

A Galbraithian Perspective on Epistemic Institutionalism and True Liberalism

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Near the end of his book on *F. A. Hayek*, Peter Boettke advocates for a “true liberalism” growing out of Hayek’s thought that is “most conducive to human flourishing” (Boettke 2018, p. 252). A consistent theme in Hayek’s oeuvre is a careful investigation of what Boettke calls “epistemic institutionalism.” For Boettke, it is Hayek’s exploration of epistemic institutionalism that helps produce this true liberalism. This short paper sketches a counterargument that Hayek’s epistemic institutionalism is hobbled, making Hayekian liberalism itself truncated and “false,” more akin to a species of conservatism. A genuine liberalism based on a more thoroughgoing epistemic institutionalism is far more progressive than the typical Hayekian is likely apt to accept.

For Hayek, the primary problem for social theory is to understand how societies can be organized to best coordinate the actions of diverse and dispersed individuals, each of whom is epistemically limited with partial, tacit, potentially unique, and often erroneous knowledge. In his famous “The Use of Knowledge in Society” essay, Hayek ([1945] 1948) modernizes the defining insight of Scottish enlightenment thinkers that diverse, dispersed, creative, and bumbling individuals can be led by price signals in competitive markets, when lured by profit and repelled by losses, to take actions that will coordinate their separate behaviors to yield wealth, innovation, and a rising standard of living. Under the right institutional framework, market prices serve as a “system of telecommunications” (Hayek 1948, p. 87) serving a coordinating function. In a nutshell, the right institutional framework requires private property, freedom of contract, a legal and enforcement system constrained by the rule of law that secures property and enforces contracts, and democratic government—limited in scale and also in scope by the rule of law—to change rules when they evolve in a wealth-reducing manner, to provide public goods, and to limit externalities when doing so has greater benefits than costs. This is

the institutional framework that best enables epistemically limited individuals to strive and flourish.

This is a seriously truncated vision. A “true” liberal recognizes that a “valid image of the modern economy” is not one where most individuals are responding to price signals that emerge from competitive markets (Galbraith 2001, p. 118). People shaping tin are not typically working in a small shop, buying raw material from and selling their product directly into the global market. Much more likely, the metal worker is employed by a large organization with production units spread around the globe, where flows of sheet metal are directed by administered prices and decisions of purchasing managers. A “true” liberal embraces the reality that we live in an organization economy more than we live in a market economy (Simon 1991).

Hayek’s “Use of Knowledge” essay emphasizes individual market actors with specific knowledge about the circumstances of time and place. In his book *The New Industrial State*, Galbraith starts by asking how scientific knowledge is applied in modern, large-scale production processes. However, this difference in knowledge types—contextual knowledge versus scientific knowledge—is not crucial since successful application of scientific knowledge necessarily depends upon the context of time and place. The critical point for Galbraith is that scientific knowledge grows by educating separate individuals narrowly but deeply about some specific aspect of reality, whether it is the adhesive qualities of different paint types or the weight and durability of different kinds of metal. “Technology means the systematic application of scientific or other organized knowledge to practical tasks. Its most important consequence ... is in forcing the division and subdivision of any such task into its component parts” (Galbraith 2007, p. 14). “Technology requires specialized manpower,” (Ibid, p. 18) both in terms of people educated in particular scientific fields and

people who are expert at organizing and planning the activities of the scientists.

For Galbraith, organization and organization specialists exist precisely to perform a function that markets are not always able to realize: the coordination of dispersed knowledge. “The inevitable counterpart of specialization is organization. This is what brings the work of specialists to a coherent result” (Ibid, p. 19). As Galbraith puts it in one of his Hayekian moments, what happens inside a large firm is that “[f]ragments of information, each associated with a person, are combined to produce a result which is far beyond the capacity of any one of the constituent individuals” (Ibid, p. 426). But why is it that markets are not always able to combine the fragments of information by guiding separate individuals, with profit incentives and threats of loss, to act in a coordinated fashion? Why not build a car with the paint engineer selling his knowledge, and the metallurgic engineer selling her knowledge, and so on, to various painters and metal fabricators, who then in turn sell the product of their activities to an automobile entrepreneur, who orchestrates the time-consuming production of a car through a long series of sequential exchanges?

Very much like Hayek, Galbraith maintains that increases in productivity require time-consuming, roundabout production methods, which involve large investments in specialized, heterogeneous tools and human capital. But apparently unlike Hayek, Galbraith believes that there are often difficulties associated with coordinating the various stages of production through market exchange. For one, markets for specialized capital and talent are not competitive and are thus subject to uncertainties arising partly from the changing circumstances of time and place and partly from the possibility of strategic bargaining. Galbraith appeals to what Oliver Williamson (1985) was later to call “asset specificity:”

[T]he short-run supply price of highly specialized materials, components and labor is inelastic. So is the demand for highly technical products. In the first instance large (and punishing) increases in prices will, in the relevant time period, bring no added supply. In the second case large (and equally punishing) decreases will bring no added customers (Galbraith 2007, p. 28, fn. 1).

While Galbraith focuses on the difficulties that change and uncertainty pose for market coordination of specialized talent and tools, Williamson emphasizes that there is

considerable room for both buyers and sellers to engage in opportunistic behavior, which can threaten the ultimate realization of consumption goods that can be profitably sold, whenever specialized labor and capital must be coordinated in a time-consuming, sequential production process. Organization reduces these market uncertainties, making roundabout, technically demanding production increasingly possible and desirable.

Galbraith argues that the coordination of fragmented technological knowledge in time-consuming production processes requires dialogic forms of communication, not just transactional forms of communication, in which individuals can test through conversation how their separate ideas might work together. These dialogues are facilitated by organization, not market exchange. While Galbraith agrees that entrepreneurs are able to create new enterprises of which they are in charge, managing a hierarchical structure under their authority, when a firm begins to grow, at some point the knowledge requirements of organization by central authority become too large. The firm slips from the control of the entrepreneur who initiated the firm to the technostructure.

Galbraith coins the term technostructure to refer to all the knowledge workers inside the large firm, as distinguished from the production workers engaged in routine labor relying primarily on physical effort. The technostructure includes the scientists, engineers, designers, legal and financial analysts, marketers, human resource managers, etc., who apply some sort of skilled, scientific, and technical knowledge in the production process. Galbraith emphasizes that members of the technostructure typically work in groups or teams; it “is an apparatus for group decision-making—for pooling and testing the information provided by numerous individuals to reach decisions that are beyond the knowledge of any one” (Ibid, p. 96). This group dynamic cannot be orchestrated from above and, to be effective, “requires... a high measure of autonomy” (Ibid.). In a nutshell, Galbraith proposes that large firms make use of knowledge by committees. As he describes it, “business organization [is] a hierarchy of committees. Coordination, in turn, consists in assigning the appropriate talent to committees, intervening on occasion to force a decision, and as the case may be, announcing the decision or carrying it as information for yet further decision by a yet higher committee” (Ibid, p. 78). The planning that takes place in the large firm is thus not centralized, entrepreneurial planning but a type of decentralized planning by the technostructure in which

the entrepreneur's production ideas are no longer governing.

While Galbraith argues that the technostructure makes most of the relevant production decisions, those individuals are not generally profit recipients. Because members of the technostructure have little monetary incentive to use their knowledge to produce maximum profit for someone else's benefit, Galbraith believes it is not accurate to describe large firms as profit maximizing. As Herbert Simon expresses the issue, in a manner congruent with Galbraith's perspective, a theory of organization "with an unrealistic utility function does not provide a basis for understanding real organizations" (Simon 1991, p. 30). Instead of profit maximization, Galbraith asserts that what most interests the technostructure is to "maximize its success as an organization" (Galbraith 2007, p. 153). Organizational success from the technostructure's perspective is better ensured by growth in sales and security of employment. Bankrupt firms achieve neither, so Galbraith does not deny that the technostructure must be concerned with achieving accounting profits. But an accounting profit-making constraint does not prohibit the technostructure from pursuing other objectives, while having to maximize the economic profits accruing ultimately to stockholders gives no such degrees of freedom.

In their willingness to pursue organizational success, the technostructure is motivated by something other than strict self-interest, which by itself could lead opportunistic individuals to exercise as little effort or to convey as little knowledge as possible consistent with continued employment. Such opportunistic behavior would especially be problematic for successful organization when the relevant knowledge guiding the activities of the technostructure is not accessible to high-level management. Following James March and Herbert Simon (1958), Galbraith argues that fortunately for organizational success a member of the technostructure is in large part motivated by identification, not self-interested monetary calculation: "he finds the goals of the group superior to his own previous purposes and so he joins" (Galbraith 2007, p. 165). Good organization creates a culture to which knowledge workers seek to belong, to contribute, and to improve. Simon argues similarly: "authority and organizational identification should help explain how organizations can be highly productive even though the relation between their goals and the material rewards received by employees, if it exists at all, is extremely indirect and tenuous" (Simon 1991, p. 14). If Galbraith, March, and Simon are correct, the successful use of knowledge in large organizations paradoxically depends upon an aspect of hu-

man behavior that Hayek argues must be suppressed for a liberal social order to be possible, what he calls the emotions of tribal society (Hayek 1976).¹

Hayek sees the success of capitalism growing out of the discovery that men could live "together in peace and to their mutual advantage without having to agree on common concrete aims ... bound together only by abstract rules of conduct" (Ibid, p. 136). For Hayek, capitalist success is contingent upon moving people away from the habits of tribal society.

[W]ithin an extended order, solidarity and altruism are possible only in a limited way within some subgroups, and that to restrict the behavior of the group at large to such action would work against coordinating the efforts of its members [via the spontaneous ordering forces of market exchange]. Once most of the productive activities of members of a cooperating group transcend the range of the individual's perception, the old impulse to follow inborn altruistic instincts actually hinders the formation of more extensive orders (Hayek 1988, pp. 80-81).

Hayek believes tribal commitments lead to a socially corrosive desire for social justice, and they must be minimized for people to accept the unpatterned outcomes of the market process. Yet Galbraith's point is that the effective use of knowledge in large organizations requires the instincts of the small band. Effective use of knowledge in society necessitates, in some contexts, self-interested, profit-seeking market exchange that adheres to end-independent rules and, in other contexts, solidaristic emotions that check self-interest and encourage individuals to participate enthusiastically as part of a team, even though they may not be the direct beneficiaries of the product of their efforts.

These conflicting perspectives, each tied to contrasting views about the kinds of human motivation necessary for the effective use of knowledge in society, lead to divergent proposals about the role of government in creating the conditions for human freedom. Galbraith asks his readers to question "a doctrine that celebrates individuality," like Hayek's classical ("false") liberalism, when it ultimately "provides the cloak for organization" (Galbraith 207, p. 270). His point is that in a technologically complex world, limiting government to the roles of protecting property rights and facilitating exchange does not best serve the expansion of individual freedom. In this world, many people spend comparatively little time in markets relative to

the time in which they are engaged in organizations. The Hayekian metaphor of an all-encompassing market as telecommunications system facilitating the use of knowledge in society thus has limited applicability in the development of a political theory of freedom—a true liberalism—when organization is ubiquitous.

To use scientific knowledge effectively in society often requires large-scale organization and the individual's adoption of (or submission to) the organization's goals as his or her own. Galbraith helps us to see that organizational success in a capitalist economy, inasmuch as it depends upon individual conveyance of knowledge in production, taps into and requires a type of tribal orientation from the knowledge workers in the firm, in which self-interest is suppressed in order for individuals to be willing to make meritorious contributions to the team. Identification with the goals of organizational survival and growth leads to an unquestioned acceptance of economic growth as the primary social purpose and public policy that promotes organizational freedom and autonomy to pursue a growth path. But organizational autonomy and individual autonomy are not identical.

In Hayek's liberalism, there is a constant tension between market and state, between self-interested exchanges among individuals that spontaneously produce order and tribal attachments to solidarity, fairness, and social justice that threaten this spontaneous order when they are expressed through governmental mechanisms. Government policies that are independent of any particular ends, universally applicable, impartially enforced, and well announced—i.e., the rule of law—are consistent with protection of private property and its free exchange and incompatible with tribal urges for distributive justice and defenses of special interests. The rule of law is, in Hayek's view, the linchpin of individual freedom and the basic framework to promote individual use of knowledge and the spontaneous coordination of self-interested action through competitive exchange. "The rise of the ideal of impersonal justice based on formal rules has been achieved in a continuous struggle against those feelings of personal loyalty which provide the basis for tribal society but which in the Great Society must not be allowed to influence the use of the coercive powers of government" (Hayek 1976, p. 143).

For Galbraith, on the other hand, the predominant tension is between individual and organization, and he believes that the state can possibly serve as a mediating force. Galbraith is explicit about this:

People read F.A. Hayek's *The Road to Serfdom* and similar rescripts against the state. It became part of popular thinking that there was a conflict between individual liberty and the function of the state, that the state was a menace to liberty... Well, I set out quite deliberately... to do what I could to reverse that train of thought (Galbraith 2004, pp. 49-50).

Modern productive organization uses marketing and advertising to cast the good life in terms of expansive consumption and requires tribal commitments from employed individuals to make best use of their knowledge in production to satisfy this consumption imperative. Yet Galbraith, like Hayek, also seeks to liberate modern people from the tribe. For Hayek this liberation happens through market exchange and freedom from the state, but for Galbraith individual liberation requires, to the extent that it is possible, freedom from organization by reducing its role in shaping modern life.

Government policy should thus not be a slave to unimpeded corporate growth and instead act as a countervailing force to organization by encouraging more individualist forms of personal development. Galbraith argues for social policy to harness the modern productive apparatus to liberate us for lives of more educated leisure; for more flexible, fulfilling work experiences; and for a more cultivated, aesthetic individual sensibility and social environment. Galbraith would have government policy take an extensive role in advancing the arts and liberal education and in the expansion of leisure and socially provided goods. A liberalism based upon a thoroughgoing epistemic institutionalism should take Galbraith's position seriously. Simon goes so far as to suggest that a theory of organizations, like the one Galbraith builds using Simon's epistemic foundations, "calls for reexamining some of the classical questions of political economy" (Simon 1991, p. 43). But Galbraith's epistemic institutionalism and corresponding liberalism does not appear even as a foil in Boettke's *F.A. Hayek*. Perhaps it would be considered if Galbraith's perspective on the essential roles that organization and tribal motivations inside organization play in facilitating the use of knowledge in society were better understood.

NOTES

- 1 Albert Hirschman's (1970) analysis of the role that "loyalty" plays in coordinating human behavior is a cousin of Galbraith's and March and Simon's arguments for the importance of identification as a motivating factor in human action.

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