

# Adjacent opportunities (18.1)

## 2nd order economics

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Michael Lissack, president of the American Society of Cybernetics and a social complexity authority, has been delivering papers around the world on what he calls, 2<sup>nd</sup> Order Science. Basically, 2<sup>nd</sup> Order Science is making a distinction between quantifiable, physics-based science, 1<sup>st</sup> Order, and social-based science, 2<sup>nd</sup> Order. One of the distinctions is that 1<sup>st</sup> Order is about making models, and 2<sup>nd</sup> Order is about creating representations and allowing for emergent relationships.

After speaking with Michael for the past year about this, I put forward the idea that if that was true for science how about the idea of 2<sup>nd</sup> Order Economics? Economics not based on numbers and quantifiable theories and ideas, but on human interactions, emergence and how that can be represented to provide a more coherent viewpoint of how economics unfolds on a societal level.

I had a meeting with a colleague the other day who thought that all economics was really 2<sup>nd</sup> Order and that 1<sup>st</sup> Order was simply masquerading when it thought its predictive models and theories were capable of actually predicting what economies will do.

It does seem that the representational/relationship-based approach in which we incorporate the ambiguity and uncertainty we encounter, rather than trying to sanitize it out, makes more sense in an economy based on people, rather than numbers. An economy, in which interaction and emergence account for and accommodate economic fairness, human emotion, as well as prosperity and satisfaction, stands a much better chance of supporting the lives we lead than one in which the ambiguous is factored out.

I can hear the traditional economist scream, “why is this important? It seems far too complex to address nano-second economic changes.”

That may be true. Moving beyond computer modeled and programmed economies to those that embrace our interdependence may be messier, but it also allows for positive emergent phenomena we might never had considered possible: like ending poverty and homelessness, feeding the world and seeing to the health needs of everyone. As I see it, model-driven, extractive economies, in which we pull out resource from the system, and in which human needs and frailty are excised, only serve to deplete the entire system. Better understanding generative economies that help strengthen the system and in so doing make it healthier, leads to a very different world economic order.

As long as we only strive to predict and model, the specter of ambiguity grows and clouds reality. What happens is that the critical cues to what is really going on are either missed or discounted and we end up with Boom or Bust—the system’s inability to accommodate (read “be resilient”) when over extraction has pulled all it can from the system.

Now this 2<sup>nd</sup> Order thinking is far from new. There are great troves of literature about behavioral economics, and there are international movements around social solidarity economics, from Spain and Italy, to Canada, Latin America and even New York City. The success of these economic collaborations has been demonstrated for years in the cooperative activities in Spain and Italy. Specifically, in the Emilia Romagna province of Italy, in and around Bologna, which has now spread to other provinces including Tuscany, Umbria, Veneto and Trentino.

As the social economist, Pat Conaty explains it, “Today, Emilia Romagna has become the new industrial heart of Italy and has had comparable success to the co-operative economy success of Mondragon in the Basque country of Spain. In Bologna, six in ten residents are members of one or more co-operatives and 10% of citizens work in one. The provincial co-operative sector accounts for more than one third of regional GDP. In Imola, a city of 100,000, 60% of local economic output is accounted for by 115 co-operatives and 55% of local residents invest capital in the sector.”

Social-based economic activities like these have evolved in the US as well, arising, in many cases, out of the civil rights movement of the 1960s. Today, there is an increasing base of collaborative economic initiatives ranging from efforts like regenerative economics to alternative currency schemes akin to BerkShares, to collaboration systems like “time dollar” currencies to the proliferation of crowdfunding efforts, as well as the arrival of Uber and AirB&B. Marking what one economist termed “the *Uberization* of economies.”

What all these different efforts share is a more socially-based economy. What they tend to neglect and what distinguishes 2<sup>nd</sup> Order Economics are the interactive, relationship-based emergent properties that are consciously propagated and recognized within it. But it's not just being able to capture the emergent that separates 2<sup>nd</sup> Order Economics, it's its willingness and essential requirement to accept and integrate uncertainty and ambiguity into the fabric of its understanding.

How can such a complex and disordered approach to economic health withstand the rigors of people's needs and lives? Because it mirrors people's lives and how people, as adaptive, emergent beings, live in the world. The delusion that we can bring order and solidity to something as rudimentary as the exchange of one thing for another between human beings, would be similar to the denial of dinosaurs living millions of years ago. Value is perceptual, not based on algorithms or equations, but on human interaction. In this case, the numbers just don't add up.

2<sup>nd</sup> Order Economics provides an umbrella for social economies to better understand why people resonate, gravitate toward, and participate within these blossoming economic systems. They are also far healthier than those operating within the 1<sup>st</sup> Order. In our world, today, economic well-being is the cornerstone of every human life, but so is living a satisfied and healthy existence. Finding a means for emergent co-existence is crucial. Perhaps, 2<sup>nd</sup> Order Economics begins to provide that platform. It challenges us to recognize the unavoidable uncertainty and ambiguity of human life, not try and sanitize it out of the system or pretend we are just a calculation away from knowing the winning horse. Like it or not, we are interactive, emergent and adaptive creatures. Isn't it time our economies truly reflected that?