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MBS (00:00):

Briefly at the Australian national university, that was my undergraduate university, I was a member of ISEC. ISEC is an international group of economic students. And I was there because one of my best friends was studying economics and actually was running the local chapter. And there were good moments, but I did have this realization, this moment when I suddenly realized, huh, these aren't really my people. They're all about rational, self enlightenment and trickle down economics. And well, they just didn't have a similar lens to the one I had on the world. And so, ironically a little, I just assumed they were all the same, I mean, economists thus. Then a few years ago, I read a wonderful little book, *Obliquity*. It was wise, it was grounded, human, provocative. And it had at its heart the insight that we rarely figure out the hard complex things either directly or by ourselves alone. We need to come at things sideways and we need to come at them together. And it was written by an economist.



MBS ([01:16](#)):

Welcome to 2 Pages with MBS, the podcast where brilliant people read the best two pages from a favorite book. A book that has moved them, a book that has shaped them. So my guest today has already appeared on this podcast. He was featured as an author as somebody else's two pages read. So John Kay is a British economist and truthfully a philosopher. This is what a real influencer looks like and sounds like. After time in academia, John came to realize he had a particular skill. One that was, let's say, uncommon.

John ([01:52](#)):

The one thing I was really quite good at was taking relatively complex economic ideas and getting them across to people who weren't themselves economists. So I thought this is what I should be doing. And that was behind the think tank. And it was also behind my setting up an economic consulting business. And in a sense, one way or another, that has been what I've been doing ever since.

MBS ([02:18](#)):

It was not only that book I mentioned earlier, *Obliquity*, where he put this unique skill to work. There's also the *Long and the Short of It*, *Radical Uncertainty*, and his most recent, *Greed is Dead Politics After Individualism*. I love this concept of simplicity on the other side of complexity. So I asked John how he got his head around it, how he went about doing that.

John ([02:42](#)):

It's difficult, and I'm not really sure. I suppose it's a combination of firstly, you have to understand the ideas yourself. One of the things I learned a long time ago is when people say this is too complex for you to understand, that generally means they don't really understand it themselves. And the other thing I think is that having certain amount of skill with words along with, in economics, has come over the last 50 years to emphasize mathematical skills and they are



important. But actually unless you've can express the mathematics in words, it's not very much used to most of the people who want to use economics. So it's bridging that kind of gap.

MBS ([03:29](#)):

So I did find myself wondering whether John was a philosopher who understands economics or an economist who understands philosophy. And then really whatever the answer, what's the relationship with change.

John ([03:42](#)):

I suppose what a big thing that happened to me was when I moved out of academic life, more and more into a non-academic world of business and finance. When I was a full-time academic economist, I developed models in which people had goals and they optimized them and they behaved in accordance with various precepts of rationality. And then I realized that that wasn't what the people I met and talked to were actually doing. So I spent some time wondering what are they doing? If they're not maximizing the utility and their profits, what are they maximizing? And then I came to see that actually, most people aren't maximizing anything. They're trying to cope with a complex world in which they have multiple goals and multiple values. And it's actually understanding that process that is really key to understanding how worlds of business and finance actually operate.

MBS ([04:44](#)):

Can you talk to us around what complexity is? Because I think most of the models we have set up around our lives are around, it's not complex so much as just complicated. Meaning if you can just figure out the right model, you'll figure a way through it. But how do you navigate complexity?



John ([05:04](#)):

I think the key is that we do not know very much about, well, anything really. We don't know much about the future and we don't know very much about the present. And as I was just saying a moment ago, we live in that kind of environment and we need to cope. And developing models, including mathematical models, is a helpful way of doing that. But these models in my view are always parables. They're not actually true statements about the world. They're simplifications of the world that enable you to focus on particular aspects of it. I'll give you a lovely example which is, there's a rather famous model which helped George Akerlof win a Nobel prize, which is often described as the model of lemons. And the point of the lemons is lemon was a car, built on a Friday afternoon when some of the assembly line workers are ready to knock off for the weekend.

John ([06:03](#)):

And it never quite works as well as the cars built on Monday through Thursday. And the point of the model is the owner of the lemon knows whether or not the car is a lemon. And the purchaser does not know that. And Akerlof went through models of processes of that kind and explained why markets of that kind didn't work very well and the kind of institutions that were set up to deal with them. So I remember describing that model to a general audience once and someone got up and said, "I'm the general secretary of the Retail Motor Federation," which is a federation of used car dealers in the UK. And actually this story is a monstrous libel on our hardworking and honest members.

MBS ([06:49](#)):

That's great.



John ([06:50](#)):

And I realized there are two things wrong with that. One was, I don't think that's, in my experience, a true statement of what most used car dealers are. But the other is, whether it is or not, this story is not about used cars at all. It is about general characteristic of certain kinds of markets. And probably, it's most forceful application was in the markets, which actually hadn't even developed when Akerlof was writing that. A market's for complex securitized products which were so much part of what gave rise to the financial crisis. And there were products where people who understood a little about the product, often not very much, sold them to people who understood even less.

MBS ([07:35](#)):

Right, right. Oh, this is a wonderful conversation. And I love your piece around understanding models. I think of that famous quote from George Box, that's statistician, all models are wrong but some are useful. They all offer an interesting frame but don't be seduced. Again, I know one of your favorite quotes is the map is not the territory. A similar-

John ([07:54](#)):

Yeah, yeah. But the same observation, essentially.

MBS ([07:58](#)):

John, tell me about the book you're going to read from us today.

John ([08:02](#)):

Yeah. The book I'm going to read from is from an anthropologist turned evolutionary theorist called Joe Henrich. And I came across this book three or four years ago. So a year or two after it was published actually. And it was recommended by an economist called Ricardo Houseman, himself is quite an



interesting figure because he was actually believe it or not, once a minister in the Venezuela government.

MBS ([08:36](#)):

Oh, great, [crosstalk 00:08:36] that's a learning ground, yeah.

John ([08:38](#)):

And is now at Harvard rather than in Caracas. And I suspect he would not be very welcome in Caracas if he went back there. But Ricardo just said in talking about something, everyone should read this book. So I picked it up and thought, wow, that really does change the way I think about things. And what it did was, it's called *The Secret of Our Success*, which I must say at first sight makes me think this is a self-help book that I don't really want to read.

John ([09:11](#)):

But actually what it is, is the core idea is that collective intelligence, the accumulation, not just of knowledge but of intelligence is what has led to economic progress and made us as humans the dominant species on the planet. And this idea of collective intelligence is so much at the heart of understanding economics and is so much in contrast to the kind of individualism world populated by rational selfish individuals, which is central to a lot of the way we talk about economics. Where often frame it is, and nobody in the world knows how to build an Airbus, but 10,000 people working together do.

MBS ([10:04](#)):

Right. Exactly. And in fact, it's not even an Airbus, which is a massively complicated machine, it's like a toaster. Equally impossible to put together without a collective and in fact, one of our previous guests, a guy called AJ Jacobs decided to figure out how his cup of coffee got made in the morning. And it involved him talking to 1,000 people who all had touched his cup of



coffee from planting the coffee bean to actually pouring his coffee. So wonderful. Which two pages have you chosen to read?

John ([10:36](#)):

I've chosen two pages in which believe it or not, describes a study in which some anthropologists compared young children to chimpanzees and orangutans. I think anyone who's been a parent probably won't find that comparison as staggering as some other people might.

MBS ([10:59](#)):

Right. That's funny. So John Kay, author of a numerous wonderful books, including *Obliquity*, one of my favorites, *Radical Uncertainty* and *Greed is Dead*, reading from Joe Henrich's book, *The secret of Our Success*. John, over to you.

John ([11:19](#)):

Let's begin by comparing the mental abilities of humans with two other closely related large brained apes, chimpanzees, and orangutans. We get smart in part by acquiring a vast array of cognitive abilities by cultural learning. Cultural evolution has constructed a developmental world full of tools, experiences, and structured learning opportunities that harness, hone and extend our mental abilities. This often occurs without anyone's conscious awareness.

Consequently, to get a proper comparison with non-humans, it might be misleading to compare apes to fully culturally equipped and adults who, for example, know fractions. Since it's probably impossible and certainly unethical to raise children without access to these culturally evolved mental tools, researchers often compare toddlers to non-human apes. Admittedly, toddlers are already highly cultural beings, but they have had much less time to acquire additional cognitive endowments, such as knowing right from left, subtraction, et cetera. And have had no formal education.



John ([12:36](#)):

In a landmark study, Esther Hermann, Mike Tomasello, and their colleagues at the Institute for Evolutionary Anthropology in Leipzig, put 106 chimpanzees, 105 German children, and 32 orangutans through a battery of 38 cognitive tests. The tests battery can be broken down into sub tests that capture abilities related to space, quantities, causality, and social learning. The space sub test includes tasks related to spatial memory and retention in which participants have to recall a location of an object or track an object through a rotational movement. Quantities sub tests measure participant's ability to assess relative amounts or to account for additions and subtractions.

John ([13:33](#)):

The causality sub tests assesses participant's abilities to use cues related to shape and sound to locate desirable things. As well as their ability to select a tool with the right properties to solve a problem. In the social learning sub test, participants are given an opportunity to observe or demonstrate a use a hard discover technique to obtain a desirable object, such as extracting some food out of a narrow tube. Participants are then given the same task they just observed and can use what they just saw demonstrated to help them obtain the desired objects. On all the sub test of mental abilities except social learning, there's essentially no difference between chimpanzees and two and a half year old humans. Despite the fact that the two and a half year old humans have much larger brains.

John ([14:33](#)):

Orangutans, who have slightly smaller brains than chimpanzees, do a bit worse but not much worse. Even on a sub test that focused specifically on assessing the causal efficacy of tool properties, causal modeling, the toddlers got 71% correct, the chimps 61%, the orangutans 63%. Meanwhile, the chimps tranced the toddlers on tool use 74% to 23%. By contrast, for the social learning sub



test, the average is shown actually concealed the fact that most of the two and a half year olds scored 100% on the test, whereas most of the day apes scored zero. Overall, these findings suggest that the only exceptional cognitive abilities possessed by young children in comparison to two other great apes, relate to social learning and not to space, to quantities, or to causality.

John ([15:39](#)):

Crucially, if we gave these same tests to adult humans, they would blow the roof off the tests, performing a top near the ceiling. That might lead you to think that the whole setup is unfair to humans because comparing toddlers to older apes who varied in ages from three to 21. Interestingly however, older apes don't do better on these tests than younger apes, quite unlike humans. By age three, the cognitive performances of chimpanzees and orangutans, at least in these tasks, are about as good as they will get. Meanwhile, the young children will experience continuous and eventually massive improvements in their cognitive scores over at least the coming two decades of their lives. Just how good they get will depend heavily on where and with whom they grow up.

John ([16:33](#)):

Well, I think in these two pages, you really learn to rethink the ways in which people learn and behave and about our knowledge and our intelligence. And certainly had that impact on me.

MBS ([16:52](#)):

Seeing that insight, John, the significance of social learning and how, if you extrapolate from this it's like, this is what allows humans to be the dominant animal on the planet. And to, in inverted commons, become masters of our universe. How does that shift, or how did that influence your own thinking and your own way of seeing the world?



John ([17:19](#)):

I described my background in academic economics, where one was brought up to believe we were rational, maximizing individuals. Once you've seen the world and the way the two pages I've described do it, you will realize that the reason we are as good as we are is exactly that we are not like that. Chimpanzees actually are called much better to the models which one is building and developing than humans do. And that's why humans can build air buses and chimps can't. Mike Tomasello, who's actually quoted by Joe Henrich in that paragraph, actually famously summarized it and said, "You'll never see two chimpanzees carrying a log together." And that's an intriguing thought.

MBS ([18:10](#)):

That's everything. We have this insight based on data rather than based on dogma, which I think is where all of that individual rationalism comes from. So many of our institutions, so many of our models are still based around this sense of individual quest, everything from self help to who gets what bonuses in organizations. How do you go around about shifting some of these foundational beliefs?

John ([18:40](#)):

It is an interesting and terribly important question because over the last half century, suddenly the way we think has been shifted, pretty dramatically in an individualist direction. I go back to Milton Friedman in 1970 with that notorious article, the social responsibility of business is to maximize its profits. That asserting that that was the role of business in society, which then led to the idea that the incentives of executives had to be aligned with the interests of shareholders. Which then quite quickly became a cover for paying these executives very much more than they had historically been paid. In ways, that distorted the whole structure of our business. And then actually in the next book which I'm working on at the moment, which will be about called Business



and Society. It will give quite a lot of instances of this, the way in which, for example, the pharmaceutical industry, which is actually, it's very illustrative of what has been both best and worst in business.

John ([19:51](#)):

The achievements of that industry in the years after the second world war in giving us a whole range of drugs that transformed the lives of a lot of people and in the process made a lot of money out of doing so. And then the rapid downhill decline in the reputation and conduct of the industry, which ended in the opioid scandals and pro gouging, which were characteristic in the last decade. Interestingly, when Gallup surveyed what Americans think of different industries, the pharmaceutical industry now routinely comes bottom. In the latest poll art of the success of the COVID vaccines, it's still bottom, but it's only just below bankers. Whereas now in the past, it was way below bankers even.

MBS ([20:43](#)):

Well, I guess that's some form of progress. I wonder if, particularly our, I think of our corporations and organizations, whether they can be changed or whether it requires a new generation of organizations that grow up that are more human centered, more complexity centered, less profit centered, to be the next generation of organizations. Or do you think that we can change capitalism as it stands at the moment?

John ([21:16](#)):

I think it probably requires new generations really. And you can feel quite encouraged if you look around and see what's happening today. I think Kaner who famously said that most people don't acquire very many new ideas after the age of 25. And actually if you go back to the passage I just read, Henrich said over the two decades, following the two and a half year old toddlers being tested, they'll acquire a whole range of knowledge and skills. Maybe it stops



after 20 years. I think changing the mindset of people who have been well established in ways of thinking a long time, it's certainly not impossible. And one feels pleased when one makes an impact in that kind of way, but it's hard work. And most people, I think it's not so much they respond to incentives as they behave in the ways they're expected to in the environment in which they find themselves. And that's why the erosion of business culture that I was describing has been so pernicious. It's not that these are worse people, it's that the environment in which they operate in has been a different one.

MBS ([22:30](#)):

I think we find ourselves far more committed to the status quo than we realize. It is just a place where we've reached a stasis and a comfortable operating method and you're like however wrong this is, it's become my wrong. Where do you look to for inspiration and hope?

John ([22:50](#)):

I think as I've illustrated in the book selection, which I made, I think certainly in the last 10 years, I've learned a lot more about economics from things that have not been written by economists than from things that have been written by economics. And I think at the academic level, I can feel excited by the potential over the next two or three decades for a social science that transcends the kind of disciplinary boundaries which have grown up over the last half century. I think for example of Henrich's latest book, which in part picks up the theme that Max Vay developed a century ago, about the ways in which different religious backgrounds have a different effect on economic development.

John ([23:41](#)):

And to return to Scotland, one of the things I would like to write about, but I'll never have time to write about all of these things, is the development of Scotland from 1700 to 1900. When it moved from being a country like Afghanistan is today to what was one most prosperous and intellectually fertile



parts of the world. And is I think very much to do with a religion that emphasized encouraging people to think for themselves and above all read from themselves. And kind of integrity which allowed to steal from India, but it didn't allow people to steal from each other, which was in a large part of the successful development of the British Empire by the Scots.

MBS ([24:37](#)):

Indeed. Indeed. I read recently a 2013 report from Shell as part of their commitment to scenario planning. And they talk about three paradoxes. I may not get this quite right, but one was prosperity paradox. I can't remember, quite remember the label of this one, John, but the paradox can be summed up like this, which is the more that collective action and commitment is required, the greater the pool there is to be individualistic, to look after yourself and maybe the very closest tribe around you. And certainly you can see this polarization and this tribafication happening explicitly in all sorts of places around the world. To your point around collective intelligence and social knowledge, this is an impossible question. But when you look at that, what do you think and how do you manage that and how do you try and reverse that polarization, which is so disheartening.

John ([25:41](#)):

Yeah. I suppose if we're talking as we were earlier about the ways in which businesses evolved over the last 50 years, it is on the one hand that the development of collective intelligence is creating this greater pool of reserve in the way you describe. But it also gives people opportunities to try and grab a part of that greater pool for themselves. And you remember the fury over that Obama speech in which he said, essentially, you didn't build that business. You built a business in an environment which had a social and economic infrastructure that supported you. And it was actually a perfectly banal truth, but you can remember the fury with which that was greeted. I did it.



MBS ([26:32](#)):

The out outrage. Yeah. Yeah.

John ([26:35](#)):

And I remember there was even a Republican following convention seeing a silly song and titled I built it.

MBS ([26:42](#)):

Right. John, it feels like we've barely touched the surface of your knowledge and your writing. I've really appreciated this conversation with you. What still needs to be said, do you think in this conversation between you and me? What's worth touching on?

John ([27:00](#)):

I think once you realize that the source of our prosperity, the reasons why as you put it earlier, we have become the dominant species on the platform is not our capacities as individuals, but our capacity for social learning and the development of this collective intelligence. I think once you've taken that point on board, it changes everything. And it has changed everything for me, which is really why I wanted to use that particular extract. And pleased for an opportunity to do it and encourage more people to think in the same way and understand the implications of that, both for their commercial activities and indeed their personal lives.

MBS ([27:52](#)):

It's odd and it's wonderful to hear an esteemed economist talking about the power of collectivity. Economics really does have at its heart, this model of the individual rational actor. And this way of framing the world, that's different. Our prosperity comes not from our individual glory, but from our capacity for social learning and the development of collective intelligence. I remember reading



that the shortest poem in English language was from Muhammad Ali. I'm not sure if he wrote it, but I know he spoke it. And he spoke at not in his pomp as a quick silver boxer, but when early onset Parkinson's had slowed everything, it's just two words. And it really sums up this conversation. Me, we.

MBS ([28:36](#)):

I'm loving this recommendation I do at the end of the podcast where I think about what other episodes you might listen to if you enjoyed this particular one. So if you enjoyed my conversation with sir John, I've got three to suggest and you might like to pick one or more to listen to. One is Scott Small, we had a wonderful conversation around memory and the role of memory. It's called, how to remember and how to forget. He really is on the cutting edge of understanding Alzheimer's and moving towards a cure of that. But also seeing the power of being able to forget things and how necessary that is to move forward in life.

MBS ([29:13](#)):

Tamsen Webster's conversation, that's called Empathy and Argument. She's very much about finding the story, finding the collective red thread. And I do think there's a link between individualism and collectivity, which is what I was just talking about with John. And Tamsen's idea about how we find and weave our story, bring in other characters into our lives. And then you should probably listen to Martin Reeves. Martin actually is reading one of sir John's books. That conversation is how to keep curiosity alive. Really interesting because Martin works for a big consulting firm, but he is a bit of a maverick. And you know I love a good maverick.

MBS ([29:50](#)):

For more about John, you can see his website, johnkay.com. Thanks for listening. If you've liked this episode, please pass it on. Just to one person would make a difference. Slowly but surely we're building the reader base. It's very exciting



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