

Newsweek

Pencils And Politics

**Who commands the millions of people involved in making a pencil?
Who is in charge? Where is the pencil czar?**

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Improbable as it might seem, perhaps the most important fact for a voter or politician to know is: No one can make a pencil. That truth is the essence of a novella that is, remarkably, both didactic and romantic. Even more remarkable, its author is an economist. If you read Russell Roberts's "The Price of Everything: A Parable of Possibility and Prosperity" you will see the world afresh—unless you already understand Friedrich Hayek's idea of spontaneous order.

Roberts, an economist at George Mason University and Stanford's Hoover Institution, sets his story in the Bay Area, where some Stanford students are indignant because a Big Box store doubled its prices after an earthquake. A student leader plans to protest Stanford's acceptance of a large gift from Big Box. The student's economics professor, Ruth, rather than attempting to dissuade him, begins leading him and his classmates to an understanding of prices, markets and the marvel of social cooperation. Holding up a Dixon Ticonderoga No. 2, she says: "No one can make a pencil."

Nonsense, her students think—someone made that one. Not really, says Ruth. Loggers felled the cedar trees, truckers hauled them, manufacturers built the machines that cut the wood into five-sided portions to hold graphite mined in Sri Lanka, Mexico, China and Brazil. Miners and smelters produced the aluminum that holds the rubber eraser, produced far away, as were the machines that stamp TICONDEROGA in green paint, made somewhere else, on the finished pencil.

Producing this simple, mundane device is, Ruth says, "an achievement on the order of a jazz quartet improvising a tune when the band members are in separate cities." An unimpressed student says, "So a lot of people work on a pencil. What's the big deal?" Ruth responds: Who commands the millions of people involved in making a pencil? Who is in charge? Where is the pencil czar?

Her point is that markets allow order to emerge without anyone imposing it. The "poetry of the possible" is that things are organized without an organizer. "The graphite miner in Sri Lanka doesn't realize he's cooperating with the cedar farmer in California to serve the pencil customer in Maine." The boss of the pencil factory does not boss very much: He does not decide the prices of the elements of his product—or of his product. No one decides. Everyone buying and selling things does so as prices steer resources hither and yon, harmonizing supplies and demands.

Goods and services, like languages, result from innumerable human actions—but not from any human design. "We," says Ruth, "create them with our actions, but not intentionally. They are tapestries we weave unknowingly." They are "emergent phenomena," the results of human action but not of human design.

When a student asks about the exploitation of housecleaners, Ruth responds that if they are exploited making between \$10—above the minimum wage—and \$20 an hour, why are they not exploited even more? The answer is that the market makes people pay maids more than the law requires because maids have alternatives.

But back to Big Box doubling prices after the earthquake. The indignant student, who had first gone to Home Depot for a flashlight, says it "didn't try to rip us off." It was, however, out of flashlights. Ruth suggests that the reason Big Box had flashlights was that its prices were high. If prices were left at regular levels, the people who would have got the flashlights would have been those who got to the store first. With the higher prices, "someone who had candles at home decided to do without the flashlight and left it there for you on the shelf." Neither Home Depot nor the student who was angry at Big Box had benefited from Home Depot's price restraint.

Capitalism, Ruth reminds him, is a profit and loss system. Corfam—Du Pont's fake leather that made awful shoes in the 1960s—and the Edsel quickly vanished. But, Ruth notes, "the post office and ethanol subsidies and agricultural price supports and mediocre public schools live forever." They are insulated from market forces; they are created, in defiance of those forces, by government, which can disregard prices, which means disregarding the rational allocation of resources. To disrupt markets is to tamper with the unseen source of the harmony that is all around us.

The spontaneous emergence of social cooperation—the emergence of a system vastly more complex, responsive and efficient than any government could organize—is not universally acknowledged or appreciated. It discomforts a certain political sensibility, the one that exaggerates the importance of government and the competence of the political class.

Government is important in establishing the legal framework for markets to function. The most competent political class allows markets to work wonders that government cannot replicate. Hayek, a 1974 Nobel laureate in economics, said, "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design." People, and especially political people, are rarely grateful to be taught their limits. That is why economics is called the dismal science.

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