

The Great Simplification

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[00:00:00] Good morning. Have you ever gone to a movie theater and sat through an hour of a two hour movie and thought this is a terrible movie, but then you still stayed the extra hour 'cause you paid for it and already it invested an hour of your time. This is an example of a microeconomic behavioral dynamic called sunk cost, which I think has large implications for us personally and for our culture, in the coming decades.

[00:00:29] And today I want to talk about. Sunk cost, not just as an economic term from textbooks, but as a real force shaping our lives, our homes, our careers, as well as the way civilization reacts to The Great Simplification.

[00:00:57] Okay. Definition first, A sunk cost is any. Past expense, time, money, effort that cannot be recovered. And if. We were totally rational as people or as a species, logic would suggest that sunk costs should be ignored. We cannot regain any of what we've lost by continuing to spend more on the same thing and continuing with the past will only hurt us and make it even harder to change course in the future.

[00:01:28] Instead, we should make decisions based only. On our present situation, the circumstances and the expected future payoffs. Of course, this is easier said than done because humans have memories and emotions and social status, all things that we've tied our sense of identity to. We protect past investments as if they were living things, as if they were literally us.

[00:01:57] So sunk cost shows up in small ways all the time in our society that previously mentioned bad movie. We sit through a huge expensive meal that you keep eating because you paid for it. an expensive jacket that is a size too big, but

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we still wear it because it was pretty expensive. We kind of chuckle at these examples because they're familiar and they also can be seen ultimately as pretty trivial in the scheme of things.

[00:02:28] But if you apply this same economic logic to careers or romantic partners or home mortgages or national infrastructure, and the stakes become quite high as they are now. When it comes to the human predicament, where. In the not too distant future, we're gonna need to completely change course from the way our society works, from infrastructure, from our institutions that we've built.

[00:02:59] I think this sunk cost psychological phenomenon is one of the bigger speed bumps in the way of soft landings for our culture. We have built an entire way of life, roads, grids, suburbs, global supply chains, jobs. Habits, status symbols and identities around an implicit expectation of energy and material throughput.

[00:03:27] And expectations of more in the future. And even when we see the need to change, we hesitate because so much of what we see around us was really hard won, and it reminds us of better times and comfort and stability. We wanna protect it. We feel loyal to the ideals and the life memories, that it represents.

[00:03:55] so let's put a sharper and naturally wider lens on this. Economists talk about sunk cost at the level of economics. Of dollars of capital of asset management, I wanna widen the boundaries. Yes, there are sunk costs in money and time, but also sunk costs in identity, sunk cost in status, and sunk costs in expectations.

[00:04:22] Those last three often matter more for our actions, our happiness and wellbeing than any thing that checks out on a financial spreadsheet. So start with

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identity. What is the first thing you, say when you introduce your yourself to someone new? I'm an airline pilot. I am a professor. I am a contractor with a big truck.

[00:04:45] I am a podcast host. These are not only jobs, but stories that organize our lives. So when the reality around us starts to shift as it is doing now, with increasing rapidity, the cost of basic goods, rising a university degree offering no guarantee of a job or a higher income AI changing the job market, the carbon pulse.

[00:05:13] Probably peaking. the pain and anxiety from these things isn't only economic threatening our jobs, but also feels existential to the very way we define ourselves within the world. When we think about employment, we're not just choosing between. a position, or a company we're choosing between versions of ourselves, which will also define how others see us.

[00:05:42] and this all makes making wiser choices even harder. We also have sunk costs in our built environment. There are detached homes in the suburbs and highways with huge interchanges cutting through our cities and gas stations that we've put on almost every corner and commercial districts designed around driving and big box retail stores.

[00:06:07] All of this took many decades, vast effort and steel and diesel and concrete and finance, and it all continues to work as long as energy is cheap. International peace enables cheap just in time materials. The climate is stable and finance and societal cohesion, are still functional. But as those conditions become less stable, the rational response once this stuff is recognized, would be to stop doubling down on these bets and start changing our course.

[00:06:43] And even as this infrastructure still functions, it requires the people living within it to sink more and more costs. Into expensive cars and fuel, making

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cheaper lower energy options such as biking or walking a more difficult choice, but sunk cost whispers to us, what we already built it all. Look at all the money and materials we use.

[00:07:09] We have to keep building around it and maintaining it and supporting it. There's also some cost in. Our households, we've sunk years into mortgages, school choices for our kids, our social circles, et cetera. And downsizing or relocating might actually make total sense in energy and money terms, but it doesn't pencil out in identity and relationship terms.

[00:07:41] that's why my garage is filled with gear that I might use again. Like my kayak, my girlfriend reminds me I haven't used in eight years. Sunk cost exists in our communities. city budgets assume a certain tax base and service area going forward. Streets and sewers and pipes have to be maintained, whether they're half used or full.

[00:08:05] And the rational response to declining revenues or declining populations. Would be to retire some of this infrastructure and cluster services together and repurpose land, to things that make more sense ahead of The Great Simplification. But sunk cost at the local aggregate level resists all this.

[00:08:26] There's no mayor in this country that wants to be the one who shrunk the city, even if it improves the citizen's quality of life. a local example that comes to mind, in Minneapolis is the recent discussion of what to do with aging below grade Highway 94, which cuts straight through the twin cities of Minneapolis and St.

[00:08:47] Paul. This was a massive project to build out and it cut through many neighborhoods, and it's now at the end of its lifespan. And many of those who would like to see alternatives that are lower energy, advocated for completely filling in this highway and returning it to neighborhood streets that could be

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walkable and bikeable, but the psychological sunk costs of the original project and the habits and the lifestyles that were built around it prevented that option from remotely becoming a reality.

[00:09:19] Finally, there is sunk cost in narratives. We've spent a century or more selling a story that progress is synonymous with more material throughput and individualism. More convenience, more square footage, more speed, more gadgets, more money. That story is a sunk cost as well. There's millions of careers and tons of institutions and a whole entertainment industry reinforcing that story.

[00:09:52] When we push a different story, enoughness and in Sweden, they have a name for it, LA Go. And in France, it's also a growing movement called ate, repair and reuse and maintenance and local resilience. This hall rubs against the deep emotional grooves of a narrative that is sunk, in our psyches.

[00:10:19] Basically, people, maybe many of you watching this can agree with the facts of reality, but simultaneously still feel a loyalty to their own past and the future that they had planned their life around. as a relevant aside, narratives emanate from storytellers, and right now our cultural storytellers, directly or indirectly are economists and techno optimist, who, as the last few years of content on this platform of tried to spell out are largely energy and systems blind.

[00:10:54] So the receding horizons of energetic remoteness in effect the depletion of our fossil bank account. Provides still an additional slant on sunk cost in that we will increasingly not have unlimited do-overs or to use a golf term mulligans. And as such, the new infrastructure that we sink our costs into starting today is a very limited opportunity to build what will be useful for the future.

[00:11:25] And one central thing that economists miss is that large scale game moves. Our finite, there's only so many of them because they're fire based as well as being costly to the planetary health. Will people be able to build a Hoover Dam

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in a hundred years or 200 years? Okay. I wanna share a thought experiment that gets at this grip that our past has on us.

[00:11:53] Imagine that everyone on earth was magically put into a safe temporary stasis for a year. We all wake up healthy at the end. In that year, our houses vanish. Every mansion, condo and apartment is gone. Instead, there are durable weatherproof, canvas tents, same basic footprint, many different colors set up in communities across the country.

[00:12:18] All the essential services still function, water, sanitation, basic power. No one is homeless, no one is singled out. Everyone is living simply, but not equally because there are lots of other aspects to our lives, but at this moment, our, where we sleep, is all the same. What happens next? My bed, of course there's exceptions, but my bed is that many of us would exhale.

[00:12:46] Many of us would feel a sense of relief by letting go of the expectations of the past of the lifestyle we thought we wanted and worked so hard to have, but that wasn't actually as rewarding as we thought. We bought into cultural ideals. We put in the work, we bought all the things we were supposed to want.

[00:13:06] And somehow we're still left feeling dissatisfied and empty, and lonely in many cases. So this tent example relieves us of the pressure of having to choose to let go of that particular sunk cost. There's another pressure valve that might get released from this thought experiment. as well, the pressure to keep up with the Joneses, which I think might be a quarter or a half of the reason for our modern exhibitions of large s and, material grander.

[00:13:38] And that comparison treadmill would quiet down, we'd, look around and realize a lot of our drive for more stuff wasn't about the stuff, it was about continuity and keeping our current life going because it's our, even if we don't

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love it, and about status, keeping up with the neighbors and the colleagues from what culture values.

[00:14:05] So from a biophysical perspective, the tent example reveals how much of our resource demand, which is completely unsustainable, comes from maintaining the inheritance of our past choices. And when that inheritance resets from mansions to tents, in this example, a surprising amount of material desire might reset with it.

[00:14:31] Of course we're not gonna wake up intense. The point is to notice the psychological weight of sunk cost and how much it shapes what we want. It explains a fair part of why transitions feel so hard, even when the new path might be cheaper and cleaner and systemically wiser. We've become attached to our specific arrangements, and in fact, the arrangement actually has become the thing we value.

[00:15:04] Here's a related thought experiment. What are the things you would do if suddenly everyone else did too? I think there's a category of things you would never do, even if everyone else did like eat the. Cat poop. I call them, almond Rochas when my dogs grab them from the cat litter box. Never gonna do that.

[00:15:26] There's a category of things that you would do, even if no one else did, like walking in a gentle rain in an old growth forest or staying up late to see the Aurora Borealis. two things I've done recently. It's the third category. What. You would suddenly start to do or consider doing if everyone else did?

[00:15:49] I think it's this that underpins our current cultural momentum and metabolism, and I think this would be a long list of things. 'cause in my opinion, we humans are way more socially constrained than physically constrained. Once basic needs are met. Actually, I think I'll do a future, frankly, on, on that topic and unpack it more there and leave it here for now.

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[00:16:12] So what do we do and how does this sunk cost dynamic play out in The Great Simplification? here are a few practices, personal and, cultural that I've. Considered this past week. thinking about this topic that might help loosen, sunk costs grip, without pretending that it doesn't exist.

[00:16:35] first hold a write down ritual for identity. So businesses write down assets. When conditions change, they rate off What has become. Dead weight or doesn't work anymore. Individual humans might do the same Name. The roles and purchases that served you well and thank them. Then explicitly lower their book value in your mind.

[00:17:00] separate use from symbolism. Much of our stuff serves a symbol. Competence, belonging, success. Try replacing that symbol with a practice. If the truck tells you that you're handy, but you don't actually use it very often, keep the handiness and sell the truck, then share or rent one as needed.

[00:17:27] Pre-commit to future friendly defaults. Decide ahead of time that your next home will be smaller. Your next appliance, of the repairable type behaviors like this, allow your neocortex today to trump your amygdala of the future. I think about that all the time. build forward compatibility into your new investments if you must spend on flexibility and optionality, local microgrids that can run independently during blackouts and brownouts and invest in, in careers and skills that are easily transferable, as opposed to a hyper specialized industry niche.

[00:18:14] And if you start. Optionality and modularity now, then sunk cost on those things is gonna be less of a problem in the future. Tell new status stories. We are such social creatures and that's not going away. The pursuit of status is part of being human. So shift the status. You know, hold the neighbor who repairs, who mentors, who plants shade trees, who bikes.

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[00:18:41] Hold that neighbor in high regard. And, celebrate and congratulate the local school that chose to renovate an old building instead of building some new shiny fancy one at the edge of town. you know, we need to respect creative downsizing and acknowledge it. Lastly, practice the tent, or cat poop thought Experiment together in a local meeting or a classroom.

[00:19:10] Ask. If we all woke up in sturdy tents, what part of our old lives in this community would we rebuild first, and which parts would we let go? And what would I stop doing if everyone else stopped? And what would I start doing if everyone else started? I think the answers, might surprise you because what they would do is they would surface real wants, beneath inherited wants.

[00:19:37] and that clarity could be something. Quite informative and valuable. I think some people watching this will claim that jettisoning, the sunk costs and the infrastructure and all the things the way that I'm applying is akin to giving up. I would actually argue the opposite. We are now in a risk adjusted asset management for a living civilization phase of our culture.

[00:20:04] We acknowledge what we built. we honor it service, we see what's working and what's not, and then we steward the transition to designs that can actually last in a hotter, less materially intensive, more volatile coming decades and century. Of course the opposite is generally happening. We see states like Florida erase all mentions of climate change from their laws because much of the state will literally be sunk costs in the future.

[00:20:33] And mentioning it will screw with the property values. A closing analogy, picture an old oak tree, and decades ago someone pruned it badly and the tree responded by growing strange. Heavy branches at awkward angles, those branches are sunk costs in wood. If we keep feeding those branches, the tree will eventually tear itself.

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[00:20:57] Apart in a storm and a good arborist will study the structure, make careful cuts, and lighten the weak points, and guide new growth in stronger directions. Yes, the tree will end up being smaller and less majestic than the full canopy we remember, but still beautiful and more stable and capable of another 50 to 80 years of shade.

[00:21:23] We are the arborists now. People listening to this channel, our past decisions are in the grain of our cultural wood, and some of the branches have to go. Some can be braced, but there's new growth as already sprouting in community gardens, in maker spaces, in repair shops and bike lanes, and planting trees and school yards and microgrids and libraries that double as, Social organizing or in other countries as cooling centers. Each of these choices turns down the volume of sunk cost and how it grabs at us, and it increases our optionality for an uncertain future if we can do this in our homes, in our towns and our institutions. If we can learn to say thank you to the past that brought us here, but we're changing course.

[00:22:22] To the ones that can't carry us forward. I think we'll find the transition ahead of us is less about loss and more about us reclaiming agency and maybe just maybe the canvas tent version of us shows up in spirit lighter, less jealous, less stuck in the life we thought we wanted. And more neighborly and free to focus on the parts of the life that actually feel like life.

[00:22:54] And I made this frankly, for the viewers of this channel, but also for myself because speaking about this brings me closer to actually addressing this in my own life. Thanks for listening. next week, the Fifth Law of Thermodynamics, I hope. I hope you're all well.