

**Economics focus****The evolution of everyday life**

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**Co-operation has brought the human race a long way in a staggeringly short time**

"OUR everyday life is much stranger than we imagine, and rests on fragile foundations." This is the intriguing first sentence of a very unusual new book about economics, and much else besides: "The Company of Strangers", by Paul Seabright, a professor of economics at the University of Toulouse. (The book is published by Princeton University Press.) Why is everyday life so strange? Because, explains Mr Seabright, it is so much at odds with what would have seemed, as recently as 10,000 years ago, our evolutionary destiny. It was only then that "one of the most aggressive and elusive bandit species in the entire animal kingdom" decided to settle down. In no more than the blink of an eye, in evolutionary time, these suspicious and untrusting creatures, these "shy, murderous apes", developed co-operative networks of staggering scope and complexity—networks that rely on trust among strangers. When you come to think about it, it was an extraordinarily improbable outcome.



The genetic inheritance of *Homo sapiens sapiens*, which evolved during the 7m years or so that separate us from our last common ancestor with chimpanzees and bonobos, equipped man to succeed as a hunter-gatherer. Humans co-operated with each other in hunting and fighting, but this co-operation occurred within groups of close relatives. Human evolution favoured caution and mistrust, so far as strangers were concerned. Yet modern man engages in the sharing of tasks and in an extremely elaborate division of labour with strangers—that is, with genetically unrelated members of his species. Other animals (such as bees) divide tasks in a complex way among members of the group, but the work is kept within the family. Co-operation of a sort among different animal species is also quite common, though not very surprising, since members of different species are not generally competing with each other for food, still less for sexual partners. Elaborate co-operation outside the family, but within the same species, is confined to humans.

The requirements for such co-operation, and hence for modern economic life, which is founded on specialisation and an infinitely elaborated division of labour, are more demanding than you might suppose. It is not enough to say that specialisation and the division of labour yield enormous economic benefits. Co-operation would nonetheless quickly break down if individuals could enjoy the advantages of division of labour without making a contribution of their own. Two traits were needed, says Mr Seabright, to bring the fruits of co-operation within reach, and evolution had equipped humans with both—accidentally, as it were. The first was an intellectual capacity for rational calculation. The second, somewhat at odds with the first, was an instinct for reciprocity—a tendency to repay kindness with kindness and betrayal with revenge, even when rational calculation might seem to advise against it.

Neither of these tendencies could support co-operation without the other, and the balance between the two is delicate. Calculation without reciprocity often favours cheating: this undermines trust, so co-operation either cannot get started or quickly breaks down. On the other hand, reciprocity without calculation exposes people to exploitation by others. Again, fear of exploitation inhibits co-operation. For specialisation and division of labour to get going, one needs both instincts, each pushing against the other, so that cheating and free-riding are both kept in check. This balance was probably needed for the development of social life, Mr Seabright notes, even before our ancestors embarked on complex co-operation with strangers. Given those dispositions, however, co-operation with strangers—and modern

economic life—became possible.

The human capacity for calculation allowed this potential to be fully exploited because humans were able to design rules and institutions that, as Mr Seabright puts it, "make reciprocity go a long way". Much of the book is concerned with the trust-enhancing character of economic institutions such as money. Building on humans' inherited instincts, these rules and institutions allow people to treat strangers as "honorary friends".

## **Adam Smith, meet Charles Darwin**

The fact that things could have turned out so differently makes the modern global economy, with all its awesome productivity, seem even more miraculous. But, having convinced readers on that point, "The Company of Strangers" dispels any complacency by drawing attention to less appealing aspects of the human enterprise. One such is pollution. Markets can be harnessed to provide information about how best to deal with pollution and other externalities—the phenomenal information-processing power of the price mechanism is another unintended (and marvellous) consequence of extended economic co-operation. But sometimes markets cannot co-ordinate activities effectively. That, after all, is why firms exist: in some cases (and the book considers the conditions under which this is true), information can be more usefully processed in-house, in a non-market setting. This is a different kind of co-operation.

And co-operation itself is two-edged—because it also makes possible the most successful acts of aggression between one group and another. "Like chimpanzees, though with more deadly refinement, human beings are distinguished by their ability to harness the virtues of altruism and solidarity, and the skills of rational reflection, to the end of making brutal and efficient warfare against rival groups." This is what makes our everyday life fragile, as well as surprising. Curbing this tendency for conflict, Mr Seabright argues, requires, among other things, better-designed international rules and institutions, so that nations, no less than individuals, can regard each other as honorary friends. "Trust between groups needs as much human ingenuity as trust between individuals."

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