# Are Bosses like Rulers?

What does the libertarian philosophy have to say about business management as an institution? Is it analogous to the state or something entirely different? Since we libertarians generally dislike seeing people being bossed around, whether by the state or anyone else, we may be tempted, as I've certainly been, to think that a free and just society would spontaneously dispense with the traditional employer-employee relationship. After all, libertarians have good reasons to at least be suspicious of all hierarchies and subordination, right?

So freedom would achieve its glorious pinnacle through flat bossless worker-owned co-ops, small partnerships, single-proprietorships, and peer-to-peer arrangements that lack even Uber's central ownership.

But maybe not.

The prediction that managerial specialists are due for extinction, however, looks more like wishful thinking in light of solid economic theory and empirical evidence, write economists Peter G. Klein and Nicolai J. Foss in their new book, *Why Managers Matter: The Perils of the Bossless Economy*. (This is not intended as a formal book review. Listen to Klein's conversation with Keith Knight of *Don't Tread on Anyone*.)

Klein and Foss's thesis grabbed my attention because, as I've experienced firsthand, drawing an analogy between the state and the traditional firm is seductive. On the other hand, I've known and respected Klein, an economist of the Austrian school who teaches at Baylor University's Hankamer School of Business, for many years. I take him seriously. (Foss teaches at the Copenhagen Business Schools in Denmark.)

The case against the traditional firm has this touch of plausibility: because government interventions in mixed economies can make quitting a job artificially costly, people might feel trapped in bad work situations. To the extent that the government deliberately or inadvertently creates obstacles to starting businesses or relocating (through licensing, zoning, and more), or through a tax system that ties medical insurance to one's job — to that extent, the government can in effect block employees from leaving bad workplaces or reduce their bargaining power. Such interventions provide a politically derived advantage to employers over actual and prospective employees that could not be achieved in the market.

But employers can create these impediments. Politicians and bureaucrats can and do.

For libertarians, the obvious remedy for politically bestowed advantages on employers is freedom, specifically, the freedom to compete, to start businesses, to move where the terms are better, etc. Ready options increase employee bargaining power. (Adam Smith in *The Wealth of Nations* decried the English laws that barred workers from moving to other areas in search of better pay.) Competition is the universal solvent.

The case against government policies that favor employers (again, not necessarily by design) should not facilely be extended to managerial hierarchy or traditional employment per se. Socialists haven't been the only ones to equate employment with servitude. Even the great classical liberal philosopher Herbert Spencer compared it to slavery. (Ironically, the pre-Civil War South's most eloquent defenders of chattel slavery denounced the wage slavery of the free labor market.) However, in a free market and even in a mixed economy like ours, the problem isn't distinct ownership and management. It's politicians and bureaucrats.

This is a big subject, and I'm certainly no expert, so I can only scratch the surface here. But Klein and Foss specialize in the economics of industrial organization and are an important reality check on those who think managerial hierarchy is morally objectionable and economically superfluous or worse.

Morally, of course, as long as neither side of a transaction, including the employer-employee relationship, uses force against the other, the transaction passes muster. It is irrelevant that one side can be said to have a "greater need" than the other for *that* relationship at *that* time. It is no employer's fault that people need to earn a living. One might even praise the employer for providing the means to do so. But let's remember that no firm is founded to provide jobs. Firms exist to make money for their owners by producing something of value for others. To do *that* they will typically hire people. Like other market transactions, all these exchanges produce mutual gains.

People start businesses with plans to produce something specific. Until they decide that a new objective is needed, the owner (or owners) will want to motivate and guide the staff to carry out the mission. Exactly who decides *how* the mission is carried out is a management's judgment call that depends on many factors. That's what management is about, and managing is real work, as the early classical liberals understood. The owner of an Indian restaurant is unlikely to hire chefs who insist on the autonomy to add other kinds of dishes to the menu. It would be wrong to think that those chefs are oppressed or stripped of their dignity.

Owners or their managerial agents, then, select the company's ends. However, the authors say, in the new information economy, it makes more sense than ever to leave the means to frontline employees. "We agree that the new environment suggests the need for a redefinition of the traditional managerial role." But they add: "Despite all the changes that have occurred, there is a strong need for someone to define the framework. In the knowledge economy, the main task for top management is to define and implement the rules of the game." Managers are also important for coordinating different divisions of a company that depend on each other.

Nuance, then, is the order of the day. Klein and Foss clearly are not dogmatically pro-hierarchy: "Indeed, some companies have excessive corporate fat: layers could often be cut, and empowering employees might increase productivity."

But the authors note that although the new technologies have revolutionized business, "the laws of economics are still the laws of economics, human nature hasn't changed, and the basic problem of business — how to assemble, organize, and motivate people and resources to produce the goods and services consumers want — is the same as it ever was."

Any firm or noncommercial organization, for that matter, requires a focus on both the forest and the trees, the long and short term. Why would we be surprised that different people have different skills and different preferences in this regard? Skills, of course, are not evenly distributed throughout a population. A division of labor, knowledge, and inclinations is to be expected. Many will want to concentrate on a specific job, without having to think about management, long-term planning, and such. Lots of people dislike sitting through meetings.

Moreover, people differ in their preferences for risk-taking. Some prefer a regular paycheck in return for less overall responsibility.

The upshot is that human diversity makes noncoercive hierarchies perfectly understandable, inevitable, and beneficent as long as the market is free. That in no way means that bosses can't be stupid, obnoxious, or abusive. Of course they can and are. But if they have to compete without government privilege, abuse and stupidity won't survive because profits will go to the better-run firms, which will attract the best employees.

In interviews (as in his and Foss's book), Klein emphasizes that one size surely does not fit all companies. As a Hayekian, he understands that nonmanagement workers possess local and tacit knowledge that managers don't — and that good managers will want their employees to capitalize on that knowledge and reward them for doing so. "[T]here are many benefits to decentralization, as well as costs, and these vary widely with context and circumstance," Klein and Foss write.

Klein and Foss intend their book to correct the impression given by many current writers on management philosophy that hypes the spread of nonhierarchical companies and predicts a future marked by this new way of doing business. It's not true, Klein and Foss respond: "… echoing Mark Twain … the death of hierarchy has been greatly exaggerated and … its bad reputation is largely undeserved."

Their point is not simply that some degree hierarchy is more efficient than none at all, but that bosslessness poses perils to businesses, such as discoordination and — perhaps counterintuitively — lack of flexibility.

As you can tell, this is a rich thesis. I'll close with a couple more quotes:

> Writers [who favor bossless firms] … are fiercely critical of traditional hierarchy, but we think they exaggerate its problems and neglect many benefits.… The near-bossless companies — and there aren't many of them — with their self-managing teams, empowered knowledge workers, and ultra-flat organizations are not generally or demonstrably better than traditionally organized ones. Bosses matter not just as figureheads but as designers, organizers, encouragers, and enforcers.…
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> [I]f you look more closely at … ostensibly bossless companies, you see that they do have formal [or informal] bosses.… Right away, this suggests that perhaps the whole bossless company narrative is a bit of a head-fake — a way to draw attention to the charismatic, influential leaders who create and promote flat structures.…. Contrary to popular opinion, the world is not becoming dominated by flatter, even bossless, network organizations.

The market is an efficient decentralized information-generating process. Through private property, voluntary exchange, free enterprise, and the price system, we learn things that we can't learn in other ways. This is as true for the best management methods as it is for the many other things we look to the market for. Government should never impede worker-owned enterprises, but it shouldn't help them either. Freedom is for all.

Related reading: "Free Men for Better Job Performance" by C. L. Dickenson, published by the Institute for Humane Studies in 1966. It is posted here and here.