

Rule-Based Order, Discretion, and Credible Commitment: Insights from Smith and Hayek

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Abstract

This article examines the role of general rules in maintaining social and institutional order by integrating the moral and institutional insights of Adam Smith and Friedrich A. Hayek. It argues that stable, rule-based governance provides the foundation for coordination, credible commitment, and legitimacy, while reliance on discretionary authority introduces structural risks. Drawing on classical political economy and contemporary institutional analysis, the article shows that rules are not merely procedural constraints; they are foundational mechanisms that reduce uncertainty, limit opportunism, and enable coordination in complex social systems. The findings contribute to constitutional political economy by clarifying the relationship between general rules, institutional stability, and the limits of political authority.

Keywords: rule of law, discretionary authority, political economy, institutional order, credible commitment

Introduction

Expanding discretionary authority has become a defining feature of today's democratic governance. Policymakers increasingly rely on flexible, case-specific decisions to address complex social and economic problems. While discretion can improve short-term responsiveness, it also introduces uncertainty regarding how rules will be interpreted and applied. This reduces predictability and weakens institutional stability over time (North, 1990; Weingast, 1997).

The central concern is not discretion itself, but the erosion of constraints that limit its use. Effective rule-based systems depend on the consistent and impartial application of rules (Weingast, 1997). As expectations about rule enforcement weaken, uncertainty increases, reducing cooperation, investment, and long-term planning (Acemoglu & Robinson, 2012). This issue is particularly relevant in modern governance, where executive discretion and administrative flexibility increasingly substitute for stable rule-based constraints.

This article argues that rule-based systems are essential for maintaining coordination, credibility, and legitimacy. Drawing on the works of Smith (1759/1982, 1776/1976) and Hayek (1945, 1960, 1973), general rules function as institutional constraints that structure expectations, limit arbitrary authority, and promote decentralized coordination. Rather than viewing rules as rigid limitations, this analysis presents them as mechanisms that make social order possible under conditions of uncertainty and dispersed knowledge.

The contribution is twofold. First, it demonstrates that Smith and Hayek offer closely aligned accounts of rule-based order grounded in moral behavior and institutional constraints. Second, it situates these insights within contemporary constitutional political economy, particularly debates over institutional design,

credible commitment, and the limits of discretionary authority (North, 1990; Weingast, 1997). More broadly, the article contributes to contemporary debates on institutional design by clarifying how rule stability shapes coordination and trust in complex governance environments.

Rules, Order, and Moral Foundations in Smith

In Smith's understanding, social order emerges not from centralized direction but from social interaction guided by moral values and general rules (Smith, 1759/1982). Justice plays a central role by establishing stable expectations that regulate behavior. These rules are not designed to produce specific outcomes, but to create a predictable environment in which individuals can pursue their interests without fear of arbitrary interference (Smith, 1776/1976).

The importance of general rules lies in their consistency and impartiality. When applied uniformly, they allow individuals to form expectations about how others will behave and how institutions will respond. This predictability reduces uncertainty and encourages coordinated activity. Smith's emphasis on justice reflects his broader concern with the conditions necessary for trust, as individuals are more likely to cooperate when they believe rules will be applied consistently (Smith, 1759/1982).

Discretion, in comparison, increases variability in interpretation and enforcement. When decision-makers are granted wide latitude, outcomes become less predictable and more arbitrary. This increases uncertainty and weakens the stability of social interaction. Smith's analysis suggests that effective governance depends on the extent to which it relies on general rules rather than case-specific judgment (Smith, 1776/1976).

Hayek and the Institutional Role of General Rules

Hayek extends Smith's insights by emphasizing the role of rules in coordinating dispersed knowledge (Hayek, 1945, 1973). In complex societies, no central authority possesses sufficient information to direct economic and social activity effectively. General rules provide a framework within which individuals can use local knowledge, allowing coordination to emerge through decentralized processes (Hayek, 1960).

The concept of spontaneous order is central to this perspective (Hayek, 1973). Order arises not from deliberate design, but from adherence to abstract principles that structure interaction. These principles must be stable and general, as their effectiveness depends on their ability to guide expectations. When expectations are predictable, individuals can adjust their behavior in response to changing conditions without requiring direct oversight (Hayek, 1960).

Discretionary authority disrupts this process by introducing uncertainty. When rules are frequently modified or selectively applied, individuals cannot rely on them as stable guides for action. This weakens the coordinating function of rules and undermines decentralized adaptation. Hayek's analysis highlights the limits of discretionary authority, particularly in settings where relevant knowledge is widely dispersed (Hayek, 1973).

Rules, Discretion, and Credible Commitment

The relationship between rules and discretion is closely tied to credible commitment. Political and institutional systems must not only establish rules but also demonstrate that those rules will be applied consistently over time (Weingast, 1997). When rules are perceived as stable and binding, individuals are more likely to invest, cooperate, and engage in long-term planning (North, 1990).

Discretionary authority weakens credible commitment by introducing uncertainty about future institutional behavior. If decision-makers alter rules or apply them selectively, individuals cannot be confident that existing arrangements will persist (Acemoglu & Robinson, 2012). This discourages investment and reduces coordinated activity.

Rule-based systems, in comparison, limit discretionary intervention and constrain opportunism. By reducing the risk of arbitrary decision-making, rule-based systems enhance institutional credibility and support stable expectations (North, 1990). Both Smith and Hayek suggest that political and economic order is most effective when grounded in general rules that are perceived as stable and impartial (Smith, 1776/1976; Hayek, 1960).

Implications for Contemporary Governance

The increasing reliance on discretionary authority in modern governance reflects the belief that complex problems require flexible responses. However, as discretion expands, predictability declines, making coordination more difficult and weakening trust in public institutions (North, 1990; Weingast, 1997; Acemoglu & Robinson, 2019).

This dynamic is particularly evident in policy development, where rules are frequently adjusted or reinterpreted. Although adaptability is often viewed as a strength, it can undermine the stability required for effective governance. Individuals and organizations must continually revise expectations, increasing uncertainty and weakening long-term planning (Acemoglu & Robinson, 2012; Rodrik, 2021).

Modern institutional research emphasizes that trust in government depends not only on outcomes but also on the perceived fairness, consistency, and transparency of rule application (Rothstein, 2021). When discretion expands without clear constraints, these perceptions weaken, eroding institutional legitimacy even when policies are well-intentioned.

A rule-based approach does not eliminate flexibility; it channels it through predictable and consistent processes. Institutional change remains possible, but it must preserve stability while limiting arbitrary intervention. This requires a commitment to governing principles that emphasize consistency, transparency, and rule-based constraint (Weingast, 1997; Rodrik, 2021).

Conclusion

Rule-based governance remains essential for maintaining institutional stability, coordination, and legitimacy. By integrating the insights of Smith and Hayek, this article demonstrates that general rules function as foundational mechanisms for managing uncertainty and limiting arbitrary authority. Discretion, while sometimes necessary, introduces risks that can undermine institutional effectiveness over time.

The central implication is that political and institutional systems must prioritize the development of stable, general rules that support credible commitment while limiting discretionary authority. Without these constraints, governance risks substitute short-term flexibility for long-term stability and coordination.

As democratic governance increasingly relies on discretionary decision-making, reaffirming stable rule-based constraints remains essential for sustaining institutional trust, coordination, and long-term stability (North, 1990; Weingast, 1997).

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