

Hierarchy or the Market

Editor's Pick. Written by Kevin Carson.

In an article in last June's *Freeman* (2007), I applied some ideas from the socialist-calculation debate to the private corporation and examined the extent to which it is an island of calculational chaos in the market economy. I'd like to expand that line of analysis now and apply some common free-market insights on knowledge and incentives to the operation of the corporate hierarchy.

F. A. Hayek, in "The Use of Knowledge in Society," used distributed, or idiosyncratic, knowledge—the unique situational knowledge possessed by each individual—as an argument against state central planning.

Milton Friedman's dictum about "other people's money" is well known. People are more careful and efficient in spending their own than other people's money, and likewise in spending money on themselves more so than in spending money on other people.

A third insight is that people act most efficiently when they completely internalize the positive and negative results of their actions.

The corporate hierarchy violates all of these principles in a manner quite similar to the bureaucracy of a socialist state. Those at the top make decisions concerning a production process about which they likely know as little as did, say, the chief of an old Soviet industrial ministry.

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