

THE ECONOMY THAT KEEPS BECOMING · CHAPTER ELEVEN

The Household as a Living System

Chapter Eleven of The Economy That Keeps Becoming

Ammanuel Santa Anna

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The Household as a Living System
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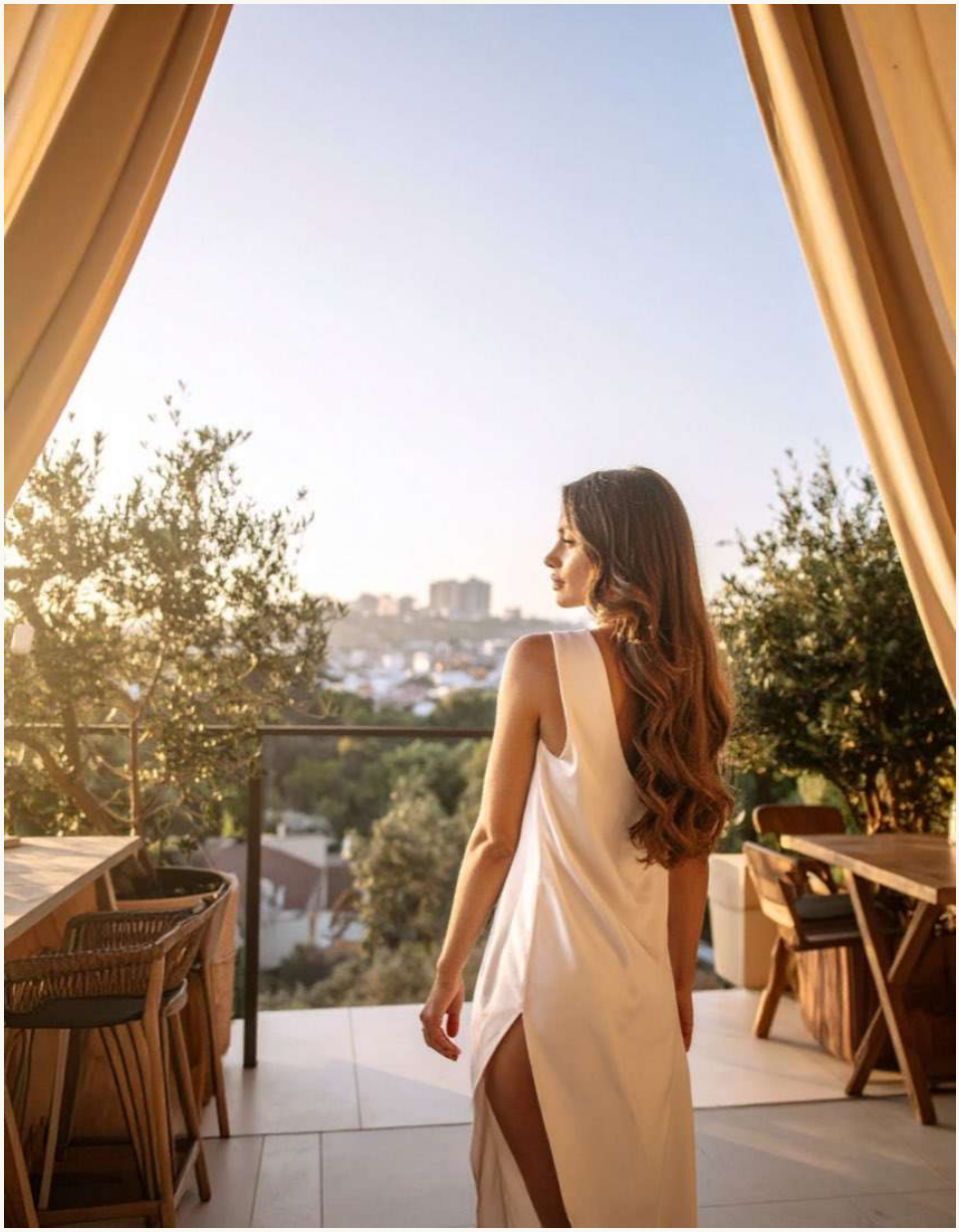
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ABSTRACT

A household is an economy in miniature, and a complex one. Two or three or six people, each with their own habits and hopes, sharing money, time, space and attention. Commitments made years ago (a mortgage, a career, a city, a school) shape what is possible now. Habits reinforce themselves: a weekly routine becomes easier each week it is kept, a debt becomes heavier each month it is carried. Small, accidental early choices, such as which job was taken first or which neighbourhood rented in, compound into a life. Everything in the earlier chapters applies here, at a scale where one person can see most of it. This chapter runs the whole practice for a household: the map, the lock-ins, the audit, the probes and the measures. It is written for whoever is responsible for a household's money and work, alone or with others. It is not financial advice, and it says nothing about what anyone should buy, sell or invest in. It is about seeing the household as a system, and changing it through small, well-recorded steps.

CHAPTER ELEVEN

The Household as a Living System



The Household as a Living System

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The smallest economy

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The power of the default

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The power of the default

The clearest public evidence that household finances behave like a complex adaptive system, with lock-in and path dependence, comes from a single, much-cited study of retirement saving.

In 2001 Brigitte Madrian and Dennis Shea published a paper in *The Quarterly Journal of Economics* titled "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior".[60] They studied a large American company that changed the default for its retirement savings plan. Before the change, new employees had to choose to join; after it, new employees were enrolled automatically, at a set contribution

rate and in a set investment, unless they chose to leave. Nothing else about the plan changed. The money on offer was the same, the choices available were the same, and anyone could opt in or out at any time.

The result was a very large rise in participation among employees hired under the automatic default. And a striking share of those employees stayed with the default contribution rate and the default investment, even though few would likely have chosen exactly those settings on their own. The default, a small administrative arrangement, had become the arrangement that history chose, and it held.

This is Arthur's lock-in at the scale of one person. The arrangement was not chosen on its merits. It persisted because changing it required effort, attention and a decision, and the cost of those, small as it was, was enough. The finding cuts both ways, which is the useful thing about it. Defaults can trap people in arrangements they would not choose. Defaults can also carry good practices forward without effort.

Richard Thaler and Shlomo Benartzi made the second half of that point into a design. Their 2004 paper in the *Journal of Political Economy*, "Save More Tomorrow", described a programme in which employees committed in advance to increase their saving rate at the time of future pay rises.[61] The design used inertia deliberately: having committed once, most participants stayed in the programme, and their saving rose with each rise in pay. The paper reports results from a small number of firms, and it is a study of one designed intervention, not a general law. But the mechanism is the one this book has followed throughout: a reinforcing loop, started by a small early choice, and then left to compound.

The household's loops

A household has the same three kinds of loop as a firm.

Reinforcing loops grow by themselves. Some carry the household well: a habit of setting money aside, which becomes easier each month it is kept and builds a reserve that reduces the next month's anxiety; a skill practised over years, which raises earnings, which buys time to practise further; a set of neighbours with whom help has flowed both ways, which makes the next request for help easier. Others carry it badly: borrowing to cover a shortfall, which raises next month's costs, which makes the next shortfall likelier; overwork to cover rising commitments, which leaves less time to manage those commitments well.

Lock-ins are arrangements everything else now depends on. A housing cost set years ago. A phone contract renewed by default. A set of subscriptions nobody reviews. A commute fixed by a choice of home. A family expectation about who earns and who cares. Some are sensible habits; some are traps; the Lock-In Test from chapter 3 tells the difference.

Balancing loops correct. A budget that is actually read each week is one: overspending in one week shows up, and the next week adjusts. A household conversation about money that happens regularly is another. Where balancing loops are slow or absent, a household drifts, and the drift is noticed only at a crisis.



The severed loop at home

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The severed loop at home

Chapter 4 argued that the house's distinctive diagnosis is the severed feedback loop: the consequence of an action never reaching the person who acted. Households have their own versions, and they are very common.

Spending on a card whose statement arrives a month later is a slow loop. Automatic payments are a severed one: the money leaves, and nobody in the household feels it leave. A financial decision made by one partner and borne by another is severed as well. None of these is wrong in itself, and some are conveni-

ences worth having. But each one means that the household is acting without the information it would need to steer.

Santa Anna's book proposes a weekly practice for one person that is, in this book's terms, a suture. Once a week, it suggests, review the economic events of the past seven days and ask of each one:

> *Did I feel more alive or less alive afterward?*[62]

The question is not a measure a bank would recognise, and it is not meant to be. It brings back to the person who acted a consequence that no statement reports: whether the household's economic life is carrying vitality or draining it. Over weeks, the book argues, this inventory builds a map of which activities serve the person and which extract from them. A complexity economist would recognise the method: a fast, felt feedback signal attached to a slow, abstract system.

Path dependence in a family

The longest loops in a household run across generations. Habits about money, work and security are learned early, often without words, and carried into adult life. Santa Anna's book discusses this at length in its chapter on the somatic dimension of economics, and it refuses the fatalism that the idea can invite:

> *This isn't determinism.*[63]

That is the complexity economist's position too. A path-dependent process remembers its history; it is not bound by it. The household that inherited a pattern of anxiety about money, or of avoiding it, can change the pattern, but it will usually need to change more than one loop at once, for the reason Gregory Unruh gave about carbon lock-in in chapter 3: a single loop changed on its own is pulled back by the others. A household that decides to look at its money weekly, and also agrees that nobody will be blamed for what the first look shows, has changed two loops together.

The kitchen-table sequence

Here is the practice of chapter 8, compressed for a household. It takes about thirteen weeks: one to map, twelve to probe.

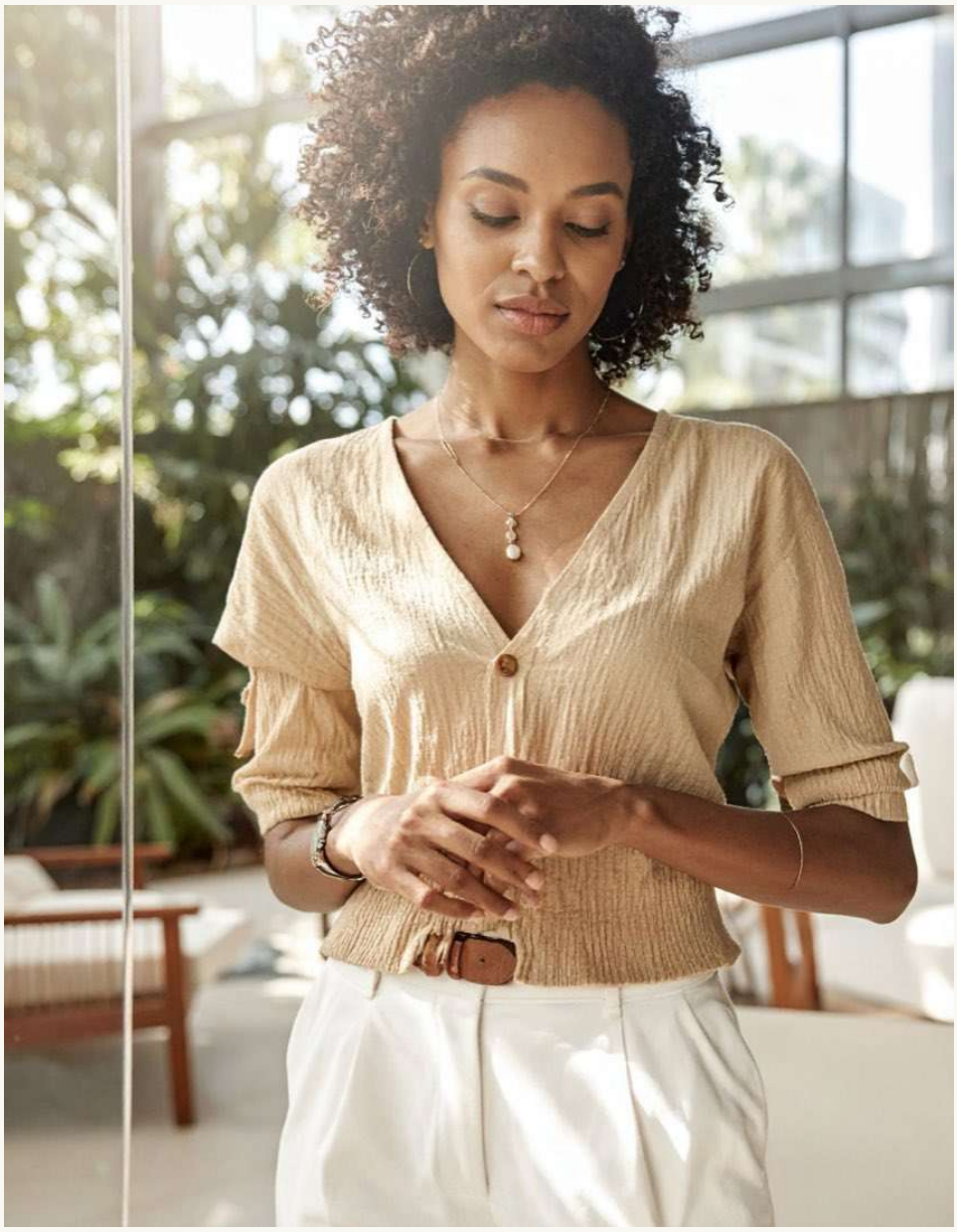
Week 1, evening one: the map. Each adult draws their own First Map of Loops, alone, in pencil, in thirty minutes. Five things that grow by themselves, good or bad. Five arrangements nobody would choose today. Three things that correct themselves. Then compare. Where the maps differ, ask why, without deciding who is right. Older children can be included in a simpler version: what in our family gets easier the more we do it, and what do we keep doing that none of us likes?

Week 1, evening two: the tests and the audit. Take the three arrangements from the map that the household most suspects. For each, run the Lock-In Test: what is the alternative, what is the evidence it is better, what would switching cost in money, time and effort, and who would it fall on? Most will turn out to be habits that can be changed in an afternoon; change them that week. Then take the most important reinforcing loop and ask the Loop Audit's questions: who acts in it, who feels the consequence, and how soon?

Week 1, evening three: the probe. Choose one probe, small and safe, for twelve weeks. Write the prediction down where everyone can see it. Write the stop condition. Some probes worth considering for a household: a fifteen-minute weekly look at the household's money together, at the same hour; a week's pause before any purchase above an agreed amount; one automatic payment converted to a manual one, so that its leaving is felt; one hour a week spent on a skill that could raise earnings; one way, each month, that help flows toward a neighbour.

Weeks 2 to 13: the cycle. Keep the Monday Sheet from chapter 12, used for the household, once a week. Watch for the stop condition. Do not change the prediction.

Week 13: the reading. Read the prediction aloud first. Then the result. Decide together: keep, adjust or stop. Redraw the map. Set the date for the next cycle.



Measures for a household

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Measures for a household

Chapter 9 recommends very few measures, each paired with a shadow. For a household, four are usually enough.

- The committed share. The share of monthly income committed before it arrives, to housing, debts, contracts and subscriptions. This is the household's lock-in measure. A falling share means the household is regaining room to adapt.

- The amount set aside. Whatever the household sets aside in the month, for any purpose. This is the reinforcing-loop measure.
- The balance owed. The shadow of the second. If the amount set aside rises while the balance owed rises faster, the loop is not what it looks like.
- The felt month. One question, answered by each adult at the end of the month, on whatever scale the household chooses: did the month go well? This is the household's own wellbeing measure, and the only one of the four that cannot be read off a statement.

None of these figures should be compared with other households. The comparison class for each is the household's own last month.



The El Farol question at home

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The El Farol question at home

Chapter 2's El Farol question asks, before acting on a forecast, what would happen if everyone held it. It has a household form, and it is worth asking before any large decision: a move, a career change, a large purchase. If everyone in your situation made the same choice for the same reason, what would happen? Would housing in the area everyone is moving to become dearer? Would the skill everyone is training in become less scarce? Would the time everyone is taking off at once leave the opportunity somewhere else?

The question does not say the choice is wrong. It asks where the room is that the crowd will leave behind, and whether the household might be better placed there.

What a household can do that a firm cannot

A household has one great advantage over a firm in this practice: the people who act and the people who feel the consequences are the same small group, sitting at the same table. The severed loops are shorter and easier to repair. The cost of a probe is lower. The map can be redrawn in an evening.

It also has one great difficulty: the conversation is closer to the bone. Money in a household is tied to love, fear, fairness and history in ways that money in a firm usually is not. Chapter 10's family script, and its principle of beginning with what is working, matter more here than anywhere.

The Tool: The Kitchen-Table Map

Three evenings, then twelve weeks. Each adult fills in sections 1 and 2 alone first.

1 · Loops (alone, thirty minutes)

- Five things in our household that grow by themselves, good or bad, each written as *the more A, the more B, the more A*:

…

…

…

…

…

Three things that correct themselves (*the more A, the less B, the less A*):

2 · Arrangements nobody would choose today (alone)

ARRANGEMENT	WHEN IT BEGAN	WHAT DEPENDS ON IT	WOULD WE CHOOSE IT TODAY?	ROUGH COST OF CHANGING IT

3 · Compare (together)

Where our maps agree:

Where they differ, and why:

4 · The severed loop

One payment, habit or decision whose consequence nobody in the household feels:

How we could bring it closer (a weekly look, a manual payment, a conversation):

5 · The probe

One small, safe change for twelve weeks:

What we predict, written now:

What would make us stop:

Start date: · reading date:

6 · The four measures

MEASURE	TODAY	WEEK 13
Share of income committed before it arrives		
Amount set aside this month		
Balance owed		
The felt month (each adult)		

7 · The El Farol question

The largest decision ahead of us:

If everyone in our situation made the same choice, what would happen?

Where is the room the crowd would leave?

A note on method

The probes and measures in this chapter are this book's suggestions. Nothing here is financial, tax or investment advice; a household making a decision about debt, saving or investment should take advice suited to its circumstances.

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