

The Quality of information 4:  
Economics of Information

1. Housekeeping
2. Discourse of Economics
  - a. why economics
  - b. claims
  - c. historical context
  - d. Hayek
  - e. Hayek to Cowan et al.
  - f. Boyle
  - g. Tuomi

## Housekeeping

1. New students
2. Breaks
3. Blog -- bloggers
4. Search assignment
5. Reality check

## Discourse of Economics (and Knowledge Management)

### Why Economics?

#### --defines society?

Knowledge industry (Machlup; Kerr, 1963)

Knowledge economy (c. 1969, Drucker)

Information Society (c. 1972)

Knowledge Society (c. 1981)

Information economy (c. 1982)

#### --controls discourse?

New York Times

Paul Krugman

"Economic Scene" (Varian, Postrel &co)

New Yorker

Brad DeLong blog

#### --all communication is IP

## Discourse of Economics (and Knowledge Management)

### Why Economics?

--muddies the water

“One should hardly have to tell  
academicians that information is a  
valuable resource: Knowledge is  
power.”

George J. Stigler  
“The Economics of Information” (1961)

## Discourse of Economics (and Knowledge Management)

"All the aspects of knowledge--its creation, its storage, its retrieval, its treatment as property, its role in the functioning of societies and organization--can be (and have been) analyzed with the tools of economics. Knowledge has a price and a cost of production; there are markets for knowledge, with their supply and demand curves, and marginal rates of substitution between one form of knowledge and another"

Herbert A. Simon  
"The Many Shapes of Knowledge" (1999)

## Discourse of Economics (and Knowledge Management)

- Hayek, "Economics & Knowledge", 1937  
"Use of Knowledge in Society", 1945
- Stigler, "Economics of Information", 1961
- Machlup, The Production and Distribution of Knowledge in Society, 1962  
Information through the Printed Word, 1968-1970
- Arrow, "Information & Economic Behavior", (1973)
- Winter, "Knowledge & Competence as Strategic Assets", 1987
- Arthur, "Increasing Returns and the New World of Business", 1996
- Kelly, "New Rules for the New Economy", 1997
- Shapiro & Varian, Information Rules, 1996

## Discourse of Economics (and Knowledge Management)

Simon, "An information processing theory of intellectual development", 1962

Simon & March, Organizations, 1958

Simon & Newell, "Information processing in computer and man", 1964

Simon, "Information-processing explanations of understanding", 1980

[ "Knowledge" doesn't enter Simon's 65-year (1937-2002), 938-entry bibliography as a title until 1989 (entry 721): "Human experts and knowledge-based systems" ]

## Discourse of Economics (and Knowledge Management)

HAYEK - Cold-War Project?

Road to Serfdom, 1944

Fatal Conceit, 1988



## Discourse of Economics (and Knowledge Management)

### HAYEK on knowledge/information?

526: in a system where knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions ... through many intermediaries the relevant information is communicated to all. ... the price system as such a mechanism for communicating information ... the most significant fact about this system is the economy of knowledge by which it operates ... how little the individual participants need to know. .

## Discourse of Economics (and Knowledge Management)

HAYEK and price as "information"

v. Stigler:

"price dispersion is the measure of ignorance in the market"

v. Boyle

should price be commodified?

## Discourse of Economics (and Knowledge Management)

### HAYEK a theory of practice?

523: the importance of economic considerations has been driven into the background by the growing importance of technological knowledge

528 [quoting Whitehead]: "it is a profoundly erroneous truism ... that we should cultivate the habit of thinking what we are doing. The precise opposite is the case. Civilization advances by extending the number of important operations which we can perform without thinking about them" ... We make constant use of formulas, symbols and rules whose meaning we do not understand and through the use of which we avail ourselves of the assistance of knowledge which individually we do not possess.

Discourse of Economics (and Knowledge Management)

COWAN & co - an Enlightenment Project?  
(or earlier)

Moxon, Mechanick Exercises, or The Doctrine of Handy-  
Works, 1693

Diderot & d'Alembert, Encyclopédie. 1751.

Taylor, Principles of Scientific Management. 1911.

Alexandria and the collection of all knowledge

Discourse of Economics (and Knowledge Management)

COWAN & co -- the effrontery of the "tacit"

Polanyi, Personal knowledge, 1962

The Tacit Dimension, 1966:

[C&co: "psychology of visual perception"]  
"we know more than we can say"

Nelson & Winter, An Evolutionary Theory of Economic  
Change, 1982

& the downfall of economics?

Any departure from methodological individualism

"implies that man is directed by mysterious  
forces that defy analysis and description"

von Mises (1962)

Quality of Information 4, 9/22-- 13

## Discourse of Economics (and Knowledge Management)

COWAN & co -- the effrontery of the "tacit"

Oakeshott (political science), 1967:

"The tacit or implicit component of knowledge, the ingredient which is not merely unspecified in propositions, but which is unspecifiable in propositions. It is the component of knowledge which does not appear in the form of rules and which, therefore, cannot be resolved into information or itemized in the manner characteristic of information (p. 167)"

## Discourse of Economics (and Knowledge Management)

COWAN & co -- the effrontery of the "tacit"

Chomsky (linguistics), 1965

Ziman (physics), 1967

Fodor (philosophy), 1968

Coats (sociology of economics), 1967

Richardson (economics), 1972

"Technology cannot always be transferred simply by selling the right to use a process. It is rarely reducible to mere information to be passed on but consists also of experience and skills. In terms of Professor Ryle's celebrated distinction, much of it is 'knowledge how' rather than 'knowledge that' "

## Discourse of Economics (and Knowledge Management)

COWAN & co -- the effrontery of the "tacit"

McCloskey (economics/economic history), 1985

"Economics is ... a matter of feeling the applicability of arguments, of seeing analogies ... of knowing when to reason verbally and when mathematically, and of what implicit characterization of the world is most useful for correct economics ... Problem-solving in economics is the tacit knowledge of the sort Polanyi described"

The textbook conundrum



## Discourse of Economics (and Knowledge Management)

COWAN & co -- the effrontery of the "tacit"

Hayek, 1945

"Even economists who regard themselves as definitely above the crude materialist fallacies ... commit the same mistake ... toward the acquisition of such practical knowledge ... the reproach of irrationality ..."

## Discourse of Economics (and Knowledge Management)

COWAN & co -- codified and the uncoded

31, "codification at one extremum and tacitness occupied the other"

The central question of government subsidy

Sticky vs leaky

## Discourse of Economics (and Knowledge Management)

TUOMI -- the knowledge hierarchy

data -- information -- knowledge  
-- intelligence -- wisdom ...

the "empirical model" of perception

decontextualization can only happen in context

it is important to view knowledge management and  
organizational memory systems as essentially  
social systems, where technology complements and  
supports the processing of knowledge

## Discourse of Economics (and Knowledge Management)

BOYLE -- economic incoherence

information a commodity (IP) or the condition for  
commodity markets to function?

Neoclassical price theory is not only the most  
sophisticated utilitarian language available,  
but also the one whose disciplinary  
assumptions ... best reflect a liberal vision of  
the production, distribution, and exchange of  
information.