

# Hayek's Ghost

*by Stanley Dundee*

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Philip Mirowski,<sup>1</sup> intrepid investigator of the neoliberal thought collective, has graced his eager readers with a recent book, written in collaboration with Edward Nik-Khah. *The Knowledge We Have Lost in Information*<sup>2</sup> traces the modern intellectual history of the various concepts of information in economics. Set alongside is a parallel history of the changing views of the “agent,” i.e. humans, and their relationship to The Market. Meanwhile, the imposition of neoliberal hegemony, military research money, and the rise of cheap computation enabled changes to the very nature of the practice of economics, wherein

. . . the shift within the modern profession from the description of markets “from the outside,” as it were, to participation in the design and implementations of markets as hands-on engineers of the economy. . . is an epoch-making departure in the history of the praxis of economics. . . (p. 154)

It's a rollicking tale of snouts to the trough, culminating in an expose of “market design” as a lucrative gift for professional economists in the service of privatisers and other plunder-minded plutocrats. Through it all, the Ghost of Hayek whispers the beneficence of ignorance.

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<sup>1</sup> <http://reilly.nd.edu/people/reilly-fellows/philip-mirowski/>

<sup>2</sup> <https://global.oup.com/academic/product/the-knowledge-we-have-lost-in-information-9780190270056>

Mirowski is a leader in a wide scholarly movement that respects the neoliberals (and their string of class-war victories) by seeking to understand and illuminate their thinking and their practices. Despite the incredible flimsiness of their intellectual heritage, their effective grip on the organs of state power permitted all sorts of free-wheeling experimentation at better ways of impoverishing the many to enrich the few. Hence we owe it to ourselves to study their playbook, at least so they can't work the same hocus-pocus on us over and over.

At the back of Mirowski and Nik-Khah's tale lurks the ghost of F. A. Hayek. Founder of the Mont Pelerin Society, the brain trust of neoliberalism, Hayek put knowledge at the center of economic theory in his much-celebrated attack on central planning<sup>3</sup> :

The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process. And the problem of what is the best way of utilizing knowledge initially dispersed among all the people is at least one of the main problems of economic policy—or of designing an efficient economic system. (p. 520)

This hugely influential paper from 1945 presumed wide dispersal of knowledge in the economy, and credited the price system (i.e. The Market) in facilitating distribution of crucial information despite the ignorance of market participants.

It was an utterly futile attempt to refute such arguments undertaken by the establishment economists of that day that launched the precursors to today's infestation of designer markets. Our authors characterize those early attempts as the "Walrasian School of Design," as exemplified in the work of Leonid Hurwicz. The story of Hurwicz and his colleagues struggle to overcome Hayek's thesis comes

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<sup>3</sup> <https://www.jstor.org/stable/1809376>

down to us as the Socialist Calculation Controversy. For our authors, this is “the birth of the First Commandment of neoliberalism”:

Markets don't exist to allocate given physical resources, so much as they serve to integrate and disseminate something called “knowledge.” (p. 63)

From this fateful conceptualization two strands unwind. The strange evolution of the concept of information in economics moves along from Shannon to Bayes-Nash to algorithms. Alongside, the steadily declining role of knowledge in influential models of economic agents passes from crucial to tacit to irrelevant. Correspondingly, contempt for agents' cognitive capabilities rises steadily in support of today's rampant agnotology and elite distrust of democracy.

Winding these strands back together, the pernicious evolution of “market design” is traced. The Walrasian School is really a predecessor; it's still mainly concerned with observation and facilitation of “natural” markets. The Bayes-Nash school gorges on game theory, but mostly fails to actually deliver any functional markets. It's the Experimentalist School that “were the real machine builders.” (p. 215) The use of general-purpose computers to implement genuine markets brings us from history to current events. Our present surfeit of markets needs to be understood in that context. Neoliberal policy provided the impetus, but computer-driven designer markets actually deliver the beatings to which we've become accustomed.

With historical context firmly in place, we are treated to brief but valuable analyses of some of the milestones along the road to designer markets and contempt for humans. Here's where the pigs find their way to the trough. The FCC auctions of wireless spectrum set out to use game theory to fulfil a diverse set of goals defined by the U.S. Congress. But it didn't work out that way:

It is commonplace for the firsthand accounts of the FCC auctions to begin with a discussion of the stipulation of several goals for the auctions by the U.S. Congress. . .By replacing the goals of Congress with their preferred “efficiency” criterion, the FCC staff economists were able to ground their policy analysis in game theory. The true significance of this was not, as has been commonly asserted, the substitution of political with “scientific” considerations but, rather, the effective enrollment of a specific group of academic game theorists in the FCC’s policymaking process. The appearance in the FCC docket of a call for game theoretic analysis of how best to award licenses to the highest valued users was unprecedented, and it gave certain interested parties the idea of hiring academic game theorists to further their objectives. But those hoping to ground controversial public policy in uncontentious science would be disappointed, as the enlistment of an increasing number of economists to the market design process would result in a remarkably diverse array of inconsistent proposals—and ultimately, a failure to produce any clear-cut recommendation. (pp. 210-211)

Although the goals of Congress fell by the wayside, the consequences for economists were entirely copacetic:

But if markets are conceived as constructed entities, they can be skewed to favor certain participants. This is the most important lesson of the FCC auctions. Precisely this willingness to skew markets in favor of certain participants explains why, despite the failure to implement public policy, the FCC auctions were, as one participant noted, “a huge success for the auction theorists involved.”. . .As Alvin Roth has noted, the FCC auctions opened up “a new way for game theorists to earn their livings, as consulting engineers for the market economy.” (pp. 218-219)

Thus our neoliberal ownership class shifts a cut of the pelf to professional economists, in recognition of loyal service.

Turning next to the global financial crisis of 2008, the history of the TARP bailout provides further illumination:

The central rationale for employing the market designers was precisely that it held the promise of skewing markets in such a way as to benefit banks holding “toxic assets”; yet it was on precisely this point that they had to promote confusion, lest they be identified with efforts to subsidize the banks. The willingness to engage in such obfuscation was quickly recognized by the Treasury as the market designers’ primary virtue, and immediately put to use. (p. 232)

Here, the contradiction inherent in the ability and willingness of designers to skew markets versus the necessary perception that the public should trust The Market is on display. Along with doubts about whether market design could actually deliver the results that were sought—assigning near-par values to pennies-on-the-dollar assets—the idea of a designer market in distressed assets was flat-out busted. The Treasury resorted instead to capital infusions and mark-to-fantasy valuations so as to hide the essential insolvency of the too-big-to-fail banks. Subsequent public policy would shift the burdens of bad lending to homeowners. Timmy Geitner foamed the runway,<sup>4</sup> and Barack Obama stood between the banks and the pitchforks.<sup>5</sup> But the spell had been broken, at least for a moment.

Turning back to the evolving schools of market design, Mirowski and Nih-Khah depart from conventional dogma in deprecating the importance of game theory (the Bayes-Nash School) as the key source for market design, instead laying most of the credit to the Experimentalist School. With hindsight, the Walrasian and Bayes-Nash schools appear mostly as empty hype which, while serving useful agit-prop purposes for the rising neoliberal hegemony, presented little in the way of handy tools for more efficient looting. But the Experimentalist School is a different story. These folks actually built things, crossing from pseudoscience to

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<sup>4</sup> <http://wallstreetonparade.com/2012/08/how-treasury-secretary-geithner-foamed-the-runways-with-childrens-shattered-lives/>

<sup>5</sup> <https://www.politico.com/story/2009/04/inside-obamas-bank-ceos-meeting-020871>

genuine engineering. Markets can be rigged to benefit some parties at the expense of others. Economists in guise of market designers can deliver that service for a fee. This bears close attention.

Leaving market design to neoliberal economists must be unacceptable. An effective contest to neoliberalism will accommodate markets, if only to unwind them. The recognition that they can be readily structured to deliver bias needs to be kept handy in vigilance against rigging. Moreover, the work of Gode and Sunder (1993)<sup>6</sup> offers some hope that at least double-auction markets can be fair and efficient. Such can be a boon not a burden. We may require a cadre of post-capitalist market designers to provide a toolkit for hosting beneficial markets while excluding rent-seekers and looters. This project would combine law and software, manifesting the notion of code as law.<sup>7</sup>

But are mainstream economists more than useful, well-paid minions of our true plutocratic masters? Neoliberalism in theory and practice has served as a most effective cudgel in the ongoing class war of recent decades. Practitioners of neoliberalism strive to bend all the power of the state in the service of the enrichment and empowerment of the few at the expense of the many, all the while crying out for liberty and individual freedom. Can economists also serve to reconcile those contradictions in the struggle for mindshare, beyond their service in design and implementation of carefully rigged markets?

We can be assured that no particular inhibition will exist in confident and authoritative forked-tongue speech if we recognize the crucial role played by the *double-truth doctrine* that is intrinsic to neoliberal thought and practice. Let Mirowski

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<sup>6</sup> <https://www.journals.uchicago.edu/doi/abs/10.1086/261868>

<sup>7</sup> <https://www.nakedcapitalism.com/2012/04/code-is-law-literally.html>

tell it, from *Never Let a Serious Crisis Go to Waste*<sup>8</sup>  
(2013):

What I shall refer to here is the proposition that an intellectual thought collective might actually concede that, as a corollary of its developed understanding of politics, it would be necessary to maintain an exoteric version of its doctrine for the masses—because that would be safer for the world and more beneficial for ordinary society—but simultaneously hold fast to esoteric doctrine for a small closed elite, envisioned as the keepers of the flame of the collective’s wisdom. Furthermore, whereas both exoteric and esoteric versions would deal with many similar themes and issues, the exoteric version might appear on its face to contradict the esoteric version in various particulars. (p. 68)

We are shown the double-truth doctrine in use by our corrupt economists in selling market design as they seek hoodwink us muppets:<sup>9</sup>

. . . there is one image of the grand Walrasian general market for political consumption, and a different image of a collection of diverse boutique markets operating with differential effects for the clients of the business of market design. (p. 241)

Which brings us back to knowledge and ignorance. Returning to Hayek (1945)<sup>10</sup>, we can see some telltale signs of his cheerful approval of ignorance on the part of “the man on the spot” for whom it does not matter “why”; he need only attend to the significance of “how much more or less”:

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<sup>8</sup> <https://www.versobooks.com/books/1613-never-let-a-serious-crisis-go-to-waste>

<sup>9</sup> <https://www.nytimes.com/2012/03/14/opinion/why-i-am-leaving-goldman-sachs.html>

<sup>10</sup> <https://www.jstor.org/stable/1809376>

It is always a question of the relative importance of the particular things with which he is concerned, and the *causes* which alter their relative importance are of no interest to him beyond the effect on those concrete things of his own environment. (p. 525, emphasis added)

Hayek celebrates “the economy of knowledge” with which the price system operates, particularly “how little the individual participants need to know in order to be able to take the right action.” He refers to the “marvel” that, in conditions of scarcity, allows

without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; i.e. they move in the right direction. (pp. 526-527)

If your business success depends on the manipulation of markets, wouldn't you prefer that your marks out in the world are disinclined to ask *why* prices are moving, and simply concern themselves with adaption to those impersonal forces that are far beyond their understanding? This brings us to one of the most important tools in the neoliberal playbook, namely agnotology,<sup>11</sup> the deliberate and systematic spreading of ignorance:

. . . the Neoliberal Thought Collective is quite happy to have the masses mired in artificial ignorance, since that merely greases the wheels of the Market, that for which there is no greater intelligence. (p. 238)

This book and other work by Mirowski and his colleagues should be cherished as

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<sup>11</sup> ../agnotology.html



an invaluable corrective to the miasma of lies<sup>12</sup> and corruption<sup>13</sup> that the proponents of neoliberalism have wrought. We will need to apply all of our knowledge towards the dispelling of ignorance, working in solidarity to overcome the deprivations of plutocracy. We must finally lay the Ghost of Hayek to a well-deserved rest.

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<sup>12</sup> ../lies.html

<sup>13</sup> <https://www.nakedcapitalism.com/2016/04/credentialism-and-corruption-neoliberalism-as-lived-experience.html>