Arrogance and Humility in the Governance of Human Interaction: A Reflection on Roger Koppl's *Expert Failure*

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Prevailing ideology holds that democracy is a system of government where people govern themselves. This ideology clashes with the unavoidable recognition that in any but small towns and villages governance is an activity wherein a few govern and the many are governed. This situation is an unavoidable feature of contemporary life with its elaborate and complex division of labor and knowledge. All of us are in the position of knowing a lot about a few things and little about most things. The central question Roger Koppl raises in *Expert Failure* is whether experts employ their expertise to the advantage of the general public or to the expert's own advantage. Koppl advances strong reasons for being suspicious about the influence that experts exercise over the social organization of economic activity. In doing so, he brings us face-to-face with a perplexing conundrum: experts are indispensable, and yet operate within an environment that enables their biased use of that expertise.

Are ordinary people subordinate and subservient to experts, or are experts the servants of ordinary people? This is a significant and challenging question to pose because there is no simple recipe for making servants out of self-identified experts. Koppl closes *Expert Failure* by noting that his "fondest hope for this volume is that it may help induce the reader to value expertise, but fear expert power" (p. 237). In this essay I explore some insights that economic theory and political economy might offer into the social organization of what is unavoidably expert-dominated patterns of governance. I do so by taking recourse to three scholarly giants from the first half of the 20th century: Friedrich Hayek, Frank Knight, and Vilfredo Pareto. None of these figures would have thought it easy to accomplish this transformation, but they provided illuminating instruction about the difficult challenge of harnessing experts to the service of ordinary people. In short, experts might be harnessed within the confines of the theory of a free-market economy, only a free-market economy seems to lack robustness against the autonomy of the political within society (Schmitt 1932 [1996].

FRIEDRICH HAYEK AND THE USE OF KNOWLEDGE IN MARKET INTERACTION

In two well received but also widely misunderstood essays, Friedrich Hayek (1937, 1945) challenged economists to rethink their presumptions about markets and knowledge. At the time Hayek wrote, economic theory was dominated by general equilibrium theory. To be sure, that theory had changed dramatically between its initial 1874 formulation by Leon Walras and its reformulation in the 1930s in Vienna, as Roy Weintraub (1993) illuminates lucidly. The challenge the equilibrium theorists posed to themselves was to articulate a set of conditions under which it could be demonstrated that a competitive equilibrium existed. The theorists of the time regarded this as a significant demonstration because it meant that there would be no governmental action that would improve the well-being of some people without lowering the well-being of other people. All gains from trade among the relevant set of people would have been fully exploited, meaning that the equilibrium position entailed perfect efficiency.

To be sure, this claim of perfect efficiency did not imply that governmental intervention into the economy could not be justified. It meant only that such intervention could not be justified as being necessary to capture unexploited gains from trade. Intervention could still be justified by invoking normative presuppositions that looked elsewhere than to unexploited gains from trade. Gains from trade are always relative to some initial point of departure: given that point of departure, a resulting pattern of trade exploits fully the gains from trade that were inherent in that initial position. All the same, a different point of departure could have required a different pattern of trades to fully exploit the gains that were inherent in that alternative initial position. Hence, the theorists of the time recognized that a competitive equilibrium would entail full exploitation of gains from trade, while recognizing that such full exploitation was relative to the point of departure, and that governmental power could potentially be deployed to change that point of departure by imposing some pattern of lump sum taxes and transfers.

Hayek (1937, 1945) recognized that this scheme of general equilibrium theorizing operated by assuming people knew things they were incapable of knowing. The standard theory of competitive equilibrium operated by making such assumptions as universal price taking and full knowledge. Universal price taking meant that each supplier of a product supplied an insignificant share of the total market, rendering it reasonable to assume that no seller could influence the equilibrium price by expanding or contracting production. Full knowledge meant that buyers know the prices and also product qualities that all sellers offer, meaning that sellers who charge higher prices will sell nothing. While the general equilibrium theorists demonstrated that it was possible to stipulate a set of conditions under which a full exploitation of postulated gains from trade could be achieved, it was also generally recognized that those conditions were a limiting case that enabled creation of a theoretical result without illuminating the world of practical action. The theory was an imaginative construction, as all theories must be, but it was a construction that was never thought to describe practice even remotely, but rather was thought to explain how the world of practice could not fit the necessary conditions for competitive equilibrium.

In contrast to the general equilibrium theorists with their mathematically-governed formulations, Hayek sought to articulate an alternative point of departure for economic theory. He did not stipulate conditions under which postulated gains from trade would be fully exploited. Hayek did not start from presumptions about systemic equilibrium and ask under what formal conditions such an equilibrium would be consistent with the presumptions of individual rationality. To the contrary, Hayek started with individuals who faced problems in their fields of action. Individuals who operated businesses would face problems of organizing their activities efficiently and would have to engage continually in discovering and assembling knowledge, and with some people being more successful than others. Within this market process, people would bear the value consequences of their actions. Relevant knowledge did not exist as part of the stipulation of equilibrium conditions. To the contrary, the knowledge relevant for economic activity emerged through the transactions in which people engaged. Within Hayek's vision of the economic process, gains from trade were invariably present, but these had to be discovered and exploited through economizing action. Hayek's world was one of divided and distributed knowledge, and the market process was a social process that tended to enlist those experts who knew things in the service of those who did not because doing that was the path to commercial success.

FRANK KNIGHT AND THE USE OF KNOWLEDGE IN DEMOCRATIC INTERACTION

Frank Knight was known among students during his time at the University of Chicago for declaring that to declare a situation hopeless is equivalent to calling it ideal, and with James Buchanan often repeating Knight's declaration. People are typically disturbed when they first hear Knight's declaration, but quickly come to see Knight's logic, which entails a lesson in the principle of opportunity cost, a lesson that is also encapsulated in Reinhold Niebuhr's oft-cited Serenity Prayer: "God, grant me the serenity to accept the things I cannot change, courage to change the things I can, and wisdom to know the difference." A hopeless situation cannot be changed, an ideal situation is one someone would want to maintain, so a hopeless situation is equivalent to an ideal situation in that it is senseless to try to change what can't be changed. In the contemporary world of an extensive division of labor and knowledge, there is no option to operating within an environment in which we know nothing or next to nothing about most matters that are important to us. We are dependent on experts, for better or for worse.

Frank Knight's (1960) set of lectures on *Intelligence and Democratic Action* provides a nice complement to Hayek (1937, 1945). Where Hayek probed an alternative analytical framework where knowledge was generated through market interaction and not stipulated in advance by a theorist, Knight similarly recognized that democratic processes were intimately engaged in creating knowledge and beliefs. In this respect, one of Knight's oft-advanced points, which he attributed to Josh Billings, a 19th century American humorist, is that "it's not what we don't know that will hurt us, but what we know that isn't true." Knight recognized, as did Hayek, that market processes operated in the general direction of discovering knowledge, and with that discovery mostly operating to promote the further exploitation of gains from trade.

Where Hayek focused on the market as a process for assembling knowledge, Knight posed the problem of the assembly of knowledge within a political rather than a market context. Central to Knight's formulation was the distinction between discussion and debate. For Knight, democracy was idealized as a political system where people governed themselves. For this idea to be realized in practice requires that the democratic process operate through discussion as distinct from debate, and with discussion possibly leading to consensus. With respect to democracy and consensus, Knut Wicksell (1896, 1958) is especially interesting and informative, particularly with respect to the influence Wicksell had in shaping James Buchanan's approach to constitutional political economy, as Wagner (1998) examined.

Debate is often described as a means of establishing some truthful answer to a point in question. This description is surely mythical. Debate might establish a winner as judged by an audience. Debate establishes a "last man standing," so to speak, but that is all it can do, as Knight recognized so perceptively in contrasting debate with discussion. Debate is a clash of presuppositions, with the aim being to acquire more votes from some relevant audience than the opponent. Debate aims at victory over an opponent; discussion aims at consensus between or among the participants. With discussion, the possibility of a "meeting of the minds" comes into play. With debate, that possibility is replaced by a desire to vanquish the opponent.

Whether an exchange of verbiage between or among participants is discussion or debate, moreover, depends on whether those participants form their own audience or are performing before an audience. If the latter, conversation is surely eristic and not genuine. In this respect, Tyler Cowen (2005) identifies self-deception as the source of market failure. Self-deception was, of course, a central theme of the Ancients. Whether discourse is among people who deceive themselves or is eristic in the presence of an audience is probably a moot question because the two are observationally equivalent. Consider an example from Wagner's (2018) examination of Edward Stringham's (2015) *Private Governance*. Stringham shows that it is possible to construct models where private governance can overcome all the commonly postulated problems associated with externalities and public goods. This ability of market organization to do so resides in recognition that any such postulated problem entails the presence of unexploited gains from trade among the participants. Stringham uses several historical examples to show how people did this, while also noting instances where people were able to marshal political power to prevent such action.

Such use of political power points toward eristic discourse, self-deception, and Carl Schmitt's recognition of the autonomy of the political. Wagner's (2018) simple illustration of this point entailed a five-person model of entrepreneurs who comprised a democratically-organized community. Each of the five establishes a new business, three of which fail to become profitable. What happens then? According to the theory of free markets, those three will liquidate, after which they will either create a new business or offer to work for one of the two successful businesses. Yet the three failed entrepreneurs entail a political majority. They might use their voting power to create some agency to offer support to new businesses, financed by taxes on successful business. They might try to disguise the naked use of power the three versus two appearance suggests by propounding an ideology of equal opportunity. They might even buttress that ideology by lodging claims of unjust enrichment against the successful enterprises by claiming those enterprises operated with an unfair advantage because they didn't share relevant knowledge with the less fortunate remainder of society. Whether supporters of the new agency were deceiving themselves or engaging in eristic discourse is probably undecidable and irrelevant in any case. Political power will be deployed to the advantage of those who hold it.

VILFREDO PARETO AND THE DISJUNCTION BETWEEN LOGICAL AND NON-LOGICAL ACTION

At this point, Vilfredo Pareto's (1935 [1915]) distinction between logical and non-logical action becomes relevant, and with Backhaus (1978) and Patrick and Wagner (2015) exploring aspects of Pareto's contribution to public choice theorizing. The first thing to be said about Pareto's distinction is that it has nothing to do with the distinction between rational and irrational. Pareto viewed rationality as a feature of human action, only he recognized that rationality manifested differently depending on the different environments in which people found themselves. What Pareto recognized was later treated as ecological rationality by Gigerenzer (2008) and Smith (2008). With respect to those environments, Pareto distinguished between economic or market environments and political and religious environments. In all the environments people inhabited, people acted by choosing options they valued more highly over those they valued less highly, as James Buchanan (1969) explains luminously. In market environments, they start businesses and buy products; in political environments, they chose between candidates and the operate regulatory agencies. The form of rational action is identical across environments: choose the option you value most highly among the options you face. The substantive context for rational action, however, differs among environments.

Pareto's scheme of thought followed what he called the logico-experimental method, and with Pareto's scheme of thought opening into schemes of thought whose analytical potential has not yet been fully explored, as Michael McLure (2007) explains. With respect to the actions people undertake, two things can be observed: their actions and the explanations they advance for those actions when asked, which Pareto labeled derivations. What could not be observed was the genuine driving force that caused those actions, and which Pareto labeled residues. One significant facet of Pareto's analytical scheme is his claim that derivations have unlimited variety depending on the situation the person is encased, while residues are pretty much invariant.

Armed with this analytical schema and his logico-experimental method, Pareto distinguished between the logical action that emanates within market environments from the non-logical action that emanates within political and religious environments. Again, all those actions entail rationality, only rationality manifests differently as between market and political environments Market environments place actors in the position similar to conducting scientific experiments. In choosing among products, a customer forms a hypothesis or expectation about which option provides greater value. That hypothesis can be gauged against subsequent experience. The same form of situation faces a firm deciding whether to expand its operation, open a new branch, or any of the other myriad choices it faces. All such cases entail options that are costly to the owner, and with the owner bearing the value consequences of the choices made. The market environment places actors, whether consumers, producers, or investors, in the position of betting on their choices.

By contrast, political environments elicit non-logical action because the logical-experimental method does not pertain to actors who do not invest in their actions because those actions do not create outcomes. The actors still deploy their faculty of reason, only it is directed in a different direction. Citizens voting for candidates is probably the quintessential form of democratic action. Numerous theorists from Anthony Downs (1957) to Geoffrey Brennan and Loren Lomasky (1993) and Bryan Caplan (2007) have noted that voters have little incentive to become informed about political matters because their votes are indecisive in all but tiny electorates. Pareto recognized this feature of democratic voting and extended that recognition into a theory about the qualities of democratic processes. For Pareto and his contemporary Gaetano Mosca (1939), candidates competed among themselves to secure electoral support by offering ideological images they thought would resonate with the electorate. As for the electorate who chose among those images and candidates, this environment for political action bore a formal resemblance to the environment for political action, and yet the substantive content of action diverged between the two environments.

Formally, voters choose among candidates just as consumers choose among producers. Substantively, market actions have logical character while political actions have non-logical character. The differences between the two types of action depend first on the different environments the responding consumers-voters face, and second on the different environments in which the proposing producers-politicians act. In market environments, responders invest in the choices they make and receive the option they chose. Hence, consumers can test the accuracy of their expectations against their experience with the object they chose.

By contrast, responders don't invest in their political choices, nor do they receive what they chose. The taxes that voters pay is independent of the candidate for whom they vote. Voters might choose to make contributions to political campaigns, but they do not pay for a service they have received in doing so. In this non-logical environment, voters are selecting among images the candidates have projected (Boulding 1956). As Pareto and Mosca explained, political competition entails candidates competing for voter support by projecting images that resonate more strongly with voters than the images projected by other voters. As Backhaus (1978) explains , political competition in non-logical environments can often lead voters to choose options they would not have chosen if those options had been proffered within an environment of logical action.

KOPPL IN RELATION TO HAYEK, KNIGHT, AND PARETO

Roger Koppl's analysis of expert failure extends in complementary fashion the contributions that Hayek, Knight, and Pareto set forth. In the contemporary world of specialization and a division of knowledge, each of us knows a lot about our fields of expertise while knowing little or even nothing pertaining to all other fields of expertise that nonetheless are relevant for our well-being. Furthermore, the self-identified experts in any field of activity often differ in the recommended actions stemming from their use of their expertise. Koppl identifies numerous instances of such dueling expertise.

To hope that the expertise of experts can be harnessed to the service of ordinary citizens is a significant and challenging hope to harbor, for there is no simple recipe for bringing this about, as such scholarly giants as Hayek, Knight, and Pareto recognized. There are reasonable grounds for following Hayek in thinking that the division of knowledge within the market-hosted environment of logical action generally operates to harness the knowledge of experts to the service of the general population because the knowledge possessed by experts does them no good unless that knowledge receives validation through the choices of consumers, and with those consumers being free to choose among the creations of different experts.

In politics, however, as Knight recognized, discussion among people with differing initial bases of knowledge can produce some meeting among the minds. This outcome represents Knight's idealized vision of democracy as governance by consensus generated through discussion. Discussion, however, is not a spectator sport. There are no audiences for a discussion; there are only participants. Democracy in villages and towns might plausibly proceed through discussion and consensus. In cities and nations, however, discussion gives way to debate where a few put on a show for the rest of society. Where discussion can reflect genuine discourse, debate before an audience quickly becomes eristic as political candidates seek support from the voters who comprise the audience.

The relation between experts and ordinary people has the same form as the relation between proposers and responders in ultimatum games. In that form of game, the proposer offers to a responder a share of money of which the proposer will keep the remainder if the responder accepts the proposer's offer. The responder can accept or reject the proposer's offer. Rejection means that neither proposer nor responder receive anything. With respect to experts and ordinary people, the form of the ultimatum game would give ordinary people the option to reject the expert's proposal. This is how the relationship between experts and ordinary people plays out in market environments.

By contrast, in political environments the winner of an election selects an expert for everyone. Experts do not need to achieve consensus among ordinary people to affirm their expertise. To the contrary, their expertise is established by electoral success by sponsoring politicians, as must be the case in political environments. To be sure, it is possible to imagine political environments of a consensual character, as Wicksell (1896) illustrates. Much thinking about constitutional political economy explains that typical political environments give politically-selected experts a dominant position over ordinary people, while also explaining that it is possible to imagine constitutional environments where experts are the servants or ordinary people. While such environments have been created in the imaginations of some theorists, the presence of those environments has been limited both historically and geographically.

The problem of expert failure surrounds us. In democratic systems, that failure is generally neither vulgar nor nasty. It can be annoying and irritating without being agitating. Retail stores still carry useful items, we get through airports most of the time with only modest aggravation, and surgeries and medications seem reasonably to fulfill their promises even if we can imagine better states of existence. Expert failure within democracies recalls Alexis de Tocqueville's chapter on democratic despotism in volume Two of *Democracy in America*, and with Vincent Ostrom (1997) providing a luminous meditation on Tocqueville's significance for democracy. There Tocqueville described a despotism that wore mostly velvet gloves and not mailed fists. Koppl's portrait of expert failure maps readily onto Tocqueville's portrait of democratic despotism. If any remedy exists, it resides not in cajoling experts to replace some of their arrogance with humility. To the contrary, it requires changing the environment within which experts are selected and subsequently operate toward one whose principles of operation are consistent with logical action. One instance of such an alternative environment was central to Walter Eucken's (1952) theory of constitutional order, an English-language statement of which is Kaspar and Streit (1998). Doing this, however, would reduce the scope for political action inside society by transforming the non-logical character of political action into the logical character of market action. In other words, the failures of expertise that Koppl examines stem in large part from the political environment in which experts operate, and with reductions in the range of such failures requiring some restriction on the autonomy of the political within society.

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