberships, to

which correspond feelings of identification with collective subjects such as the family, the clan, the party, the church and the nation. These bonds represent an interweaving of natural solidarity relations based on spontaneous solidarity ties. By contrast, the application of a single community model is one of the hallmarks of modern totalitarian regimes (von Hayek, 1952).

Another model of 'order' is that of *hierarchical control*. The representative institution is the modern state, which has the power to issue commands, to adopt rules of conduct, the enforcement of which is guaranteed through the bureaucratic apparatus, by instruments of a coercive nature. Thus, the state ensures social order by organising collective action and coordination (Elster, 1989).

A further institutional model uses *organisational concertation* as an allocative principle. This form of regulation has as its main actors organisations that promote functionally defined goals in terms of class, sectoral or professional interests. The actors are strategically interdependent, i.e. they promote mutual demands in order to arrive at an agreement accepted by their members (Streeck, Schmitter, 1985).

It is emphasised that sometimes bureaucratisation and excessive public intervention can weaken traditional community ties. Public action can interfere with informal constraints, causing them to be progressively abandoned; Hayek (1982, p. 66), for instance, shows a negative attitude towards the possible coexistence of abstract patterns of behaviour and the commands derived from state organisation. Spontaneous order manifests itself when each element tends to balance all the various factors that operate in its sphere, and that all elements adjust their actions with respect to one another; a balance that could be broken if some of those actions were determined by another entity on the basis of different knowledge and in the service of different ends.

As Ouchi (1980) states, market exchanges governed by impersonal constraints can benefit from community-based solidarity ties, which can decrease the costs of information asymmetries. Both decentralised performances and the hierarchical organisation of activities present reduced coordination costs, especially in the presence of deferred transactions or performances that are difficult to measure, if they are embedded in a scenario in which community membership ties and constraints based on inclusion and exclusion criteria pre-exist.

6. Hayek's spontaneous order in comparison with Bruno Leoni's thought

Hayek and Leoni assert that only a jurisprudential rule of law produced by magistrates and notables is capable of elaborating a non-authoritarian legal order, since it is the expression of a spontaneous order resulting from historical evolution rather than from

the obtuse and presumptuous violence of political deliberation. It follows from these statements that the rule of law can be founded without recourse to moral values, formal structures and formally determined institutions. The rule of law consists of principles that no one has consciously chosen, but which are the unintended evolutionary product of individual actions. Law and history are not in conflict, since the rules that deserve to be called legal are composed in a spontaneous order of evolutionarily selected naturalistic regularities (von Hayek, 1955; Pievatolo, 2002, pp. 1-2).

Hayek and Leoni, even though they make use of arguments that can be traced back to the same historical and theoretical context, diverge institutionally on the necessity of the intervention of legislation to correct jurisprudential law and on the eventual disappearance of the state in favour of an anarcho-capitalist hypermarket. Leoni is inclined towards the latter orientation, thinking that a legislative rule of law transforms law itself from a constraint and limitation of power into an instrument of power, subject to the particularistic and episodic interests of majorities (Leoni, 1961).

Leoni (1997) defines law as the normality of social behaviour, i.e., as the set of demands that can be expected to be met. However, if law is described as a social phenomenon, it is also necessary to recognise that many decisions aimed at influencing the lives and choices of others are not only taken in parliaments or in the state in general. Therefore, distancing law from the state can only shift from the problem of the state, but not from the general problem of power and its controllability, which indeed arises all the more dramatically the less it is made public and formal, unless naturalistic assumptions are made about the harmony of society and the homogeneity of the interests of individuals.

The world of law, in Hayek's metaphor, is an intricate forest, where wayfarers proceeding towards their individual goals make paths that are useful to all. Although the theorists of spontaneous order disagree on the necessity and degree of intervention of a forest ranger, they agree in considering the design of paths as a spontaneous process corresponding to the interests of all; the power to be controlled, justified and eventually eliminated is only that of the forest ranger (Allen, 1956; Pievatolo, 2002, p. 10).

In Hayek and Leoni's vision, the spontaneous order, which can be imagined as suprapersonal and non-deliberate, represents the absolute guarantee of individual freedom, and to realise this, it is sufficient to eliminate the explicitly deliberative moments of political power. The rules of a spontaneous order are simple natural regularities, i.e. as rules that are observed *de facto*, without awareness; they only turn into norms when the intellect develops and the need to correct deviant behaviour is felt. Such rules lead individuals to behave in a way that makes society possible, with the caveat that the possibility of society is not a logical but a naturalistic-evolutionary possibility.

7. Conclusions

The institutional matrix existing in a society defines the structure of control rights that makes economic and political exchanges possible. Formal constraints make up the set of rules adopted or modified to serve known purposes. The introduction of legal systems distributes information on the criteria for the recognition of rights guaranteed by the public organisation. Legal protection does not define property rights; as a result of transaction costs, it can only influence the likelihood of disposing of resources. In fact, measurement and guarantee costs weaken the protection granted by the legal system. Hence, the importance of informal rules of reciprocity, reputation and conventional rules. According to Hayek (1982, p. 332), rules serve to provide information for individuals' decisions, so as to reduce uncertainty, but they cannot determine what use the individual can make of that information, and thus cannot eliminate all uncertainty either. They suggest to each individual what particular things he can use, but not what the results of his use will be, insofar as these depend on exchanging the product of his efforts with others.

The distinction between formal and informal constraints is not always clear; there is evidence of an increasing expansion of the former at the expense of the latter. The layering of laws on informal institutional arrangements (such as moral and cultural rules) has been marked by many difficulties. Often, the norms approved through processes of collective choice have simply formalised rules and customs that arose spontaneously, thus adding to decentralised or internalised social sanctions, those coercively enforced by the state. According to Milgrom, North and Weingast (1990), by integrating the institutional fabric and reinforcing compliance incentives, formal rules made it possible to define more complex and wide-ranging exchanges, decreasing transaction costs. In other contexts, however, legal rules have been imported from other societies in the hope of replicating the positive effects in terms of economic and political development. The results have been negative, such as the growth of social uncertainty caused by the incompatibility between the rules developed to achieve particular goals and the pre-existing formal constraints. Therefore, according to Hayek (1982, p. 66), it is precisely the complexity of the economic and social systems that mark the big society that makes the attempt to replace or correct informal rules, the result of spontaneous evolution, with state-imposed organisation dangerous. The imposition of the formal rule of the state makes it impossible for decision-makers to make use of all the knowledge dispersed among individual agents – these decision-makers have partial information, imperfect cognitive models and divergent interests from those of the subjects on whom the effects of their choices fall. According to North (1994b), the state is a 'third party' that extends social interaction beyond the perimeter delimited by personal knowledge or the reiteration of relationships in restricted groups or communities.

According to Hayek (1982) and Leoni (1994), a dynamic can occur in which interventions erase or weaken the self-regulating principles of spontaneous order in the market and other areas of social interaction.

Thus, institutional matrices are organised on different levels. There are contexts in which coordination appears in a spontaneous form without the intervention of a supporting legal structure, while in other situations, a formal system of rules and guarantee mechanisms is in place to reduce transaction costs. The socio-political function of the market economy is to minimise the need to resort to internal ethical restrictions or external legal ones. The stability of institutional equilibria is linked to the emergence of novelties in the understanding of the risks of government activity, preferences, cultural constraints, conventions, negotiation techniques, and technological knowledge. Any change in the transaction and transformation cost structure gives rise to incentives to capture the social surplus associated with reforming the institutional matrix. The benefit of uncertainty reduction must, however, be considered with the political transaction costs that accompany the adoption, modification or elimination of formal constraints.

Conflicts of interest

The author declares no conflicts of interest.

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