Book Review for 12/13/04 by Thomas Carnes

Author: James Surowiecki
Publisher: Doubleday
Length: 271 pages
Price: $24.95
Reading time: 5 hours
Reading rating: 8 (1 = very difficult; 10 = very easy)
Overall rating: 3 (1 = average; 4 = outstanding)

Are groups of people smarter, or dumber, than individuals? Such terms as “mob rule,” referring, of course, to a group, and “expert wisdom,” usually referring to an individual, hint at what many would conclude – as James Surowiecki puts it, “We assume that the key to solving problems or making good decision is finding that one right person who will have the answer.” But Surowiecki, a columnist for the New Yorker, is convinced that “chasing the expert” is wrong – and that under the right circumstances (a key assumption, as we shall see), “groups are remarkably intelligent, and are often smarter than the smartest people in them.” In this short (271-page), easy-to-read book, Surowiecki makes a strong case for asking the crowd to solve problems of business, economies, and nations.

Surowiecki focuses on three types of problems which he believes crowds are uniquely talented at solving. The first are cognition problems – those which have definitive solutions, such as who will win the World Series this month, or how many copies of an item a firm will sell during the next year. He calls the second kind a coordination problem, such as driving safely in heavy traffic or buyers and sellers finding each other and trading at fair prices. The final kind of problem is a cooperation problem – getting self-interested people to work together to pay taxes or deal with pollution. Through the use of case studies, he provides evidence of how groups successfully solve each of these three types of problems. For example, most people appear not to cheat on their taxes in this country, even though the odds are about 1 in 200 that the Internal Revenue Service will audit an individual’s return. Why are people willing to participate in the tax system, given these odds? Surowiecki calls them “conditional consenters” – people who want to do the right thing, but don’t want to feel like a sucker. In other words, they want to pay their fair share of taxes, but they want to think everyone else is doing that, too, and that people who aren’t doing so have a good chance of being caught and punished.

Of course, we all are able to think of times when groups are dumb, such as riots and stock-market bubbles. Surowiecki lays out three conditions for the wisdom of crowds. All would be useful for business owners and stockholders to remember when making decisions. The first requirement is diversity – both in possible solutions and decision makers. People must be willing to provide radical ideas, and there must be money available to fund them. New information must be brought to the table.
The second requirement is independence. Successful groups avoid herding, where members of the group feed off one another. One flaw in this book is Surowiecki’s inability to make a strong distinction between diversity and independence. He strives to make them seem to be different concepts, but he ultimately falls short – probably because the distinction, at least for his purposes, probably doesn’t exist.

His third requirement is decentralization. This builds on a concept popular in most business schools today: bottom-up decision making is better than top-down decision making. Important decisions are better when they are made based on “local and specific knowledge rather than by an omniscient or farseeing planner.” However, decentralization requires coordination (indeed, requires aggregation) in order to succeed. As the failure of the U.S. intelligence community to connect the dots before Pearl Harbor, or before 9/11, points out, decentralization without aggregation is a recipe for disaster.

One need not agree with every example or conclusion of this book in order to profit from reading it. I suspect the small investment of time required will stimulate, entertain, and intrigue most readers.

Thomas Carnes is an assistant professor of accounting in the College of Business at Western Carolina University. For previously reviewed books visit our Web site at www.wcu.edu/cob/bookreviews.