

# The Role of Social Norms in the Emergence of a Spontaneous Order

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*How are coordination problems solved, in practice?*

*One obvious way is by stating a rule.*

(Guala 2016, p. 12)

## Abstract

Spontaneous order (Hayek, 1937, 1945, 2021[1973]) methodologically revolutionized economics. The emergence of an economic order is the outcome of the integration of the dispersed knowledge through the price system mechanism as well as social norms. Analysis is needed to clarify the role played by patterns of behaviour that influence the maintenance and the evolution of the order. Social norms functioning better explains why the interconnections between individuals matter in leading to an order. This approach to understanding spontaneous order entails examining rationality and methodological individualism. Also, it entails epistemic problems that affect how knowledge encapsulated in social norms functions. Notwithstanding attempts to detect the roots of behavioural economics in Hayekian thought (Sunstein, 2023a, and the subsequent *Behavioural Public Policy* debate), further studies are needed to explore this idea and the contribution it could give to the studies of the role of social norms in the emergence of a spontaneous order.

**Keywords:** social norms, spontaneous order, rationality, behavioural economics, knowledge

## **Introduction**

Friedrich A. Hayek grounded his theory of spontaneous order on the functioning of the price system mechanism. His basic intuition was that knowledge is dispersed among people, and individuals coordinate themselves through prices, which reveal information and thus act as signals. People then align their behaviour accordingly.

Hayek's theory attempts to explain complex social phenomena; its goal seems to be to provide a theory capable of describing how orders emerge spontaneously. Thus, given its ambition to explain a multitude of phenomena which are not the result of conscious human design, it might seem that his theoretical elaboration aspires to be a 'theory of everything'. If we accept this kind of critique, the theory would yield little of value. However, this is not the case because the focus of his analysis was ultimately focused on the market.

This paper aims, at least in part, to respond to Dold and Rizzo's invitation to economists 'to ground their theoretical reasoning about market behavior in realistic theories of human choice and decision-making processes' (Dold & Rizzo, 2024, p. 14).

An interesting manner of investigating how spontaneous orders emerge relies on the functioning of social norms, which economists have largely analysed in terms of their role in governing individuals' choices (see among others Basu, 1998, 2001; Bicchieri 2006, 2017; Cialdini, Kallgren & Reno 1991).

This paper explores the role that social norms play in the emergence of an economic order. The explanation of spontaneous order as a normative economic concept might benefit from an analysis focused on social norms,<sup>1</sup> rather than other kinds of mechanisms (such as the price system mechanism), because social norms are particularly important for individual decision making, both inside and outside the market. Many economic models have been built on the idea that social norms motivate individuals (see among others Elster, 1989; Rabin, 1993).

The way social norms function seems to support spontaneous order as a methodological tool for social sciences broadly understood. Moreover, social norms adapt well to a generalized analysis as they are not universal, but vary across different cultures (see Henrich, 2000, 2015). The ideas of spontaneous order and social norms are intertwined: ‘the spontaneous market order is dependent on the existence of social rules of conduct. The market cannot work if the individuals do not follow certain social norms’ (Gedeon, 2015, p. 15).

In this analysis I mainly adopt Bicchieri’s definition of social norms. In *The Grammar of Society* (2006), Bicchieri seems to refer to the concept of spontaneous order without explicitly mentioning it. ‘Many social norms’, she writes, ‘are not the outcome of a plan or a conscious decision to enact them; they emerge by *human action but not by human design*’ (Bicchieri, 2006, p. 40, italics added). The last phrase is suggestive of Ferguson’s idea of unintended consequences, which can be traced back to the English

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<sup>1</sup> This research focuses mostly on social norms that individuals follow and that lead to the emergence of an order as well as its maintenance. Hayek himself distinguished between the rules that generate a spontaneous order and those which govern it (Hayek, 2021[1973], pp. 45-46). Hayek also (2021[1973]) admitted that a spontaneous order *may* be based on rules that are deliberately designed in a certain manner. This idea contrasts with constructivism, which Hayek firmly rejected. Future studies should focus on this tension in Hayek’s thought in order to analyse in-depth the role of designed rules in the emergence of an order.

See also Hodgson (1993) and Vanberg (1994) to deepen the topics discussed in the paper.

enlightenment era, recalled in Hayek's implicit reference to spontaneous order (Hayek, 2021[1973]).<sup>2</sup>

Many institutions arise spontaneously and rules may emerge in a not planned manner. In fact, 'New rules [...] may also emerge and evolve autonomously, without anyone in particular planning or foreseeing their effects. If they are successful, institutions are often spontaneously copied and disseminated across different social groups' (Guala, 2016, pp. 6-7).

The need to investigate the relationship between spontaneous order and social norms finds its *raison d'être* in the very essence of this characterization of social norms. A social norm is 'an equilibrium ... a situation of stable mutual adjustment: Everyone anticipates everyone else's behavior, and all these anticipations turn out to be correct' (Bicchieri, 2006, p. 22). From the methodological standpoint, therefore, it is interesting to point out that spontaneous order (as an extension to the concept of equilibrium) is important for economics also in terms of predictability. Hayek himself switched from the concept of equilibrium to one of spontaneous order (and later to that of catallaxy) to improve the theoretical framework for describing economic statuses. However, I will not elaborate on this issue here.

Developing his spontaneous order theory on the assumption that knowledge is dispersed among individuals, Hayek challenged rationality. As pointed out by Vanberg (1994, p. 35), Hayek in 'Economics and Knowledge' (1937) argued that, by depicting *homo oeconomicus* as a quasi-omniscient individual, economics does not focus on its major concern, which should be the issue of knowledge (how it is acquired, communicated, and the role of experience in its creation). Recently, these issues have been receiving

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<sup>2</sup> In *Law, Legislation, and Liberty*, Hayek quoted Ferguson and specified that this description provides the object of the theoretical social sciences (Hayek, 2021[1973], p. 38). I argue that he referred to spontaneous order, as he understood it, as the central problem of economic science.

interest. This analysis therefore considers the current debate concerning the alleged Hayekian behavioural economics in order to provide a broader theoretical basis from which to answer the research question.

In the second section, the relationship between the idea of spontaneous order as conceived by Hayek and social norms, particularly as elaborated by Bicchieri is examined. In the following section, methodological issues related to regarding social norms as the mechanism that allows the emergence of an economic order are addressed. In the fourth section, it is considered the relationship between behavioural economics and spontaneous order. Then, in the fifth section, it is questioned the debate on Hayek as a precursor of behavioural economics, due to his intuitions concerning individuals' limited knowledge. Conclusions follow.

### **Social Norms in the Emergence of a Spontaneous Order**

'The roots of the modern conception of norms in law and in economics are Hayekian' (Charny, 1996, p. 1842): this quote summarizes well where the origins of the conception of norms for modern economics (and law) are to be found. While this view is widely accepted, our necessary initial premise is that the meaning of the term 'norms' is quite ambiguous in economics. Here I mainly refer to Bicchieri's conception of social norms (Bicchieri, 2006, 2017).

I leave out many features of the spontaneous order theory as well as certain characteristics of social norms and the subsequent implications they may have. They are orthogonal to my research question. Instead, the paper focuses on the relationship that exists and develops between the formation of an (economic) spontaneous order and

social norms, because, after all, ‘if we want to explain the emergence and functioning of spontaneous market order, we also have to explain the emergence and functioning of those social norms that underpin this order’ (Gedeon, 2015, p. 15).

The actions undertaken by following certain social norms which result in an order may not have been intended to create that order (Hayek, 1967). Nor may people be conscious of the norms they are following. This is why the order can be labelled *spontaneous*. However, following particular social norms may lead to chaos instead of order. This is an aspect on which Hayek probably did not put enough emphasis; his works all seem to imply a generally optimistic conception of order. Hayek set out his theoretical framework in *Law, Legislation, and Liberty*, where he distinguished ‘cosmos’ from ‘taxis’ by referring to the meaning these concepts had in classical Greece. He argued that spontaneous order is ‘cosmos’, an order that has grown, as opposed to taxis, one that has been made (Hayek, 2021[1973], p. 59).

The rules that determine the emergence of a spontaneous order (cosmos) are different from those that determine the regulation of a made order (taxis). When Hayek used the term ‘rule’, he did not mean rules that ‘exist in articulated (‘verbalized’) forms’, but only that ‘is possible to discover rules which the actions of the individuals in fact follow’ (Hayek, 2021[1973], p. 65). Social norms seem to fit this description.

For the emergence of a spontaneous social order, it is not necessary that the individuals who obey the rules/social norms know exactly what they are, because they operate anyway. Hayek’s works largely revolve around the issue of knowledge, which is essential in this analysis. The fact that individuals do not possess complete knowledge in all the circumstances they face allows the *emergence* of an order – a *spontaneous*

order. It is due precisely for such a reason that cosmos arises. Otherwise, it would be the case of the *creation* of an order.

Spontaneity is embedded in life. I shall argue that social norms constitute one of the mechanisms underlying social life that contribute to the emergence of a spontaneous order. Many phenomena and institutions are natural, spontaneous. One of the most cited examples of spontaneous order is language. I think it is also one of the most interesting from the point of view of showing that spontaneous orders persist as they are often more efficient than made orders. For example, Esperanto – a universal language created with the aim of promoting dialogue between different populations and as a form of linguistic democracy – is a *planned* language which has not enjoyed huge success. On the contrary, other languages have developed thanks to informal rules that have spread among people and have been followed continuously.

Bicchieri's (2006) definition of social norms helps in the elaboration of a conception of spontaneous order that goes beyond Hayek's idea, encompassing aspects of human life that Hayek seems to have overlooked, such as emotions. Yet, as Bicchieri points out, 'there is no consensus about the power of social norms to direct human action' (Bicchieri, 2006, p. 1). This is, then, challenging research. This paper aims to reconstruct a spontaneous order theory grounded on social norms. In a nutshell, (economic) orders spontaneously arise thanks to people's behaviours, which are the result of their adherence to social norms.

Social norms are informal norms, public, shared; they may not be enforced at all or with informal sanctions such as dishonour, ostracism, and so forth (Bicchieri, 2006, p. 8) and

differ from moral rules.<sup>3</sup> People conform to a social norm on the basis of their expectations about others' beliefs and/or behaviours (Bicchieri, 2006, p. 8).

The rational reconstruction of social norms proposed by Bicchieri is formulated in the following terms:

A social norm  $R$  is followed by population  $P$  if there exists a sufficiently large subset  $P_f \subseteq P_{cf}$  such that, for each individual  $i \in P_f$ , conditions 2(a) and either 2(b) or 2(b') are met for  $i$  and, as a result,  $i$  prefers to conform to  $R$  in situations of type  $S$ . (Bicchieri, 2006, p. 11)

Some clarifications of the notation used are needed.  $P_f$  stands for the set of 'followers' of  $R$ ; they know  $R$  and they have a preference to conform to it.  $P_{cf}$  stands for the set of 'conditional followers' of  $R$ ; they know  $R$  and have a conditional preference to conform to it.  $S$  are situations modelled as mixed-motive games. The conditions to be respected for a social norm to exist are contingency (condition 1) and conditional preference (2). The latter is expressed in empirical expectations (condition 2(a)) and either normative expectations<sup>4</sup> (condition 2(b)) or normative expectations with sanctions (condition 2(b')).

One of Bicchieri's specifications seems particularly relevant to spontaneous order functioning.<sup>5</sup> She stipulates that social norms 'need not to be universally conditionally preferred or even universally known about in order to exist', pointing out that when norms do not align with individuals' self-interest, they might not be followed due to

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<sup>3</sup> Aspects related to morality are not deepened in this essay.

<sup>4</sup> Normative expectations differ from personal normative beliefs; the former might not be present in an individual's personal normative belief (e.g. in the case of holding moral values that are not commonly shared) (Bicchieri & Xiao, 2009, p. 192).

<sup>5</sup> See Bicchieri (2006, p. 11 ss.) for further specifications on the definition of social norms.

opportunistic transgression (Bicchieri, 2006, p. 12). The fact that a social norm may exist even if not all individuals know about it is consistent with the basic idea that people often act without knowing everything (knowledge is dispersed, as each individual only possesses a bit of it). Moreover, ‘even among conditional followers of a norm, some individuals may not follow the norm because their empirical and normative expectations have not been fulfilled’, and because mistakes may happen even among the members of  $P_f$  (Bicchieri, 2006, p. 12). This latter caveat is needed as mistakes can be made for several different reasons not fully analysed here. Bicchieri (2006) asserts, furthermore, that there might be social norms that exist even though they are not followed. It is conceivable, for example, that some norms might lie dormant for a period and then be revived. Gedeon (2015), however, argues that rules of conduct that are unsuccessful in coordinating individual action do not survive. He seems strongly influenced by Hayek in this respect.

Obeying a norm is influenced by both empirical and normative expectations (Bicchieri, 2006). When these conflict, experiments show that in a dictator game, empirical expectations about choices made by other dictators predict a dictator’s own choice, while the expectations dictators have about what other dictators think ought to be done do not impact significantly on their choices (Bicchieri & Xiao, 2009).

Condition 2(b) points to one of the mechanisms that governs the market. Indeed, the normative expectations condition refers to the fact that people believe that such expectations are *reciprocal*. Reciprocity underlies the market (see among others Bruni, 2008; Genovesi, 1852[1765]; Sugden, 1984, 2011). Even without any (informal) sanction, people might conform to a norm because they *feel* obliged to fulfil the expectations of others (Bicchieri, 2006, p. 15). It is important to consider this character

of social norms. Some forms of punishment are intrinsic to the functioning of the market, which can be understood as a decentralized nonlegal system of sanctions. However, individuals may follow a social norm even when it runs counter to their self-interest (Bicchieri, 2006, p. 16). Bicchieri gives an example about sharing ‘material’ rewards when generosity – which is different from altruism and benevolence – is the norm (Bicchieri, 2006, p. 16). I think this example fits well with the elaboration of a theory of spontaneous order grounded on social norms and, therefore, with the idea that behaviour in an environment (specifically, the market) is a response to both internal and external stimuli (in terms of emotions, prices, and so forth) people are subjected to. Thus, it is not a matter of behaving in a self-interested way or not, but rather of behaving on the basis of the knowledge possessed and the expectations formed. This is compatible with self-interested behaviour, particularly when we consider immaterial goods, such as positive emotions and power.

A spontaneous order is ‘made’ up by a myriad individuals who do not know each other. That is precisely what makes possible the emergence of an order which does not require people to behave intentionally for its creation. Among various kinds of spontaneous order – law, language, money – the market fits best with the idea that following social norms is what enables the rise of an order. In the market, people do not know each other; they act on the basis of the knowledge at their disposal.

The market is not a domain of pure benevolence and altruism, yet it is nevertheless *mutually advantageous*. As Bicchieri (2006, p. 19) explains, ‘As social distance increases, benevolence tends to decrease. If most people were benevolent toward strangers, we would need no pro-social norms of fairness, reciprocity, or cooperation’. The market is precisely the institution that enables relationships among strangers.

Individuals' distance in market relationships might differ, and consequently so too will the impact of social norms. The function performed by social norms is twofold: they 'tell us that particular behavioral responses are warranted in situations that are sufficiently similar to each other' and they 'express social approval or disapproval of such behaviors – they tell us how we *ought* to act' (Bicchieri, 2017, p. 30). I claim that the knowledge possessed by individuals is encapsulated in norms connoted in this way. Therefore, people's behaviours coordinate because of such functions of the norms followed.

### **Methodological Individualism and Rationality at Stake**

While behavioural economists have focused on the issue of rationality, which will be later examined, (methodological) individualism is little discussed (Sugden, 2016). Methodological individualism has not been challenged; both lab and field data concern individual choices (Dold, 2023).

Social norms seem to be consistent with the Hayekian methodological individualism approach. Indeed, behaviours are ultimately explicable only by preferences and expectations. Norms such as reciprocity work as motivations to act in a certain way (Bicchieri, 2006, p. 22). However, when socially complex phenomena are examined through the lens of social norms, the group dimension is involved, giving rise to methodological complications. Indeed, as Bicchieri (2023, pp. 919–20) highlights, when analysing individuals' mental representations, it is important to consider the actions and mental states of a *social group*. Social norms and collective behaviours are linked.

In short, methodological individualism is an approach that takes individual action as the starting point in order to understand social phenomena. More precisely, phenomena at the macro level should be explicated at the micro level in terms of individual choices (Arrow, 1994).<sup>6</sup>

Social norms – understood à la Elster as the emotional and behavioural propensities of individuals– work as a motivational mechanism that does not violate methodological individualism (Elster, 1989, p. 102).<sup>7</sup>

The roots of spontaneous order are traceable to the Enlightenment era and, in particular, to Adam Smith's idea of the 'invisible hand'. Robert Nozick (1994) coined the expression 'invisible hand explanation' in order to indicate patterns which are not the result of human design. He pointed out that the outcomes of the working of the invisible hand are not always desirable; Sugden (1998) came to a similar conclusion.

Hayek had already applied the invisible hand explanation to the study of social norms (Gedeon, 2015), but he sought to overcome the idea by grounding his concept of spontaneous order on the assumption that knowledge dispersed among individuals can be integrated by the price mechanism, which enables coordination without the need for individuals to know all the economic facts (Hayek, 1945). However, invisible hand explanations might be divided into two types: aggregate and functional-evolutionary (Ullman-Margalit, 1978). Spontaneous order may be explained – as Hayek argued – by

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<sup>6</sup> The three principles underlying methodological individualism are, essentially: i) self-interest, ii) rationality, and iii) social change (Dold, 2023, p. 656). See also Jon Elster's definition of methodological individualism, understood as 'the doctrine that all social phenomena (their structure and their change) are in principle explicable only in terms of individuals - their properties, goals, and beliefs', which is incompatible with the fact that 'individuals have often goals that involve the welfare of other individuals' and 'they often have beliefs about supra-individual entities that are not reducible to belief about individuals' nonchè 'many properties of individuals [...] are irreducibly relational [...]' (Elster, 1982, p. 453).

<sup>7</sup> Elster (1989, pp. 99-100) stated that 'For norms to be social, they must be shared by other people and partly sustained by their approval and disapproval'. Bicchieri's functions of social norms mentioned above recalls this idea of social norms.

grounding it both on the price system mechanism and on social norms. The price system reflects the first kind of explanation of unintended consequences of human behaviour (leading to social coordination)<sup>8</sup>, as the market aggregates knowledge that people would not otherwise be able to share (Hayek, 1945), while social norms imply the functional-evolutionary argument (Gedeon, 2015).

Employing functional-evolutionary arguments may create a problem at the methodological level, negating the methodological individualism adopted by Hayek (who was indebted to Carl Menger in this respect). Hayek used both modes of explanation of spontaneous order, creating a tension in his thought. This, I argue, complicates Hayek's elaboration of spontaneous order theory, which seems to lay claim to explain almost all social institutions.

Problems with methodological individualism arise because social order cannot be analysed solely as a consequence of individual actions, but must also be considered at *group* level.

Passing from an analysis based on individual equilibrium to that of societal equilibrium is not without problems (see Hayek, 1937). Societal equilibrium does not equal to the sum of individuals' equilibria. Indeed, individuals 'are in equilibrium only with respect to their *own* subjective perceptions of the external world, on the basis of which they make their plans' (Caldwell, 2004, p. 207).

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<sup>8</sup> Coordination, which is an impersonal feedback mechanism (e.g. a price system mechanism), differs from cooperation, which instead involves the adjustment of mutual expectations through social norms (Gedeon, 2015, p. 16). Cooperation is an assumption for the emergence of social norms (see Vanberg & Buchanan, 1988). However, such an argument is not exempt from critics. Vanberg and Buchanan (1988, p. 144) argued Menger and Hayek were wrong because they wanted to apply the logic underlying spontaneous order to how social norms emerge and work (see Gedeon, 2015, p. 18).

The selection of rules of conduct happens at group level (Gedeon, 2015, pp. 10-11); Hayek (1984, p. 318 as cited in Gedeon, 2015, p. 11) indeed admitted that ‘cultural evolution is founded wholly on group selection’.

This point has attracted criticism. Vanberg (1986) criticized Hayek’s theory of evolution due to its methodological dualism, which renders his account contradictory. He pointed out that the concept of spontaneous order should not be based on the functionalist argument and that it is enough to analyse social change in terms of individual choices (Vanberg, 1986, pp. 83-85). Hodgson argued that the two approaches in Hayek’s discourse are irreconcilable, and that methodological individualism is incomplete (Hodgson, 1991, 1993), while Caldwell considered Hayek’s methodological individualism to be distorted (Caldwell, 2004, p. 285). The perceived problem with Hayek lies in his adoption of the two methodological approaches concurrently (Schaefer, 2021, p. 1218). Nevertheless, Hayek’s methodological individualism is compatible with his theory of cultural group selection; his social theory can be understood only if the two aspects are integrated, as they are mutually compatible and complementary (Schaefer, 2021). Methodological individualism is not challenged by culture in Hayek. However, there is a tension in his thought between the individualist roots of his analysis and the evolutionary<sup>9</sup> perspective (Hodgson, 1993, p. 157). Hayek noted that the group ‘becomes dependent for the very survival of its increased numbers on the observance by its members of practices which they cannot *rationaly* justify’ (Hayek, 1984, p. 324, as cited in Gedeon, 2015, p.11, emphasis added). This observation also draws attention to one of the problems with Hayek’s conception of spontaneous order: rationality.

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<sup>9</sup> Hayek was unclear about the criteria on which evolutionary selection takes place (Barry, 1979).

While discussing factual knowledge and its limits, Hayek stated that ‘complete rationality of action in the Cartesian sense demands complete knowledge of all the relevant facts’ (Hayek, 2021[1973], p. 28). His thought on rationality matches with his conception of dispersed knowledge. Indeed, he adversed constructivist rationalists because of their argument based on the fiction that one mind knows all relevant facts and, as a consequence, a desirable social order can be *constructed* (emphasis added) (Hayek, 2021[1973], p. 30).

In *Rationality and Coordination* (1993), Bicchieri pointed out that individual actions produce unintended social consequences that lead to coordination. Nevertheless, the epistemological problem of how much knowledge is needed in order to coordinate remains. The ‘rational actor’ paradigm in which economics is anchored does not match perfectly with Hayek’s thought. But ‘rationality itself might be an evolutionary adaptation’ (Nozick, 1994, p. 315), and thus rationality can be compatible with evolution – and with spontaneous order, as an emergent status arising from the interaction of individuals who behave following social norms. In fact, ‘a nonlegal norm system can aggregate the insights of a large number of individual actors through mechanisms for the "evolution" of norms through some principle of rational selection’ (Charny, 1996, pp. 1844-1845). Therefore, respecting social norms is ultimately founded on rationality – albeit in its bounded versions. Even the behaviours of individuals who act apparently against their self-interest (and thus irrationally, according to traditional economics) might be explained by reference to the rationality of a nonlegal system of sanctions for violations of norms (Charny, 1996). So, both rationality and norm-following influence people’s behaviour (Elster, 1989, p. 102).

As rationality has played such a dominant role in economic science, it is important to understand its part in Hayek's elaboration, and I focus on this in the following sections.

### **Bounded Rationality and Spontaneous Order**

A theory of spontaneous order grounded on the functioning of social norms allows the reconciliation of a typical liberal theory with non-self-interested behaviours. While Hayek borrowed some aspects from the Smithian 'invisible hand', underlying which are self-interest and selfishness, a theory based on how social norms work overcomes the criticism that humans are not always and completely self-interested. In fact, social norms 'often go against narrow self-interest, as when we are required to cooperate, reciprocate, act fairly, or do anything that may involve some material cost or the forgoing of some benefit' (Bicchieri, 2006, pp. 2-3).

A further point worth pursuing relates to the possibility of investigating people's preferences. Human preferences, according to Hayek, are not penetrable. As a consequence, no central planner might satisfy them due to her incapacity to *know* them. Hayekian reflection on this topic might lead to more consideration of nonlegal normative systems, which may be important in terms of the outcome of social virtues (Charny, 1996). Normative systems conceived in this manner re-open the debate over rationality, suggesting, in fact, that 'Ironically, then, it would be in the irrationality, not the rationality, of social actors that the authority of these systems is ultimately grounded' (Charny, 1996, p. 1858).

A further step in the examination of social norms through the lens of bounded rationality considers the adoption of nudging strategies, designed to encourage or

discourage certain behaviours. Potentially, any form of nudge contradicts the idea of spontaneous order as elaborated by Hayek, as nudging – despite claims that would ascribe it to a form of ‘libertarian paternalism’ – exemplifies constructivism.

The bias and heuristics program, developed from the early 1970s by Daniel Kahneman and Amos Tversky, showed that preferences are often context-dependent, in contrast to what microeconomics has traditionally taught (see for example Tversky & Simonson, 1993). This should not be overlooked when considering the role that norms and rules play in people’s choices and actions and, consequently, in the emergence of an order. Dold (2023, p. 666) observed that ‘the heuristics-and-biases program expands the social change principle and includes the idea that individuals respond not just to economic incentives but also to non-economic factors, such as *informational framing* and *situational cues*’. The nudge theory elaborated by Thaler and Sunstein (2008) exploits these cognitive incentives rather than economic ones.

The intuitions that prompted this way of nudging people towards ‘better’ choices suggest some considerations worth discussing.

In order to avoid misunderstanding concerning the notion of ‘norm’, it is useful to bear in mind Bicchieri’s distinction between descriptive and social norms. Descriptive norms are those patterns of behaviour that individuals prefer to conform to because they believe the majority of those in their reference network actually do so, while social norms are those rules of behaviour that additionally require people’s belief that the majority of those in their reference network believe they ought to conform to (Bicchieri, 2006, 2017, 2023).

The fact that nudging affects individuals’ knowledge conflicts with the Hayekian idea of spontaneous order. Indeed, if people’s knowledge is influenced by information directly

aimed to persuade them to pursue a precise behaviour which is meant to make them 'better off as judged by themselves' (Thaler & Sunstein, 2008), this will lead to a 'constructed' order. This contrasts with the idea of cosmos or spontaneous order, in which knowledge is the result of the integration of the knowledge dispersed among individuals throughout the relationships established among those individuals. In the case of nudging, knowledge is directed by a mind (of the planner), which is believed to have a sort of 'clean' knowledge (i.e. not affected by biases).

An ambiguous issue may arise with reference to increasing the information at people's disposal. To be sure, adding new knowledge increases people's capacity to make choices in line with their wills and preferences as their opportunities are enlarged (Sugden, 2018). However, I argue that the *discovery* process underlying the acknowledgement of new information might pose problems. Information should be unveiled by people themselves without need of an external source that makes people aware of information (that perhaps they might not need).

A typical nudging strategy intended to discourage certain behaviours (e.g. avoiding tax) is to show people how many do comply with the (legal) rule that prescribes a certain conduct. The strategy can also work to encourage desired behaviours. Social norms can work similarly, exerting a moral suasion effect. They steer people away from behaviours they do not like but at the same time do not fully condemn. One of the problems with considering nudging strategies in this context, however, is the fact that they are *aimed* at improving people's lives, whereas (spontaneous) orders should not hold any kind of moral attribute.

Another issue related to compliance with social norms is the actual process that leads to compliance. As already stated, one problem is rationality (Bicchieri, 1993, 2006).

Whether it is rational to follow a norm or not is an interesting point, even with reference to the emergence of a spontaneous order. In fact, cognitive processes affect norm-following.

The tension between rational and irrational conformity to norms is a point worth probing further because, as Bicchieri points out, ‘Yet conformity to a norm may be rational, and may be explained by the agents’ beliefs and desires, even though one does not conform out of a conscious rational calculation’ (Bicchieri, 2006, p. 51). People unawareness may lead to orders because coordination is not necessarily a matter of intentionality.

Since Smith’s ‘invisible hand’ intuition, the idea of forces that automatically coordinate has spread among philosophers as well as economists: ‘There are occasions in which we are unaware of the reasons why we do what we do, and occasions in which we are consciously thinking of a norm, and the reasons for following it, before acting’ (Bicchieri, 2006, p. 50). Following a social norm does not necessarily require *intentionality*. However, elsewhere Bicchieri (2006, p. 50) states that people *choose* to follow a rule (which seems to contradict the previous passage about consciousness in norm-following). But this may or may not happen. Indeed, when individual decision-making is affected by heuristics and biases, decisions are not fully rational nor choices deliberately made.

Compliance with a social norm is also affected by its previous existence (Cialdini, Kallgren, & Reno, 1991) and depends on social proximity much more than norm violation. In fact, ‘social proximity can stabilize norm compliance by reducing the asymmetry in reactions to observing norm violations and norm compliance’ (Bicchieri et al., 2022, p. 70). In order to stop the erosion of norm compliance, she suggests to

provide individuals with ad hoc information about the behaviours held by similar individuals in analogous situations (Bicchieri et. al., 2022).

### **Hayekian Behavioural Economics?**

The focus on the role played by social norms in the emergence of an order leads to ancillary issues. Specifically, as norms are behavioural rules that prescribe a specific action procedure for one or more situations, elements of cognitive psychology need to be taken into consideration.

Cognitive psychology shows that humans are affected by bounded rationality, and that, therefore, individuals are not omniscient, supporting Hayekian theorizations about fragmented knowledge. Usually, people face situations in which they do not have complete information and, as a consequence, they tend to imitate other people's behaviour, assuming its correctness. It seems a reasonable choice, convenient in terms of monetary and psychological costs as well as of time.

Social norms might thus explain this kind of rule-following behaviour and lead us to consider how individuals learn to respect a certain social norm. Norm compliance relies upon factors such as emotions and cognitive requirements (Bicchieri, 2006; Fehr & Fischbacher, 2004), and emotions (for instance, guilt or shame) may serve to enforce norms where there are no formal sanctions.

Recalling the problems considered in the previous section, let us consider some aspects of the spirit of Hayek's supposed behavioural economics. Recently, there has been an animated discussion in *Behavioural Public Policy* of Cass Sunstein's paper, 'Hayekian Behavioral Economics' (2023a). I argue it deserves discussion here, because it is useful

in better comprehending the complexity of Hayek's thought on issues in behavioural economics (including social norms as a vehicle for the emergence of a spontaneous order) and clarifying the overall direction of Hayek's lifetime works.

It has been argued that Hayek belongs to the first generation of behavioural economists (Frantz 2020), but this conclusion seems somewhat hasty (see Dekker & Remic, 2024).

Indeed, the core element of Hayek's thought – knowledge – received little attention from earlier behavioural economists –at least, not as Hayek developed the idea of fragmented knowledge (Hayek, 1937, 1945).

Hayek rejected characteristics of neoclassical economics, such as excessive formalism and aggregation (Frantz, 2020), a trait he shares with behavioural economists, who attack *homo oeconomicus* on the basis that humans are not fully rational.

Frantz (2020) has claimed that Hayek preceded Simon in rejecting economic man. Hayek discussed rationality, because complete rationality implies complete knowledge. Hayek's account holds that knowledge is dispersed; he therefore rejects global rationality (Hayek, 1945). I endorse Frantz's general idea that in some way Hayek anticipated the intuitions of behavioural economists, but the claim that 'before there was Kahneman and Tversky, there was Hayek' (Frantz, 2020, p. 22) seems hyperbolic. Hayek's arguments were in fact based on economic philosophical reasoning rather than cognitive psychology's findings.<sup>10</sup>

Unorganized (or tacit) knowledge underlying the emergence of spontaneous order can be understood as a concept of behavioural economics, because it is not grounded on rational choice theory. It is evident that a key role in the emergence of such an order is played by social norms, and the norm-following mechanism is not necessarily rational

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<sup>10</sup> Caldwell (2004, p. 333) stressed out that Hayek – at least in 'Economics and knowledge' – thought that focusing on the psychology of the individuals would not be particularly fruitful for economics.

in neoclassical economics terms (i.e. following a social norm that does not promote self-interest). As Frantz (2020, p. 27) asserts, ‘We are rule-following as much as we are rational. Humans succeed not by being rational but by being guided by “evolved rules and practices”’.

Like Frantz, I interpret Hayek’s idea of tacit knowledge as a manner of rejecting rationality. Hayek pointed out the limits of human rationality by introducing the idea that each individual possesses only a bit of knowledge. However, I am skeptical of his portrayal as a first-generation behavioural economist. His account lacks the psychological findings to support his intuitions; this interdisciplinary scaffolding was later constructed by behavioural economists. Indeed, social norms might be understood as exhibiting ‘ecological rationality’ in their environment (Dold & Lewis, 2022).

Hayek believed that ‘we stand in a great framework of institutions and traditions – economic, legal, and moral into which we fit ourselves by obeying certain rules of conduct that we never made, and which we have never understood’ (Hayek, 1988, p. 14). These rules evolve and lead to an (economic) order; they can be interpreted as social norms as previously defined here.

Sunstein (2023a) advocated for ‘Hayekian behavioral economics’ with reference to the advantages that the price system has in epistemic terms. In brief, Sunstein defended the thesis that interventions such as nudges, taxes, subsidies, and mandates are compatible with Hayek’s thought. However, identifying individuals’ unbiased choices for the purpose of ‘correcting’ them seems incompatible with the thrust of Hayek’s concerns. Rizzo & Whitman (2023), criticizing Sunstein’s essay, pointed out that knowledge problems pose barriers to behavioural policy-making. While I shall not dwell on their pertinent critique, for further insight into the supposed relationship between Hayek’s

thought and behavioural economics, I borrow a line from them: ‘individuals are not atomistic decision-makers’ (Rizzo & Whitman, 2023, p. 203). This is much more relevant to the functioning of social norms than to the epistemic power of the price system mechanism. When people follow a certain social norm, they are not following it in a neutral environment, nor – most importantly – are they doing so *alone*. Such elements influence people’s norm-following as well as their knowledge.

Sunstein’s approach was also criticized by Sugden (2023), who considers it contrary to Hayek’s spirit. Sunstein’s strategy of rebranding ‘liberal paternalism’ does not work according to him. While Sugden acknowledges that behavioural economics can be labelled Hayekian if referring to the application to economics of theories and methods from empirical psychology, he regards Sunstein’s approach to the knowledge problem as wrong. What Thaler & Sunstein (2003, 2008) proposed is not Hayekian behavioural economics and the attempt to rebrand their liberal paternalism as such fails (for a defence, see Sunstein, 2023b). Sugden places Hayek’s concern with knowledge at the centre of his critique, and points out that Sunstein did not focus on Hayek’s related concern with the nature and limitations of human rationality (Sugden, 2023, p. 191). Sunstein’s paper rests on constructivist rationality, which Hayek rejected (Sugden, 2023). Thus, the whole theoretical framework presented by Sunstein seems inadequate to shore up a ‘Hayekian behavioural economics’.<sup>11</sup>

A point that must at least be mentioned in addressing the relationships between social norms and spontaneous order relates once again to individual knowledge. As, in Hayek’s account, individuals’ knowledge depends on other people’s knowledge, rules (and, I would add, norms) are important for the development of social rationality

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<sup>11</sup> I omit from this discussion issues related to biases and their correction (see Sugden, 2023).

(Dekker & Remic, 2024). I claim that (cultural) rules that emerge through social interaction may, to some extent, replace the functioning of the price system mechanism. Indeed, they encapsulate knowledge better than the price system mechanism, which can be understood as a specification (or example) of the functioning of rules.

While the attempt to theorize a ‘Hayekian behavioural economics’ seems to have failed, the proposal for a ‘Hayekian psychological economics’ (Dold & Rizzo, 2024) looks more promising. Dold and Rizzo rightly take Hayek’s book *The Sensory Order* (1952) as a starting point for their reflections. Hayek’s lack of consideration as to how individuals make mistakes in acquiring knowledge is relevant if we are to develop an approach consistent with a Hayekian worldview. I argue this should in fact have been the starting point for constructing the claim to a ‘Hayekian behavioural economics’.

Acknowledging that consciousness gives structure to the empirical world entails that we should consider rules of perception and action. This is important in understanding how social norms contribute to the emergence of an order, because both rules of perception and the rules of action associated with them incorporate expectations (Dold & Rizzo, 2024, p. 5) – as do social norms. Dold and Rizzo’s focus on the processes of adjustment and adaption, as well as learning, contributes to a better understanding of the dynamics of social norms (see above), which does not neatly fit into rational choice theory. They write: ‘The rational expectations approach, on the other hand, completely abstracts from the psychology of expectations, the partial and incomplete nature of knowledge, and usually agent diversity as well’ (Dold & Rizzo, 2024, p. 5).

The analogy made by Hayek between market and mind as complex adaptive systems (Lewis, 2017, as cited in Dold & Rizzo, 2024) is an additional element in the argument

that individuals' behaviour, which is determined at a psychological level (i.e. in terms of perception), is comparable to the workings of the market.

Incomplete knowledge characterizes Hayek's thought and, I claim, underlies the functioning of social norms. People follow social norms on the basis of the (limited) knowledge they possess. Social interactions, essential for the emergence of an order, imply additions to people's knowledge that may lead to changes in their behaviour. Hayekian psychology helps to illuminate the actions of others 'in an *intuitive* way because or insofar as we follow the same *unconscious* rules, we recognize their behavior' (Dold & Rizzo, 2024, p. 8).

Following certain rules on the basis of what we know or don't know is one of the most complex issues of human behaviour, and it relates to the ramifications of rationality. Hayek (1945) argued that prices register changes in knowledge. They work as aids to the mind (Lavoie, 1985). The same idea applies to rules, to social norms. It follows that the latter can be interpreted as a vehicle for the rise of a spontaneous order. Further examination of social norms in relation to 'Hayekian psychological economics' offers us a direction to follow in order to deepen our analysis of the relationships between spontaneous order and social norms.

## **Conclusion**

A complex concept such as spontaneous order requires an equally complex way of explaining it that encompasses every aspect of life, not just economics. Investigating the role of social norms seems a more productive route than considering only the contribution of the price system mechanism. Although Hayek attributes positive

connotations to spontaneous order, Sugden (1998, p. 494), warns that ‘not all orders are good’.

Social norms reflect the beliefs, credences, thoughts, perceptions, culture, and so forth of a group of interacting individuals. Thus, it might follow that they provide an enriched framework of how social interactions happen and how they (may) lead to an order. It seems possible to claim that individual values might be encapsulated in social norms and through them become collective. For instance, the rule of reciprocity can be consistently and widely valued due to the way it facilitates the functioning of society.

Social norms have a primary role in the emersion of a spontaneous order as informal rules followed by individuals lead to the coordination of individual plans due to the fact that their enforcement relies, among others, on the knowledge possessed by individuals themselves. It follows that changes in knowledge may lead to changes in the norms followed and then to changes in order as well (e.g. evolution of the order). Hayek’s idea that knowledge is fragmented among individuals fits with social norms functioning. Indeed, social norms encapsulate individuals’ knowledge as well. Moreover, people follow social norms as they are rules that individuals follow as they are instances of *homo behaviouralis*, not of *homo economicus*.

‘The idea that social norms may be cued, and hence manipulated, is attractive. It suggests that we may be able to induce pro-social behavior and maintain social order at low cost’ (Bicchieri, 2006, p. 7). This notion seems contrary to the Hayekian concept of spontaneous order, and leads us to fall into the trap of constructivism. Spontaneous order is sustained by social norms, which are informal rules, due to the fact that they work as a good mechanism to encapsulate individuals’ knowledge (and their changes). Differently, when norms are created, the order will result induced – not spontaneous.

This idea leads to consider topics related to the aforementioned ones that pose some issues with reference to spontaneous order and social norms, namely methodological individualism and rationality. Furthermore, Sunstein's proposal of 'Hayekian behavioral economics' and the subsequent debate has been considered in order to point out the relevance of that subject in the ongoing debate. Such discussion, albeit around not social norms but rather the epistemic function of the price system mechanism, is symptomatic of the need to discuss Hayek's thought in this light. While the price system mechanism has long attracted much attention as the mechanism that integrates dispersed knowledge among individuals, there has been less interest in the role of social norms in performing this function. On the contrary, as shown, social norms are central in explaining the emergence of spontaneous order à la Hayek.

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