

Forbes

George Gilder Thankfully Returns, Bearing Knowledge and Power

By: Ralph Benko – June 10, 2013

“The most important human resource, the only true natural resource, is the human mind.” — John Allison (now Cato Institute president), quoted in *Knowledge and Power*, by George Gilder

George Gilder, whose new book publishes today, is one of the original pillars of Supply Side economics. As stated by Discovery Institute, which he co-founded, “Mr. Gilder pioneered the formulation of supply-side economics when he served as Chairman of the Lehrman Institute’s Economic Roundtable, as Program Director for the Manhattan Institute....”

He was the living writer most quoted by President Reagan. And he is back with his most brilliant work yet — one of potentially explosive importance if taken to heart by our political and policy thought leaders. It is a radical guide, with surprising insights on almost every page, to the creation of a new era of vibrant prosperity.

After writing his best-selling *Wealth and Poverty* Gilder most notably spent decades traveling down various rabbit holes into, and thoroughly exploring, technological Wonderlands. He has been an essential guide to the technological cornucopias that immensely enrich our lives. He personally surfed the tech bubble and experienced, very up close and personally, its pop. Gilder is a veteran of the ecstasy and agony of entrepreneurship: a player, not a spectator.

Gilder’s *Knowledge and Power: the Information Theory of Capitalism and How It Is Revolutionizing our World* is his finest work, which is saying a lot.

Gilder — who, full disclosure, many years ago, invested in an ill-fated nanotechnology processes start-up involving this writer and, later, generously blurbed this writer’s small cult classic, *The Websters’ Dictionary: How to Use the Web to Transform the World* — has returned to the intellectual fray in a very big, quite possibly revolutionary, way. He provides an extraordinary rethinking of economics by way of information theory. In it he brings the argument for capitalism ... as a humanitarian, and ecological, force ... into the 21st century. In the process he makes trenchant comments on the economic shibboleths of both right and left (with more than glancing blows to both but much more devastation to the doctrines of statism and socialism).

Knowledge and Power is not a book for the faint of heart or the closed of mind. Its early chapters drive the reader up a challenging learning curve.

Gilder takes the bull by the horns:

“From Adam Smith’s day to ours, economics has focused on the nature of economic order. Smith and his successors followed in the footsteps of Newton and Leibniz, constructing a science of systems. What they lacked was a science of disorder and randomness, a mathematics of innovation, a rigorous measure and mandate for freedom of choice. For economics, the relevant science has arrived just in time. The great economic crisis of our day, a crisis of theory as well as practice, is a crisis of information. It can be grasped and resolved only by an economics of information. ... [T]he mathematical structure for this new economics was completed by one of the preeminent minds of the twentieth century, Claude Elwood Shannon.” (p. 16)

Gilder is one of the most sophisticated analysts of how technology, as an expression of human creativity, benefits the mass of humanity and the planetary ecology. He takes the reader through a highly technical, fascinating, tour of Shannon’s information theory and draws out many implications. For non-techie Earthlings (such as this reader) he summarizes the essence of information theory in what he calls “the ‘capstone’ of the ‘theory’ section,” the chapter “Mind Over Matter.”

“The power in capitalism must not be mindless. Unless it is combined with knowledge, more economic power or money is fruitless. Enterprise involves memory of the past and anticipation of the future, and it is creative. It is not a simple incentive system of rewards and punishments, of carrots and sticks. It is an information system, and it is governed less by economic theory as we know it than by information theory. The beautiful congruence of information theory with a capitalist economy, the creative convergence of knowledge with power, has been the main subject of this book.” (p. 108)

This is not mere soaring rhetoric.

Gilder provides a radical take on many of the confounded issues of the day, including energy policy, Wall Street, banking, financial markets, tax policy, Israel, and, this columnist’s favorite, monetary policy. He imports the fruits of a vividly fresh worldview from the intellectually vibrant Discovery Institute, based in Washington State, to the too-often stagnant Washington, DC.

Once we, of DC, get done rethinking economic policy along Gilderian lines the world likely never will be the same. It will be better. Information theory laps classical economics and, perhaps at long last, drives the wooden stake into the heart of undead Keynesian dogma haunting the capital. Gilderianism eats Keynesianism for breakfast.

Gilder takes it down to the rivets (and sometimes the quantum level), time after time, on too many critical issues of the day to do justice here. Two superb *soupons*:

On Dodd-Frank:

“The goal of financial reform should be to end this divorce between knowledge and power and ensure that most capital flows to the people who can wield it best, the entrepreneurs. By contrast, the reform that was enacted, the Dodd-Frank Wall Street Reform and Consumer Protection Act, with 2,323 pages of bromides and legalese enhancing the power of regulators, moves in the opposite direction. It increases the distance between the people in authority and the people with entrepreneurial knowledge. It concentrates yet more power in the leviathans and their Treasury sponsors and Federal Reserve supervisors, and it imposes hundreds of new regulations on entrepreneurial finance. Dodd-Frank sacrifices information on the altar of ignorant power.” (P. 132)

On monetary policy:

“Could it be that the fundamental cause of the [2008 financial] crisis was that the monetary system, alone among the structures of capitalism, lacks a low-entropy physical layer?

“Over the centuries of monetary history, the remedy for unstable money has always been gold. Critics who say the gold standard has been eclipsed by an information standard based on the Internet do not grasp the essence of information theory, which measures the information content by its ‘news’ (expressed in digital form as unexpected bits or entropy). It takes a low-entropy carrier to bear a high-entropy newsworthy message.

“The 130,000 metric tons of gold that has been mined in all of human history constitutes the supreme low-entropy carrier for the upside surprises of capitalism. Without guidance from gold, currency markets are subject to political high entropy. They resemble a communications system without a predictable carrier that enables the information to be distinguished from the noise in the line.

“...Without a baseline of gold, entrepreneurship in the world economy degenerates into the manipulation of currencies for the interests of profiteers and government insiders. This is a pathology of capitalism” (p. 122)

It is bewildering that Gilder then posits “It may not be feasible, under current circumstances, to implement a real gold standard.” This speculation easily is falsified. The gold standard, demonstrably, is highly feasible. For political and geopolitical reasons, circumstances have never, in our lifetimes, made it more feasible than now. This is but a small false note in a virtually pitch-perfect book.

Gilder sums up his overarching argument:

“Information theory comprehends and subsumes game theory, computer theory, cybernetics, genetics, network theory, demography, and strategy. ... From its roots... it knows its limitations—its inexorable incompleteness, its dependence on mental processes that it cannot subdue. From its constant tests in engineering, it knows its authenticity and authority. Governed by entropy (measuring freedom of choice), it is a science of human liberty, knowledge and power. And it is generating a golden age of unexpected new technology. (p. 271)

And in a coda by no means gratuitous he presents capitalism, honestly understood, as a magnificent, noble, humanitarian force. He thereby places it on the commanding heights of an unassailable moral high ground too often lacking from its more pedestrian defenders:

“When faith dies, so does enterprise. It is impossible to create a system of collective regulation, insurance, and safety that does not finally deaden the moral source of the willingness to face danger and fight, that does not dampen the spontaneous flow of gifts and experiments, that extends the dimensions of the world and the circles of human sympathy.

“The ultimate strength and crucial weakness of both capitalism and democracy are their reliance on individual creation. But there is no alternative except mediocrity and stagnation. Demand-based systems can never flourish in a world where events are shaped by millions of human beings, acting unknowably, in fathomless interplay and complexity, in the darkness of time.”

Into our own dark time now returns George Gilder. An intellectual Titan, in fact a modern Prometheus, Gilder heroically brings to humanity the fire of Knowledge... and Power.