BOOKS

The Company of Strangers: A Natural History of Economic Life

by Paul Seabright

Princeton University Press • 2004 • 304 pages • $29.95

Reviewed by Richard M. Ebeling

One of the most profound insights of economics is that the activities of billions of people can be coordinated without central direction and without most of these interdependent people knowing anything about one another.

This interdependency not only spans all the continents of the world but also stretches across time. There are people right now extracting some raw material from the ground, or planting some seeds in the soil, or beginning the manufacturing process of some commodity, which—days, months, or even years from now—will satisfy other people's wants for multitudes of goods. Even more astonishing is that practically all these people have little or no idea of the "bigger picture" of how their diverse and decentralized actions all fit together in an intricate network of exchange relationships that bind humanity into one commercial community. Equally amazing, it is not necessary for any of these people to understand how all their actions are connected for each one to find his niche and perform his specialized role in the division of labor.

Yet precisely because most people do not have to understand how this all works, numerous misconceptions abound about the nature of the system. This often leads to government policies that do serious harm to the maintenance and continuing success of the international economic order. That is why it is important to constantly remind both scholars and laymen of the basis of this international order, and of the threat from misguided public policies.

This is the theme of Paul Seabright's recent book, *The Company of Strangers: A Natural History of Economic Life*. Seabright goes far beyond the narrow field of economics to incorporate recent research in history, anthropology, sociology, and psychology. Among the benefits from an extended division of labor, he explains, are that risks can be shared, greater specialization can be developed, and a wider accumulation of knowledge can occur. But to take full advantage of these benefits, mankind had to go far beyond the small hunter-gatherer tribe or primitive agricultural community, to include people outside the immediate circle of family and non-relatives in the closed group.

The circle of association, cooperation, and exchange had to include "strangers" if the division of labor was to be significantly expanded. But how did primitive man come to *trust* strangers? Being outside the narrow tribal band, they were competitors for the basic physical means of survival; they were "the others" who might kill, rob, or enslave you.

In the process of primitive man's evolution, Seabright argues, two qualities developed: the capacity for rational calculation and the sentiment for reciprocity. When primitive man first began offering or receiving opportunities for trade, he might well have thought that deceit and theft could be to his advantage in the encounter with the stranger. But reflection would have made him realize that there might be benefits from future interactions with such strangers, meaning that in his own longer-run self-interest any such repeated transactions could only be assured if he kept his word and abided by any agreement. At the same time, various social experiments have suggested that people generally follow a psychology of "tit for tat"; that is, even if repeated transactions are not expected, individuals will mostly reciprocate with either generosity or malice, depending on how another has behaved or is expected to behave toward them. Thus general kindness and honesty by some individuals tend to beget the same from others. Psychological and physiological studies have also shown how smiling and laughter—and their actual and perceived sincerity—reinforce bonds of trust, confidence, and association among people outside their narrow circle of family and friends.

Seabright discusses the role of money as an institution that facilitates the interconnections of multitudes of individuals unknown to one another through the willingness to accept a commodity whose only or primary usefulness is to be traded for other goods. The unease which some feel that money depersonalizes human relationships, he argues, is more than outweighed by the liberating anonymity that monetary relationships introduce for individuals in society. The greater trust that existed in more intimate face-to-face relationships has been replaced with "purchased trust" in the form of product warranties and brand-name reputations that stand behind goods and men in their dealings with one another.

Also behind the growth of an extended division of labor are the general and abstract rules of association that leave much of society's development uncertain and unpredictable. Yet it is only when governments are mostly limited to securing life, liberty, and property that people have the latitude for creativity, imagination, and innovation, along with the freedom from political constraint to experiment in the arts and sciences, as well as with industrial technology and general cultural change.

Seabright applies these ideas to a variety of themes and topics. He emphasizes that a growing multitude of interacting human beings will have many different views concerning the value of things and the ends to pursue. The social institutions of property and exchange serve as means to resolve these differences through the price system. He illustrates this with the problem of the growing scarcity of water in many parts of the world, the competing demands for which may be reconciled through peaceful market competition.

Seabright also highlights how social order and patterns often emerge out of the spontaneous interactions of men, without any imposed design or command. Drawing on some of the writings of Jane Jacobs, he shows how safety and trust emerge in urban neighborhoods without a policeman or a social planner at every corner. He explains how markets have transformed the original "business unit" of the traditional family into the modern corporate firm. And he discusses how human knowledge has been preserved and shared, from the primitive symbols on the walls of caves to the intricate and virtually instantaneous means for transmitting information around the modern world.

Though Seabright explains and defends the vast benefits of market globalization, he is not an advocate of laissez faire. He sees various problems concerning "negative externalities" and "public goods" that require extensive government intervention, as well as the need for a welfare state to assist those "harmed" by market change. Nonetheless, his book offers a fascinating and extremely informative panorama for understanding how the human race has evolved from the simple hunter-gatherer into modern man in the global society. □

Richard Ebeling is the president of FEE.

Saying Yes: In Defense of Drug Use

by Jacob Sullum

Tarcher/Putnam • 2003 • 340 pages • $25.95

Reviewed by Paul Armentano

Like ex-President Bill Clinton and former Vice President Al Gore, author Jacob Sullum admits he's smoked marijuana. He's also dabbled with psychedelics, cocaine, opioids, and tranquilizers. But unlike so many political figures, Sullum offers no mea culpa for his past vices in *Saying Yes: In Defense of Drug Use*. Rather, he confesses his "sins" to illustrate that the typical recreational drug user bears more resemblance to someone like him (or even the ex-president) than the drug war's stereotypical poster boy: the down-and-out street-corner junkie.

However, it's precisely those like Sullum who have been AWOL from America's drug-policy debate. The reason is obvious. Admitting to illicit drug use risks harsh legal and economic sanctions. Because of this, Sullum writes that "people who use illegal drugs in a controlled, inconspicuous way are not inclined to stand up and announce the fact. Prohibition renders them invisible."

Those who favor America's present prohibitionist policies would prefer they stay that way. From the drug warriors' standpoint, even acknowledging the existence of such a class strikes a blow to their entire justification for the drug war, as summarized by the Drug Enforcement Administration (DEA): "Drugs undo the bounds that keep many seemingly normal people on an even keel."

Sullum counters this assumption by bringing the "silent majority" out of their smoky closet. His purpose "is to contrast drug use as it is described by politicians and propagandists with drug use as it is experienced by the silent majority of users: the decent, respectable people who, despite their politically incorrect choice of intoxicants, earn a living and meet their responsibilities. The lives they lead challenge a central premise of the war on drugs—that certain substances have the power to compel immoral behavior."

Sullum includes within this majority computer programming guru Bob Wallace, an early employee of Microsoft, founder of Quicksoft, and a pioneer in the concept of shareware. Wallace (who died shortly before the book's publication) was a daily pot smoker, one of 32 "controlled drug users" Sullum interviewed for *Saying Yes.* In most cases, their stories are remarkably similar: Illicit drugs are something they enjoy—or in some cases, enjoyed—responsibly and in moderation. Moreover, almost all declare that their illicit drug use seldom posed any significant problems in their personal or professional lives. Sullum draws from these testimonials, as well as his own experiences, not to absolve drugs as potentially harmful substances, but to reinforce his point that the vast majority of illegal drug users harm neither themselves nor others.

"Just as writing about moderate drinking does not mean denying the harms caused by alcoholism, writing about controlled drug use does not mean denying the damage done by destructive relationships with illegal intoxicants," Sullum maintains. "Rather, my intent is to add some balance to the public debate by pointing out that excess is the exception."

Saying Yes is not so much a defense of casual drug use (as the subtitle implies) as a plea to draw rational, legal distinctions between between use and abuse, and to base our laws accordingly.

If what Sullum calls "voodoo pharmacology" is a myth, he believes it's illogical for the law to treat illicit drugs any differently from alcohol.

Consequently, only when drug-law critics tackle voodoo pharmacology (rather than the negative effects of the drug *war*) will they succeed in changing America's drug policies. □

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The War Against Excellence

by Cheri Pierson Yecke

Praeger • 2003 • 260 pages • $49.95

Reviewed by George C. Leef

The 1983 "A Nation at Risk" report famously stated that "If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war." Since then, there has been a great deal of talk about improving the educational system and some legislative developments purporting to "raise standards." On the whole, though, it's hard to perceive any improvement, and if Cheri Pierson Yecke is correct in the *War Against Excellence*, things have gotten worse, particularly at the middle-school level.

Yecke, Minnesota's former education commissioner, has penned another in the stream of books exposing the deplorable truth about government schools. The education establishment is quite happy that about 88 percent of all children attend government schools, and it invests mightily in public relations to keep everyone convinced that "public education" is doing wonderfully, but just needs more money. Yecke pulls back the curtain to reveal that over the last 20 years or so, middle schools (usually grades 6–8) have been infested with an alarmingly anti-education mindset.

According to the author, five beliefs that "progressive" education theorists embrace have infiltrated the middle schools. (Yecke does not say that these views are confined to middle school—they certainly are not—only that the problem seems worst there.) The beliefs are: in the equality of educational outcomes; in questioning the value of individualism; in the supremacy of the group over the individual—as well as the belief that advanced students have a duty to help others at the expense of their own needs and that competition is negative and must be eliminated.

If those ideas sound like egalitarianism, that's just what they are.

Yecke quotes University of Florida professor Paul George, who states that middle schools should become "the focus of societal experimentation, the vehicle for movement toward increasing justice and equality in the society as a whole." Schools, he writes, "are not about taking each child as far as he or she can go. They're about redistributing the wealth of the future."

The United States has always had plenty of educational theorists eager to use government schools as laboratories for their dubious notions about the reformation of society, but the current crop seems to have been particularly effective in getting theirs implemented. Yecke discusses several distressing manifestations of those egalitarian beliefs.

One is the attack on ability grouping. Schools have customarily put brighter students in accelerated classes and sometimes grouped slower students for special attention. To the egalitarian theorists, naturally, that practice is both educationally bad and morally wrong. They have insisted that schools end ability grouping, and quite a few have done so.

What's so bad about ability grouping? Supposedly, it contributes to "the stratification of society." If gifted kids could be slowed down, the thinking goes, they wouldn't be so successful later in life, thus taking a big step toward "social justice."

Even if you buy into coercive redistribution, why take steps to reduce the future output of ideas, inventions, and wealth? Abolition of ability grouping has been resisted by parents of gifted children, who resent having their kids held back so the education theorists can enjoy their utopian daydreams. Unfortunately, when those parents have complained, they've often run into a stone wall.

Another manifestation of rampant egalitarianism is "cooperative learning," the notion students should work and be graded in groups rather than individually.

The obvious problem with cooperative learning is that the smarter kids do most of the work, but must share the credit. To our egalitarian theorists, this approach to education tells the bright kids that they have to "share" their talents. The best thing one can say is that it alerts them early on that they will be treated as social resources to be exploited in the future through the income tax.

The War Against Excellence is bound to increase the number of parents who bail out of government schooling. ☐

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A History of the Federal Reserve, Volume I: 1913–1951

By Allan H. Meltzer

University of Chicago Press • 2003 • 800 pages • $75 hardcover; $25 paperback

Reviewed by Christopher Mayer

The Federal Reserve System began operations in 1914, 11 months after passage of the congressional act that created it. Rooted in European thinking and modeled after the Bank of England, the Fed was a political animal that encountered difficulties right out of the gate. Hardly independent, the Fed was often under the thumb of the U.S. Treasury. Its purpose was a confusing mash of varying economic theories and political goals.

In this book, Allan Meltzer chronicles Fed history with an amazing eye for detail—minutes, speeches, books, journals, letters are all culled as footings for his narrative. The author is to be commended for his wide survey of primary sources. Unfortunately, Meltzer's prose leaves something to be desired. It is professionally written, no doubt, but it is as dry as the driest of autumn's fallen leaves. Slogging through this dense book will be difficult for all but the most ardent Fed followers.

Meltzer, who teaches at Carnegie-Mellon University and specializes in monetary theory, gives the reader a conventional history. Indeed, Fed Chairman Alan Greenspan himself wrote a kind foreword to the book, calling it both "stimulative and provocative." Meltzer is even-handed in his assessments of various actors and their ideas and his representation of their goals; he seems to take everyone at face value. One sees none of the conspiratorial overtones, for example, regarding the Fed's snug relationship with the banking industry. Not surprisingly, in perusing his list of sources, you will not find references to Murray Rothbard or Edward Griffin (author of *The Creature from Jekyll Island*). As a result, this book might be little else than a reference for details otherwise hard to uncover or find in one place.

There are lots of details about specific policy debates that Fed members had with one another and others outside the Fed. But those details are likely to be of little interest to libertarian-minded readers. It's like listening to burglars debate how they are going to break into a house. To the libertarian, such considerations are irrelevant—the house should simply not be broken into. Similarly, one tires of hearing Fed governors pontificate about their tools for manipulating the economy—the economy should simply not be manipulated.

The period Meltzer covers is a depressing tale of monetary degradation. It sounds quite odd today, but Meltzer writes of the early years of the twentieth century that "many bankers, economists as well as ordinary citizens believed that the gold standard was the correct way to harmonize international monetary politics." Therefore, efforts to maintain the gold standard or some system with gold at its base met little opposition. The gold standard was widely viewed as the proper way to restrict inflation and contain the damage government could do to the currency. Meltzer notes that "the gold standard was a main issue in several presidential elections in the United States. Each time, the gold standard candidate won."

However, as we know now, such views did not last. As Meltzer observes, the "gradual dissemination of Keynesian ideas in the 1940s slowly transformed the consensus view." That is, Keynesian ideas weakened the support for the gold standard and replaced it with an activist view of the Fed as a manager of economic output and employment. Discretionary policy by government experts became the accepted, "sophisticated" view; belief in gold came to be regarded as hopelessly old-fashioned.

"The population had become more urbane and more educated," Meltzer writes, as if those characteristics and support for our monetary traditions were somehow incompatible. He is obviously a fan of the Fed, praising its work at many points. While he is critical at times, his criticism is never of the institution itself, but only of its policy errors. In other words, Meltzer would not dismantle the system, only push different buttons or pull different levers.

The history of the Fed is laced with irony. Here is an institution thought to provide stability and ballast to the economy. Yet its meddlesome ways create and amplify forces of instability and weakness. After reading Meltzer's history, one has to wonder what would have happened in the absence of the Fed's constant economic meddling. □

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