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Futurist Book Group Discussion

The Wisdom of Crowds

by James Surowiecki
Doubleday, ISBN 0385503865

Synopsis of the November 2004 Futurist Book Group meeting; summarized by Ken Harris

How appropriate that on November 3, a day after the American public rendered collective judgments on who should fill thousands of offices and on hundreds of ballot questions, the chapter-sponsored Futurist Book Group discussed *The Wisdom of Crowds: Why the Many Are Smarter than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations* by James Surowiecki. The author's central idea is that group judgments are better than individual ones. He says that if you put together a big enough and diverse enough group of people and ask them to make decisions affecting matters of general interest, that group's decisions will, over time, be intellectually superior to that of the isolated individual. A "wise crowd" has diversity of opinion; each crowd member has some private (not necessarily expert!) information about the subject. A "wise crowd" has independence; the opinions of crowd members do not determine those of other members. A "wise crowd" has decentralization; each crowd member has local knowledge. Finally a "wise crowd" has a mechanism for aggregating the judgments of its members. Crowds find solutions to three kinds of problems; cognition problems, which have definitive solutions; coordination problems, which require members of a group to figure out how to coordinate their behavior with each other knowing that everyone else is trying to do the same; and cooperation problems, which involve getting self-interested distrustful people to work together.

The author provides many examples of the judgments of crowds. Crowds can give correct answers to questions before expert panels do. The price of Thiokol stock declined after the Challenger space flight disaster; Thiokol O-rings were subsequently determined to be the cause of the crash. Crowds ultimately answer questions that have many potential right answers. At the turn of the 20th century, hundreds of manufacturers were making steam, electric and gasoline-powered cars; by the 1920's only a few makers of gasoline-powered cars remained. Crowds regulate themselves to assure the safety of all; thousands of people walk on New York City streets without bumping into each other. In the financial realm, we do not behave like pure economic men and deal sharply with our customers. Instead, we recognize the long-term benefits of mutual trust and deal fairly with them even though sharp dealing would net us more in a single transaction.

Surowiecki also shows how group decision processes can go awry. Small groups like the space shuttle Columbia Mission Management Team are liable to make bad decisions for several reasons. Group

members have great influence on each other's judgments. Members seek bits of information which confirm their initial hypotheses. They emphasize consensus over dissent and prefer "the illusion of certainty to the reality of doubt." Small groups says Surowiecki can be structured so as to render decisions that are better than any individual group member would make, but this is rarely done. Expert small groups like the Nobel Prize winning economists who ran the Long Term Capital Management Fund are especially likely to make these kinds of strategic errors.

Future Takes readers will find the book provocative. It may also make them better futurists because it provides powerful reinforcement for the notion that you can and should learn about the future in ways besides seeking the opinions of technical subject matter experts. The challenge is to creatively find ways to tap into the collective wisdom of non-experts.