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# 1- The Structure of Social Change

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## Why Public Policy?

### 1. The Structure of Social Change

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(A version of this originally appeared in the [Philanthropy Magazine](#), Winter 1996, under the title, From Ideas to Action: The Role of Universities, Think Tanks, and Activist Groups.)

Universities, think tanks, and citizen activist groups all present competing claims for being the best place to invest resources. As grant-makers, we hear the pros and cons of the different kinds of institutions seeking funding.

The universities claim to be the real source of change. They give birth to the big ideas that provide the intellectual framework for social transformation. While this is true, critics contend that investing in universities produces no tangible results for many years or even decades. Also, since many academics tend to talk mostly to their colleagues in the specialized languages of their respective disciplines, their research, even if relevant, usually needs to be adapted before it is useful in solving practical problems.

The think tanks and policy development organizations argue that they are most worthy of support because they work on real-world policy issues, not abstract concepts. They communicate not just among themselves, but are an immediate source of policy ideas for the White House, Congress, and the media. They claim to set the action agenda that leaders in government follow. Critics observe, however, that there is a surfeit of well-funded think tanks, producing more position papers and books than anyone could ever possibly read. Also, many policy proposals, written by “wonks” with little experience outside the policy arena, lack realistic implementation or transition plans. And all too often, think tanks gauge their success in terms of public relations victories measured in inches of press coverage, rather than more meaningful and concrete accomplishments.

Citizen activist or implementation groups claim to merit support because they are the most effective at really accomplishing things. They are fighting in the trenches, and this is where the war is either won or lost. They directly produce results by rallying support for policy change. Without them, the work of the universities and policy institutes would always remain just so many words on paper, instead of leading to real changes in people’s lives.

Others point out, however, that their commitment to action comes at a price. Because activist groups are remote from the universities and their framework of ideas, they often lose sight of the big picture. Their necessary association with diverse coalitions and politicians may make them too willing to compromise to achieve narrow goals.

Many of the arguments advanced for and against investing at the various levels are valid. Each type of institute at each stage has its strengths and weaknesses. But more importantly, we see that institutions at all stages are crucial to success. While they may compete with one another for funding and often belittle each other's roles, we view them as complementary institutions, each critical for social transformation.

### Hayek's Model of Production

Our understanding of how these institutions “fit together” is derived from a model put forward by the Nobel laureate economist [Friedrich Hayek](#).

Hayek's model illustrates how a market economy is organized, and has proven useful to students of economics for decades. While Hayek's analysis is complicated, even a modified, simplistic version can yield useful insights.

Hayek described the “structure of production” as the means by which a greater output of “consumer goods” is generated through savings that are invested in the development of “producer goods”—goods not produced for final consumption.

The classic example in economics is how a stranded Robinson Crusoe is at first compelled to fish and hunt with his hands. He only transcends subsistence when he hoards enough food to sustain himself while he fashions a fishing net, a spear, or some other producer good that increases his production of consumer goods. This enhanced production allows even greater savings, hence greater investment and development of more complex and indirect production technologies.

In a developed economy, the “structure of production” becomes quite complicated, involving the discovery of knowledge and integration of diverse businesses whose success and sustainability depend on the value they add to the ultimate consumer. Hayek's model explains how investments in an integrated structure of production yield greater productivity over less developed or less integrated economies.

By analogy, the model can illustrate how investment in the structure of production of ideas can yield

greater social and economic progress when the structure is well-developed and well-integrated. For simplicity's sake, I am using a snapshot of a developed economy, as Hayek did in parts of [Prices and Production](#), and I am aggregating a complex set of businesses into three broad categories or stages of production. The higher stages represent investments and businesses involved in the enhanced production of some basic inputs we will call "raw materials." The middle stages of production are involved in converting these raw materials into various types of products that add more value than these raw materials have if sold directly to consumers. In this model, the later stages of production are involved in the packaging, transformation, and distribution of the output of the middle stages to the ultimate consumers.

Hayek's theory of the structure of production can also help us understand how ideas are transformed into action in our society. Instead of the transformation of natural resources to intermediate goods to products that add value to consumers, the model, which I call the Structure of Social Change, deals with the discovery, adaptation, and implementation of ideas into change that increases the well-being of citizens. Although the model helps to explain many forms of social change, I will focus here on the type I know best—change that results from the formation of public policy.

### **Applying Hayek's Model**

When we apply this model to the realm of ideas and social change, at the higher stages we have the investment in the intellectual raw materials, that is, the exploration and production of abstract concepts and theories. In the public policy arena, these still come primarily (though not exclusively) from the research done by scholars at our universities. At the higher stages in the Structure of Social Change model, ideas are often unintelligible to the layperson and seemingly unrelated to real-world problems. To have consequences, ideas need to be transformed into a more practical or useable form.

In the middle stages, ideas are applied to a relevant context and molded into needed solutions for real-world problems. This is the work of the think tanks and policy institutions. Without these organizations, theory or abstract thought would have less value and less impact on our society.

But while the think tanks excel at developing new policy and articulating its benefits, they are less able to implement change. Citizen activist or implementation groups are needed in the final stage to take the policy ideas from the think tanks and translate them into proposals that citizens can understand and act upon. These groups are also able to build diverse coalitions of individual citizens and special interest groups needed to press for the implementation of policy change.

We at the Koch Foundation find that the Structure of Social Change model helps us to understand the distinct roles of universities, think tanks, and activist groups in the transformation of ideas into action. We invite you to consider whether Hayek's model, on which ours is based, is useful in your philanthropy. Though I have confined my examples to the realm of public policy, the model clearly has much broader social relevance.

*Dr. Richard Fink is an executive vice president and member of the board of directors of Koch Industries, Inc. Additionally, Fink is chairman of the board and chief executive officer of Koch Companies Public Sector, LLC, which provides legal, government, philanthropy, and community-relations services to Koch companies. He is also a director of Georgia-Pacific and Flint Hills Resources, LLC, a refining and petrochemical company. Fink is the president of the Charles G. Koch and Claude R. Lambe Charitable Foundations and a director of the Fred C. and Mary R. Koch Foundation. Before his employment with Koch Industries, Fink was an executive vice president and an associate economics professor at George Mason University. In 1978, he and Charles Koch founded George Mason's university-based research organization, the Mercatus Center. He is a member of the Mercatus board, which he chaired until 1990. Fink also served on George Mason's board of visitors from 1997 through June 2005. In 1984, Fink co-founded Citizens for a Sound Economy Foundation and its affiliate, Citizens for a Sound Economy. In 2003, the foundation changed its name to Americans for Prosperity Foundation; Fink is a member of the board of directors. Partnering with David Koch and Art Pope, they set up Americans for Prosperity. He serves on the advisory board of the International Foundation for Research and Experimental Economics and is currently a member of the board of directors for the Institute for Humane Studies, Jack Miller Center and The Laffer Center for Global Economic Growth. He previously served on the board of the American Prosecutors Research Institute, Bill of Rights Institute, George Mason University Foundation, Public Choice Center, and Reason Foundation. He was also a member of the Consumer Advisory Council of the Federal Reserve Board and President Ronald Reagan's Commission on Privatization. Fink earned his Ph.D. from New York University and M.A. from UCLA. He graduated Phi Beta Kappa, magna cum laude with a bachelor's in economics from Rutgers University.*

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