

DESIGN IS THE SOURCE OF VARIATION; SELECTION IS THE FILTER

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*Against Design*¹ concerns the impossibility of deliberate design for desirable outcomes when the dynamic processes of social and economic change are decentralized, free and creative. In this brief commentary I want to relate the authors' theme to specialization, innovation, and morality in economy.

Human ingenuity and know-how are continually at work causing change and adaptation as people experience how things are and apply their distributed skills and imagination to finding better ways in business and technology.² In markets, designs for change are a consequence of this propensity for innovation.³ The spectacular cases are well-known: James Watt, Thomas Edison, Henry Ford, and in our day, Bill Gates and Warren Buffett, are distinct examples. At ground level this progress is also manifested continuously in "learning by doing" in which workers continuously find ways to improve their productivity through practice, and this process is supplemented by discrete discoveries tied to new capital equipment that involves human-machine coordination.⁴ The result is manifest in increased output per unit of labor time.⁵

Innovators, however, can only propose and offer changes as trials in the form of new processes or products that may or may not be adopted. From the perspective of evolutionary systems, such trials constitute variation, and whether or not they contribute to human betterment requires selection or filtering according to criteria that only individuals can judge based on their willingness to divert enough of the resources they have earned to yield a return sufficient to justify the new activity.⁶ The complex of decisions

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1. Caryn Devins et al., *Against Design*, 47 ARIZ. ST. L.J. 609 (2015).

2. See ANDREW HARGADON, *HOW BREAKTHROUGHS HAPPEN: THE SURPRISING TRUTH ABOUT HOW COMPANIES INNOVATE* 6 (2003).

3. *Id.* at 10.

4. ROBERT M. SOLOW, *LEARNING FROM "LEARNING BY DOING"* 4 (1997).

5. See *id.* at 43.

6. JONATHAN HUGHES, *VITAL FEW: THE ENTREPRENEUR AND AMERICAN ECONOMIC PROGRESS* 217 (2nd ed. 1986).

required are subjective, uncertain and must be subject to failure if there is to be hope that variations will lead to human economic betterment.⁷

An essential part of meeting a test of human betterment is its source in voluntary action and freedom in environments permitting the individual to feel some expectation of benefit or “profit” from his or her contribution if it passes the test. The political economies of representative democracies suffer interference with this process through corporate, labor, and other group favoritism emerging in the 18th century as “mercantilism,” and continuing in our day as “crony capitalism.”⁸

Otherwise, these processes operate within and across industry through the coordinating function of the price system.⁹ Profit arises from product revenue exceeding labor, material, and machine expenditures.¹⁰ Revenue measures the market value of an organization’s contribution to economic value.¹¹ Simultaneously, the organization is taking resources from society and these costs measure the consequent societal loss.¹² To profit is to contribute more in value than the cost incurred.¹³ If no profit is realized there can be no net gain for society.¹⁴

New variations in the form of product innovations or productivity increases for traditional products live or die according to their contribution to society’s net gain.

Economic historians have taught us that very roughly this is the process whereby world income and wealth began to grow at exponential rates of increase beginning over two-and-a-half-centuries ago in Northern Europe, albeit with generous doses of roguery and robbery mixed with incredible entrepreneurship.¹⁵ This is why poverty has declined, and children have been generally far better off than their parents and grandparents, as this movement

7. *Id.*

8. STEPHEN HABER, *CRONY CAPITALISM IN CRONY CAPITALISM AND ECONOMIC GROWTH IN LATIN AMERICA: THEORY AND EVIDENCE XI–XXI* (2002); LARS MAGNUSSEN, *POLITICAL ECONOMY OF MERCANTILISM* 217–18 (2015).

9. ISRAEL KIRZNER, *The Price System and the Allocation of Resources*, in *COLLECTED WORKS OF ISRAEL M. KIRZNER: MARKET THEORY AND THE PRICE SYSTEM* 321–34 (Peter J. Boettke & Frederic Sautet eds., 2011).

10. *Id.* at 104.

11. *See* 2 ISRAEL M. KIRZNER, *Efficiency, Coordination, and the Market Economy*, in *THE COLLECTED WORKS OF ISRAEL M. KIRZNER: MARKET THEORY AND THE PRICE SYSTEM* 35, 44–47 (Peter J. Boettke & Frederic Sautet eds., 2011).

12. *See id.*

13. *See id.*

14. *See id.*

15. DEIRDE N. MCCLOSKEY, *THE BOURGEOIS VIRTUES: ETHICS FOR AN AGE OF COMMERCE* 3–4 (2006); NATHAN ROSENBERG & L.E. BIRDZELL, JR., *HOW THE WEST GREW RICH: THE ECONOMIC TRANSFORMATION OF THE INDUSTRIAL WORLD* 3 (1986).

has spread west from its origins.¹⁶ The rule of law along with a change in attitude spread through western migration.¹⁷

Adam Smith—also well aware of the roguery that accompanied the engine of freedom—stated the operant principles at about the time that the economic take-off began to predominate.

That in every profession the fortune of every individual should depend as much as possible upon his merit, and as little as possible upon his privilege, is certainly for the interest of the public. It is even for the interest of every particular profession, which can never so effectually support the general merit and real honour of the greater part of those who exercise it, as by resting on such liberal principles.¹⁸

Freedom and human diversity produce the variation, while severely disciplining the selection-survival process.¹⁹ The freedom to profit from one's actions does not, nor can it, assure profit, for with markets came the freedom to fail from events beyond the innovators' control, and such failure was the key filtering feature of the mechanism of selection, growth and human betterment. When Henry Ford created the low-cost Model T in the early 1900s, it was enormously profitable relative to the blizzard of steam, electrical (Edison had invented the battery), and other internal combustion powered vehicles offered to the market.²⁰ The Model T gradually displaced the carriage industry, the livery stables and the horse breeding farms whose demise released labor and material resources to seek a higher return in the new conceptions of a factory.²¹ Better inter-city public roads became one of the many adaptations to that success.

The extended order of markets allowed this variation-selection mechanism to cross local cultural and national boundaries leading to complex patterns of change that no one could have anticipated.²²

Markets depend on property rights, which were necessary but not sufficient to jump-start the growth experienced by the West. Adam Smith's axiom of discovery was the human propensity to truck, barter, and exchange which, coupled with property, defined a bottom up process of price

16. ROSENBERG & BIRDZELL, JR., *supra* note 15, at 3 .

17. *Id.* at 31–33.

18. ADAM SMITH, THE CORRESPONDENCE OF ADAM SMITH 178 (Ernest Campbell Mossner & Ian Simpson Ross eds., 2d ed. 1987).

19. *Id.*

20. *See, e.g.*, JONATHAN R.T. HUGHES, THE VITAL FEW: THE ENTREPRENEUR & AMERICAN ECONOMIC PROGRESS 149, 274 (1986).

21. *Id.*

22. *Id.*

formation.²³ Prices facilitate comparisons, leading to adjustments in the form of more A less B, and specialization was the unintended consequence. But prices also fuel the search for ways to reduce cost, or deliver superior new products to replace the status quo means of satisfying human desires.²⁴ Hence, decentralized mechanisms for discovering specialization also intensify innovation. Culture enters insofar as there is a widespread acceptance of the morality of property.²⁵ Self-control must arise from within and take forms of civility that preclude theft, bearing false witness, and coveting what plainly belongs to others. Without that morality the destructive overrides the creative, human social betterment cannot flourish, and human economic betterment cannot become part of an extended order.

23. ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS 16–18 (Edwin Cannan ed., Methuen 1904) (1776).

24. See STEVEN M. BRAGG, WILEY CORPORATE F AND A: COST REDUCTION ANALYSIS: TOOLS AND STRATEGIES 4, 81 (2010).

25. ADAM SMITH, THE THEORY OF MORAL SENTIMENTS 78–85 (D. D. Raphael & A. L. Macfie eds., Oxford University Press 1976) (1759).