

THE ECONOMY THAT KEEPS BECOMING · CHAPTER FOUR

Nobody Designed the Trap

Chapter Four of The Economy That Keeps Becoming

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THE LICENCE

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Chapter Four of The Economy That Keeps Becoming

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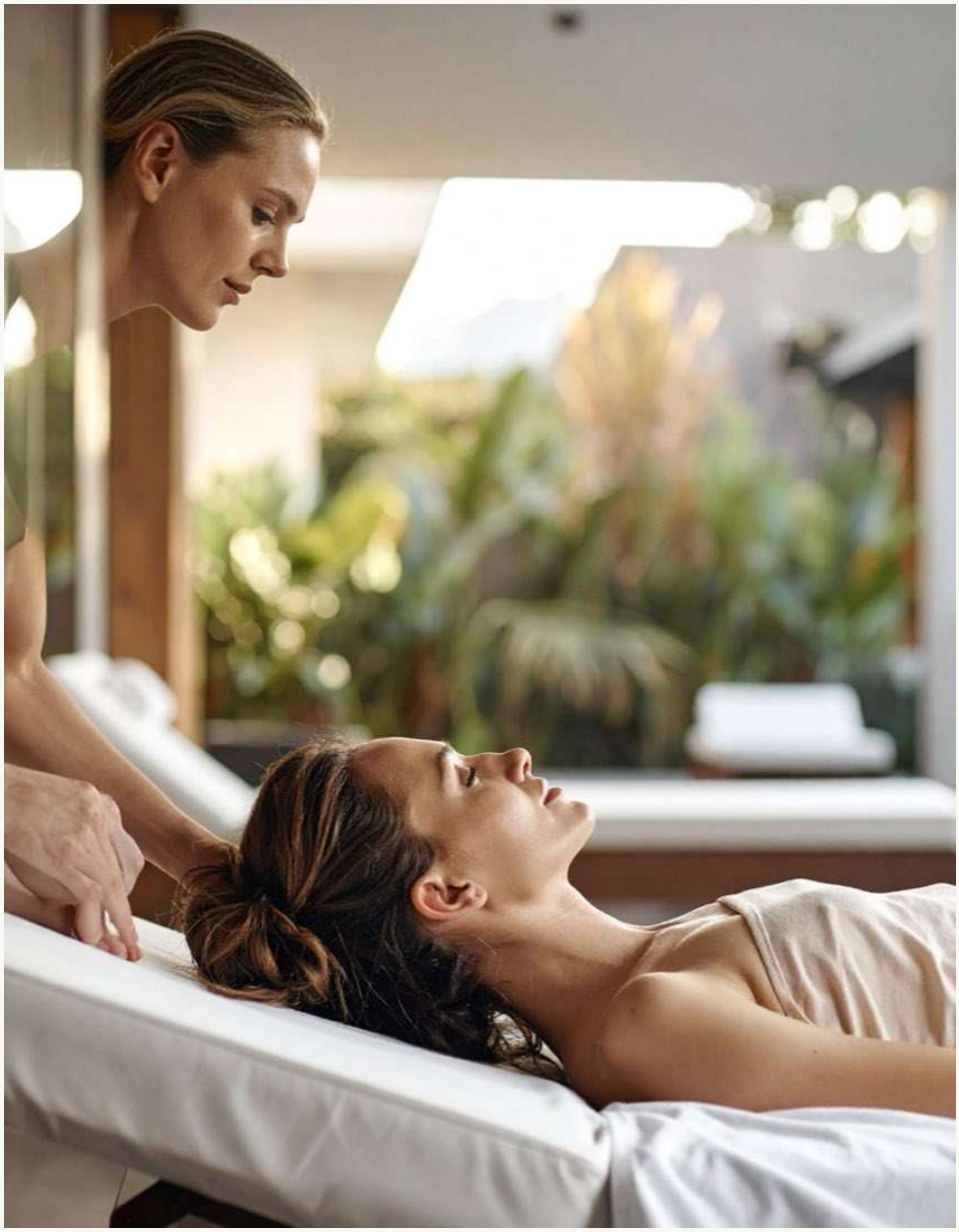
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ABSTRACT

In 1971 the economist Thomas Schelling published a paper in The Journal of Mathematical Sociology that he had worked out, by his own later account in Micromotives and Macrobehavior (1978), with coins on a board. He placed two kinds of coin on a grid and gave each a single, mild preference: a coin was content as long as some modest share of its neighbours were of its own kind, and it would move to a nearby empty square if they were not. No coin wanted a segregated board. Every coin would have been happy in a mixed one. Then he let them move. A few coins relocated, which changed the neighbourhoods of the coins around them, which prompted a few more to move. Within a handful of rounds the board had sorted itself into large regions of one kind, far more separated than any single coin had wished.

CHAPTER FOUR

Nobody Designed the Trap



Nobody Designed the Trap

HAUTE LUMIÈRE · THE ECONOMY THAT KEEPS BECOMING · CHAPTER FOUR

A chequerboard in 1971

In 1971 the economist Thomas Schelling published a paper in *The Journal of Mathematical Sociology* that he had worked out, by his own later account in *Micromotives and Macrobehavior* (1978), with coins on a board.[23] He placed two kinds of coin on a grid and gave each a single, mild preference: a coin was content as long as some modest share of its neighbours were of its own kind, and it would move to a nearby empty square if they were not. No coin wanted a segregated board. Every coin would have been happy in a mixed one.

Then he let them move. A few coins relocated, which changed the neighbourhoods of the coins around them, which prompted a few more to move. Within a handful of rounds the board had sorted itself into large regions of one kind, far more separated than any single coin had wished.

"Dynamic models of segregation" is now one of the founding texts of complexity science, and it is cited far beyond economics, because it shows something uncomfortable with great economy. A pattern at the level of the whole can be produced by the parts without being intended by any of them. Nobody designed the segregated board. Nobody would have chosen it. It emerged.

Ammanuel Santa Anna's *Ecstatic Economics* makes the same observation about the economy he wants to change. Writing about the anxiety that runs through modern economic life, and the way it keeps people overworking and overspending, he refuses the easy villain:

> *This is not conspiracy. It's emergence — the self-organizing property of complex systems that happen to be organized around pathological assumptions. No one designed this trap.*[24]

That passage is the hinge of this chapter. Chapters 2 and 3 set out where complexity economics came from and where it runs thin. This one reads it through the house's own lens, the living-systems reading that Santa Anna's book and the Luminous 100 develop. The claim is simple to state. Complexity economics explains *how* economic patterns emerge from loops. The living-systems reading asks *what those loops carry*: whether they circulate vitality and information back to the people who act, or whether they have been cut.



Emergence without a villain

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Emergence without a villain

The value of Schelling's chequerboard, for a reader who runs something, is that it moves blame from people to structure without excusing anyone.

Most organisations explain their worst patterns by finding someone responsible. Meetings run long because one manager likes to talk; the sales team and the delivery team distrust each other because of an old dispute; good people leave because of a particular director. Sometimes the explanation is right. More often, complexity economics suggests, the pattern is produced by many small, reasonable preferences interacting:

each meeting runs a little long because each attendee has one more point, each team protects itself slightly because the other team does, each person who leaves makes the remaining workload heavier for the next one.

Santa Anna's book applies this at the scale of a whole economy. The extractive system, as he describes it, does not need anyone to want it:

> *The extractive economy runs primarily on sympathetic activation. It needs you slightly anxious, slightly driven, slightly afraid that you don't have enough and need to do more, earn more, produce more. This isn't a conspiracy—it's an emergent property of a system built on scarcity assumptions.*[25]

The finer point is in the last clause. An emergent pattern is not random. It is produced by the rules the parts are following, and in a human system those rules include assumptions: that there is not enough, that rest is risky, that a rival's gain is your loss. Schelling's coins followed one rule about neighbours. The people in an economy follow many rules, most of them unwritten, and the patterns that emerge carry the shape of those rules.

This is where the two traditions meet. Complexity economics gives the mechanism: local rules, interaction, feedback, emergence. The living-systems reading adds that the local rules are not fixed facts about human nature. They are learned, often in the body, and they can be changed. Change enough of them, in enough places, and a different pattern emerges from the same mechanism.

The representative agent, retired

A second line of research makes the same point from inside economics.

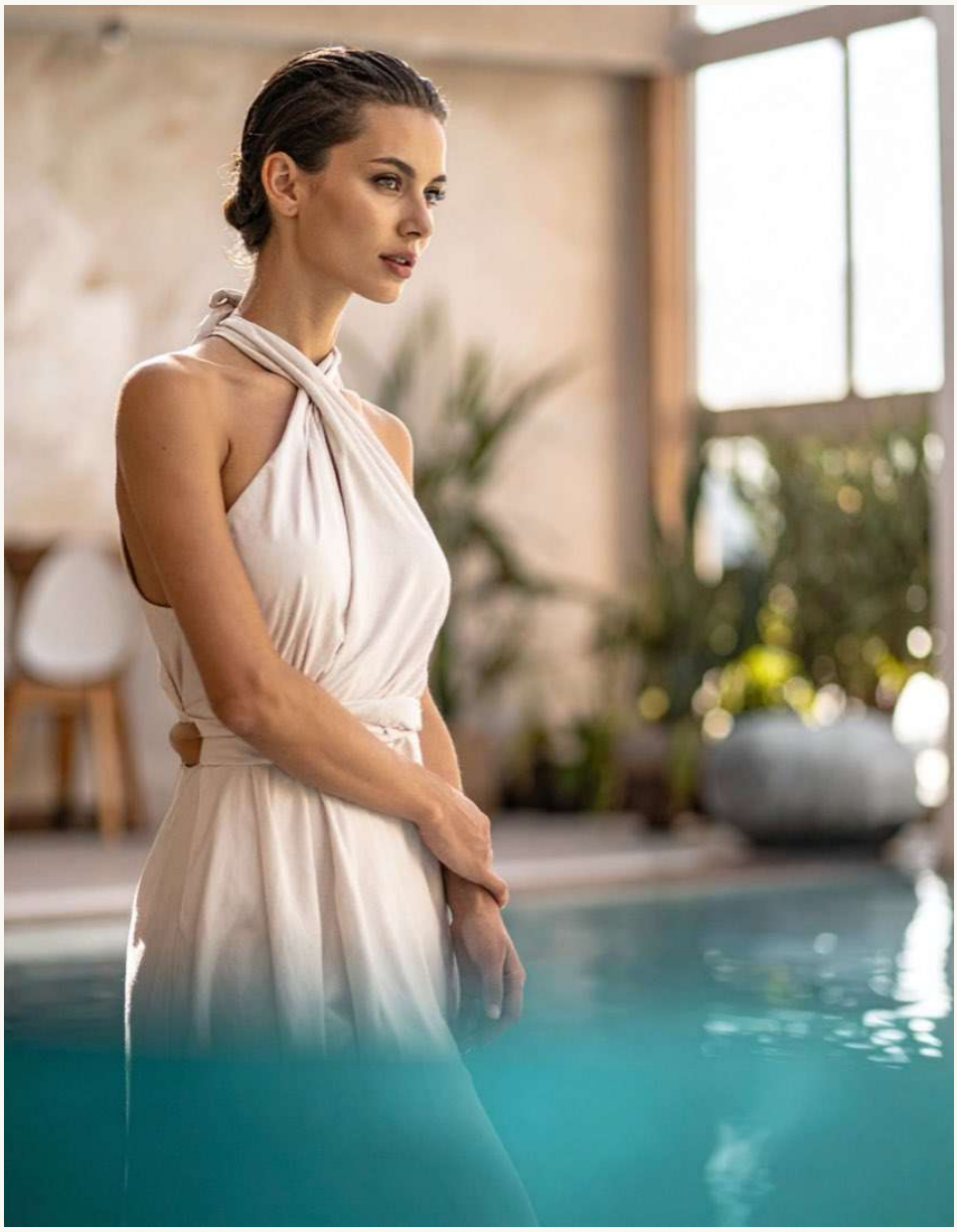
For several decades, much macroeconomic modelling rested on a convenience: the representative agent, a single imagined household whose choices stand in for those of the whole population. Alan Kirman's 1992 paper in the *Journal of Economic Perspectives*, "Whom or What Does the Representative Individual Represent?", is the classic statement of why this is a problem.[26] Kirman showed that the behaviour of a population can differ sharply from the behaviour of any one member of it; that a representative individual's preferences can point the opposite way from the population's; and that the very things economists most want to explain, such as booms, panics and the spread of new practices, arise from interaction among different agents. A model with one agent has no interaction. It cannot produce them.

The living-systems reading takes this further. An organism is not a large cell; a forest is not a big tree. What makes a living system alive is the relationship among its parts, and the information moving between them. Santa Anna's notes reach for the old image of the ant colony to make the point, and his book draws the

conclusion for organisations. When the fearful apparatus of control is lifted and trust is put in its place, he writes,

> *they self-organize toward excellence. Not because they are forced to, but because it is in the nature of living systems to move toward greater coherence, creativity, and vitality when the conditions are right.*[27]

A reader trained in complexity economics will notice that this is a claim about emergence, and should be held to the same standard as any other. Self-organisation is real. Whether it tends toward excellence depends on the rules the parts follow and the information they receive. Santa Anna, to his credit, says so in the next paragraph, and the third movement below takes it up.



The severed loop

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The severed loop

If emergence is the mechanism, the house's distinctive diagnosis concerns feedback.

A complex adaptive system learns by feedback. Agents act, the world responds, and the response changes how the agents act next. Arthur's El Farol drinkers improved their forecasts because they could see each week whether the bar had been crowded. Remove that information, and they could not have adapted at all.

Ecstatic Economics argues that much of what goes wrong in modern economic life comes from feedback loops that have been cut, so that the people making decisions no longer receive the consequences of them. The sharpest statement is about investment:

> *When investors cannot feel the impact of their investments, they make decisions that a somatically connected human being would never make. Not because they're evil. Because the system has severed the feedback loop that would normally connect action to consequence.*[28]

This is a complexity economist's sentence written in another vocabulary. A system in which the signal from an outcome never reaches the agent who caused it cannot correct itself. It will keep producing the outcome, however harmful, because nothing in the loop tells it to stop. The book's examples of what repair looks like are deliberately small and concrete:

> *The CSA member who knows the farmer. The worker-owner who shares in the consequences of business decisions. The community currency user who can trace the circulation of value through local relationships. The impact investor who visits the enterprise. In each case, the feedback loop that extractive economics severed has been sutured back together.*[29]

Each example is a loop restored. In each, information about the consequences of a choice travels back to the person who made it, and the choice can then adapt. This is the house's contribution to the complexity reading, stated without any special machinery: an economy is healthiest where its feedback loops are short, honest and felt, and least healthy where they have been lengthened, obscured or cut.



Banks as an ecosystem

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Banks as an ecosystem

The most striking evidence that ecologists and economists are describing the same kind of system comes from finance, and it arrived after the crisis of 2008.

In 2008, before the worst of the crisis, Robert May, Simon Levin and George Sugihara published a short commentary in *Nature* titled "Ecology for bankers".[30] May was one of the twentieth century's most important theoretical ecologists. The three authors argued that the banking system had become a network whose stability could be studied with the tools ecologists use for food webs and disease, and that the industry's

own risk models, which treated each bank largely in isolation, could not see the danger in the connections between them.

Three years later Andrew Haldane, then executive director for financial stability at the Bank of England, and May published "Systemic risk in banking ecosystems" in *Nature*.[31] They modelled banks as nodes linked by lending and showed how features that make each bank look safer on its own, such as holding similar assets and diversifying in the same ways, can make the network as a whole more fragile, because the banks become alike and fail together. An ecosystem with one dominant species is efficient until a single disease arrives.

The papers are models, not measurements of the next crisis, and they should be read as such. But they make the house's point with the authority of a central bank. Santa Anna's book draws the same lesson about money itself:

> *Just as a diverse ecosystem is more resilient than a monoculture, a diverse monetary ecosystem — with local currencies, time banks, mutual credit systems, and other complementary instruments operating alongside conventional money — may be more resilient than a monetary monoculture.*[32]

Note the word *may*. The book does not claim more than the evidence allows, and the evidence, from Haldane and May, is a model of how diversity and connection interact, not a proof that any particular complementary currency would have softened a particular crisis.



The loops worth amplifying

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The loops worth amplifying

The Luminous 100, the house's set of upgraded management frameworks, reads Peter Senge's systems thinking in the same spirit. Senge's causal loop diagrams distinguish reinforcing loops, where change feeds more change, from balancing loops, where change is corrected. The usual practice is diagnostic: find the vicious cycles. The Luminous upgrade turns the question round:

> *"Where are the virtuous cycles already alive in this system? What reinforcing loops are generating vitality, trust, and developmental momentum — and how do we amplify them until they become the dominant pattern?"*[33]

This is increasing returns read as an opportunity rather than a trap. Arthur showed that under positive feedback, small early advantages can come to dominate a market. The same mechanism can carry a good practice. A team in which trust has started to compound, a supplier relationship that grows more generous with each exchange, a household habit of reviewing its money together that becomes easier each month: each is a reinforcing loop, and each, if noticed early and fed, can become the pattern the rest of the system organises around.

The upgrade of the Cynefin framework makes a related point about where to look. Snowden's complex domain, where cause and effect are clear only afterwards, is usually treated as the difficult zone. The Luminous reading notes that it is also the most generative:

> *Complex domains are where the system is most creatively alive*[34]

The practical consequence for a leader is to stop treating the complex parts of the organisation only as risks to be contained. They are also where new patterns can start, which is to say where small, well-placed choices carry the furthest.

The honest shadow

None of this guarantees a good outcome, and the house's book says so in the passage that follows its praise of self-organisation. Without practices for tension, decision and accountability, it warns, distributed authority can produce chaos or the rule of the loudest voice, and

> *The transition from traditional hierarchy to distributed authority is a developmental process, not a structural flip*[35]

That is the complexity economist's caution in the house's own terms. Emergence does not choose good patterns over bad ones; Schelling's coins produced a pattern nobody wanted. Restoring feedback is necessary and not sufficient. The people receiving the feedback must be able to bear it, interpret it and act on it, and that capacity is built over time.

The way through is the same as in chapter 3: small probes, honest feedback, patience with what is slow. A leader who removes a layer of approval and also teaches the team how to disagree well is changing two loops together, which is how lock-ins are escaped. A leader who removes the layer alone may find the old pattern re-forming within a quarter.

The board, changed

Return to Schelling's chequerboard. The same model that produced segregation from mild preferences can produce integration if the rules change slightly: if coins are content with a lower share of their own kind, or if a few coins actively prefer mixed neighbourhoods, the board stays mixed. Schelling's lesson was never that bad outcomes are inevitable. It was that outcomes depend on rules no one is looking at, and that small changes in those rules can produce large changes in the whole.

Santa Anna's book is a long argument about which rules to change: scarcity for sufficiency, distance for felt consequence, control for trust held with skill. Chapters 5 and 6 test the reading on two public cases, chapter 7 works it through on a composite firm, and chapter 12 joins it to the lineage's work on shared resources and on gainsharing, where the people who create a gain receive part of it and the loop is closed.

The coins are still on the board. Nobody designed the pattern they form, which means nobody has to defend it. That is the opening.



The Tool: The Loop Audit

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The Tool: The Loop Audit

A second page for the map begun in chapter 2. It takes the reinforcing loops you listed there and asks what each one carries. Allow ninety minutes with the people who know the system best.

1 · The loops, from your first map Copy each reinforcing loop you listed, as a sentence of the form *the more A, the more B, the more A.*

2 · What each loop carries

LOOP	WHO ACTS IN IT	WHO RECEIVES THE CONSEQUENCE	HOW LONG BEFORE THE CONSEQUENCE IS FELT (DAYS, MONTHS, YEARS)	DOES THE PERSON ACTING EVER SEE IT? YES / NO / PARTLY	DOES THE LOOP CARRY VITALITY, EXTRACTION, OR BOTH?

3 · Severed loops For each loop where the person acting does not see the consequence:

What information would have to travel back, and to whom?

What is the shortest route it could take (a report, a visit, a conversation, a shared figure)?

Who could open that route this month?

4 · Emergent patterns nobody chose List up to three patterns in your organisation or household that nobody seems to want (long meetings, mistrust between two teams, a recurring end-of-month scramble).

PATTERN	THE LOCAL RULES THAT MIGHT BE PRODUCING IT	WHICH ONE RULE, CHANGED SLIGHTLY, MIGHT CHANGE THE PATTERN

5 · Virtuous cycles already alive

One reinforcing loop that is already generating trust or vitality:

What feeds it now:

One small way to feed it more: · owner: · date:

6 · Two loops together

If you change one rule, which other loop is likely to pull it back?

What will you change at the same time, so that the first change holds?

7 · The capacity check

- Are the people who will receive restored feedback able to act on it? yes / not yet

If not yet, what practice would build that capacity (a conversation format, a decision rule, time)?

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