

# Camp\*aign Response

June 11, 2009

**To: June 2009, The McKinsey Quarterly, “Power Curves,” (full text on p.2)**

Thank you for this article. The lessons I take away help to reaffirm the heading of the organization I'm with, a non-profit focused on the correct/natural development of intra-human systems.

Our hypothesis is based on the reality that any living system separated from its natural habitat will experience consequences ranging from disorientation to madness and even death. Consider the fate of tropical plants transferred to colder climates, or mammals held in captivity in the lab or even the older-style zoos.

Oddly, our organization seems to be the only one emphasizing the link between the separation of Homo sapiens from natural creation and the increase in school shootings, suicides, incarcerations, acts of violence, dropouts and classroom chaos. Blame is leveled at schools, parents, teachers, social services, and the NRA – everywhere but the obvious.

Thus, our agency focuses on restoring young people (all of whom are still actively ‘in process’ of basic neurological development until the late teens) to the habitat for which they were designed to attain normal neurobehavioral formation. It's call the Camp\*aign for Kids and makes use of a national network of hundreds of outdoor youth programs (JOEYs) with the capacity to impact the lives of children by the tens of thousands annually. There exists clear link between children who participate in JOEY programs and those who are sound of character, stable and well-adjusted.

The dynamics, the systems, the lessons available to humankind, operating under our very noses every day in natural habitat - must not be ignored. Over and again it has been demonstrated that we do so to our own demise.

I'm reminded of the old adage: “You can't fool Mother Nature!” That's our general conception of natural habitat: kindly, gentle, Mother Nature. A far more accurate description, however, would be that of an omniscient, omnipotent, omnipresent – and yes, truly ominous force - having the power to reduce an entire mountain to dust (eg, Mount St. Helens) by the mere presence of its shadow.

Young people are fond the saying, “Get real!” The erudite among us might want to reflect on that notion. For truly, the answer to life's biggest questions are not out there somewhere. They are supporting our weight; we are standing on them; they are here, in the thick of our reality.

Sincerely,



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Founding Director

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**The Camp\*aign for American Kids:** a little change .... *for a WHOLE life!*

# The McKinsey Quarterly

## ‘Power curves:’ What Natural and Economic Disasters Have in Common

By Michele Zanini  
(Excerpts from June 2009 issue)

Executives, strategists, and economic forecasters, somewhat sheepish after missing the “big one”—last year’s global credit crisis—turned to the lexicon of natural disasters, describing the shock as a tsunami hitting markets and as an earthquake shaking the world economy’s foundations. Shopworn as these metaphors may be, they aptly capture the extreme and unexpected nature of the circumstances. In fact, the parallels between the dynamics and failures of man-made systems, such as the economy or the electricity grid, and similarly complex natural ones are bringing new ideas to economic forecasting, strategic planning, and risk management. This trend may have profound implications for policy makers, economists, and corporate strategists alike.

Scientists, sometimes in cooperation with economists, are taking the lead in a young field that applies complexity theory to economic research, rejecting the traditional view of the economy as a fully transparent, rational system striving toward equilibrium. The geophysics professor and earthquake authority Didier Sornette, for example, leads the Financial Crisis Observatory, in Zurich, which uses concepts and mathematical models that draw on complexity theory and statistical physics to understand financial bubbles and economic crises.

Sornette aims to predict extreme outcomes in complex systems. Many other scientists in the field of complexity theory argue that earthquakes, forest fires, power blackouts, and the like are extremely difficult or even impossible to foresee because they are the products of many interdependent “agents” and cascades of events in inherently unstable systems that generate large variations. One symptom of such a system’s behavior is that the frequency and magnitude of outcomes can be described by a mathematical relationship called a “power law,” characterized by a short “head” of frequently occurring small events, dropping off to a long “tail” of increasingly rare but much larger ones.

The power law phenomenon, explored in recent bestselling books and observed by academics for decades, seems to be applicable to a wide range of currently relevant economic outcomes, including financial crises, industrial production, and corporate bankruptcies. It can even describe how industry structures evolve.

These examples indicate that power law patterns, with their small, frequent outcomes mixed with rare, hard-to-predict extreme ones, exist in many aspects of the economy. This suggests that the economy, like other complex systems characterized by power law behavior, is inherently unstable and prone to occasional huge failures. Intriguing stuff, but how can corporate strategists, economists, and policy makers use it? This is still a young field of research, and the study of power law patterns may be part of the answer, but it isn’t too early to consider and discuss potential implications.

***Make the system the unit of analysis.*** You can’t assess the behavior and performance of a specific agent—for example, a financial-services company—without gauging the behavior and performance of the system in which it is embedded. Proponents of a systemic financial regulator that would span multiple subsectors and geographies are making a similar argument.

***Don't assume stability and do take a long look back.*** Major systemic imbalances and corrections are highly likely, and everyone should be wary of new economic paradigms to the contrary. It's equally important to take a truly historical perspective and consider a system's underlying patterns. If you look at the sharp rise in US corporate profits from 1997 to 2007 in isolation, it might seem like steady, sustainable development that can be justified by pointing to near-term trends, such as globalization and productivity growth. Yet it becomes a striking departure from the historical norm when you look back and find that profits last hit such a lofty percentage of GDP more than 50 years ago and dropped shortly thereafter. Outliers such as these should not be ignored but rather studied closely for clues that might help us understand current and future events.

***Focus on early warning.*** The inherent uncertainty of complex systems makes point predictions unreliable. Much as earthquake scientists are developing tsunami early-warning systems, corporate strategists should monitor potential indications that economic stress might be building in their industries. One indicator could be changes in the exit and entry rates in a particular industry. It's notable, for instance, that specialized US mortgage companies experienced difficulties in late 2006 and that several went bankrupt long before the problems spread to financial institutions with a strong mortgage exposure and then to broader financial institutions and other major companies.

***Build flexible business models.*** Corporate leaders might consider robust business models incorporating some slack and flexibility instead of the models most common today, which aim to optimize value in the most likely future scenario and thus leave companies exposed when conditions change dramatically. The offshoring of production or services to a number of continents and countries, for example, is surely more costly, under stable conditions, than maintaining a single center but would protect a company in the event of an unexpected regional or national economic crisis.

***Learn from scientists studying other complex systems.*** Strategists, economists, and others should consider several other potential parallels. To take one example, what economic-policy lessons could be drawn from the observation that efforts to put out small forest fires quickly may in time lead to large-scale fires, because the rapid mitigation of small ones allows burnable undergrowth to accumulate?