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Information, Chance, and Evolution: Alchian and the Economics Self-Organization

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The strong invisible hand theorem says there is emergent or spontaneous order in human affairs. Smith and Hayek describe it; Alchian gave the evolutionary proof. He showed that profit maximization is an emergent property of an evolutionary selection process that requires positive profits for survival. This paper studies how evolution determines the form rather than the goal of an organization. Its question is: Is evolution a better organizer than optimization? I treat an economic organization as an information theoretic object and show that an optimal organization must contain unbounded information. I consider evolution as an information processor and show why it is a better organizer than rational design or optimization. Evolution exploits parallelism and an opportunistic mixture of depth and breadth search to speed the discovery and adoption of successful organizational forms. Noise and imitation, the evolutionary operators Alchian stressed, move organizations off local optima and generate performance distributions with extreme tails for selection to operate on.