



ARTICLE

# SECOND TRACK TO SUCCESS

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**The increasing complexity of contemporary issues, driven by globalisation and accelerating social and technological change, is outstripping the ability of traditional methods to comprehend, let alone control, them. Entrepreneur and philanthropist Peter Fritz AM explains why the time is right for Second Track solutions.**

## INTRODUCTION

Established in 1997, Global Access Partners has carved its own unique niche in Australian public life by tackling a wide range of social, economic and policy issues through its ground-breaking Second Track process of stakeholder consultation.

While most think tanks content themselves with the 'what' and 'why' of policy discussion, releasing learned but often ignored reports calling on others to take action, the Second Track encourages its participants to tackle the 'how' and 'who' of policy delivery themselves.

A Second Track process invites thought leaders from the public service, industry, academia and civil society to discuss a pertinent issue in a personal capacity, rather than as representatives of particular interests. A series of confidential meetings then allows a free and frank debate to move towards a constructive consensus about the types of action required.

Members then suggest practical remedies and design, undertake and oversee concrete projects or pilots to test their ability to generate tangible outcomes. Once their efficacy is proven on a limited scale, these solutions can be presented



with confidence to public policymakers or larger organisations for wider implementation to benefit more Australians.

The Second Track has its roots in informal, high-level, 'behind the scenes' negotiations between ostensible enemies in international diplomacy. The Camp David Accords<sup>1</sup> in the late 1970s and the Good Friday peace agreement in Northern Ireland in 1998<sup>2</sup> are notable examples of the power of the Second Track to tackle seemingly intractable political problems and generate stunning, seemingly impossible, breakthroughs.

Over time, GAP has incorporated a growing number of insights from behavioural economics to help the Second Track tackle 'wicked problems' in the Australian domestic sphere which traditional First Track approaches have been unable to solve, or even contemplate. An understanding of deep-seated psychology and human motivation, as well as textbook economics, is required to nudge potentially antagonistic stakeholders or defenders of the status quo towards positive change and encourage the adoption of solutions in the wider world.

## THE SECOND TRACK AND BEHAVIOURAL ECONOMICS

Many decision-makers in politics, business and the public service have an educational background in economics. Indeed, this training is seen as an important, if not essential, foundation for making rational and informed decisions to maximise outcomes from resources and public utility. Similarly, these leaders are inevitably steeped in the formal First Track approaches to consultation and decision-making which dominate almost all major organisations.

First Track processes in every context have more in common than a formal procession of committees and briefings. They assume rationality on the part of their recipients and expect the defence of vested interests from their participants. Although more informal ways to socialise and network ideas and decisions have always surrounded them, such measures have rarely been formalised before now.

Philosophers in the 18th and 19th century discussed and accepted the psychological drivers of human activity in commerce as much as any other sphere of life, but the zeal of the new 'science' of economics to gain academic respectability by focusing on equations, rather than the 'crooked timber' of humanity soon excised this 'human factor' from their calculations.

The bedrock assumption of Adam Smith in the 18th century, and Karl Marx in the 19th, is that, for good or ill, consumers and producers make rational decisions to maximise their self-interest. The theoretical models used by these neoclassical economists invariably assume rationality on the part of real-world economic participants and explain deviations from theoretical outcomes in practice as the product of poor information flows or other barriers.

Herbert Simon's concept of 'bounded rationality'<sup>3</sup> argued that information shortages in people's environment hampered their economic decision-making in the 1950s, while in the following decade, Gigerenzer's ideas on 'fast and frugal' heuristics<sup>4</sup> held that limitations to people's ability to process information hamstrung their decision-making. Gigerenzer encouraged the use of simple but intelligent algorithms to make sense of the world, an insight which now informs modern machine learning.

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1. <https://www.jewishvirtuallibrary.org/egypt-israel-camp-david-peace-negotiations>

2. <https://www.cfr.org/background/northern-ireland-peace-process>

3. H.A. Simon, *Models of bounded rationality*, Cambridge, MA: MIT Press, 1982

4. Gigerenzer and Goldstein, 1996

These ideas accepted the basic neoclassical premise that people are rational, and economist Gary S. Becker summarised the tenets of 'rational choice' theory in the 1970s,<sup>5</sup> arguing that people have stable preferences and maximise their gains in a rational manner; just as the textbook diagrams say they should.

However, the 1970s also saw the breakdown of the Keynesian post-war economic consensus into 'stagflation' in many Western democracies. Economists were no longer seen as infallible architects of growth and progress – indeed, as their jargon grew more convoluted to mask their part in the failure of their policies, cynics portrayed them as little more than fluent apologists for their false promises of the past.

A true science will predict the future as well as explain the past, but economics in the real world defies an economist's straight line. Real-world economics is the sum of billions of human interactions, motivated by a host of external, internal and unacknowledged factors, beset by feedback loops and unforeseeable circumstances. Changing anything in the world requires an appreciation of economics – one can usually follow the money to the truth – but economics in turn demands an understanding of humanity.

Prospect theory, developed by Amos Tversky and Daniel Kahneman<sup>6</sup> in 1979, accepts that apparently irrational decisions by consumers and producers are the rule, rather than the exception to it. Understanding people's skewed perception of future benefits can in turn inform the creation of policies which further the goals of policymakers, rather than frustrate them.

Prospect theory notes that people's willingness to take risks depends on the way their choices are framed, for example, as much as the choice itself. People also tend to be more willing to accept a small but certain prize immediately than a chance of a much larger one in the future. Perhaps, this stems from early disappointments in the fairground, but an evolutionary biologist might observe that humans have been primitive hunter gatherers for almost all their species' history and instinctively know that 'a bird in the hand is worth two in the bush'. The invention of agriculture, and with it settlements and civilisation as we know it, remains a very modern invention still to penetrate our deeper psyches.

Just as people would rather hold what they have, than risk it for future gains, so they would prefer to risk losing a larger sum in the future, than give up a smaller sum today. People dislike losses more than they enjoy gains, and this basic instinct helps shape both our economic decision-making and our unwillingness to risk our current circumstances, unless utterly wretched, for a potentially better future.

Tversky and Kahneman's research into 'heuristics and biases' offered traditional economists a rigorous methodological framework to investigate and understand the psychological drivers of economic decision-making. Adding a numerical element helped to build the concept's credibility with economists and the political leaders they advised until its broad acceptance today.

Other economists have built on this work, notably Richard Thaler whose theory of 'mental accounting'<sup>7</sup> argues that people think of value in relative terms, rather than the absolute terms

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5. Becker, 1976

6. Kahneman and Tversky, 1999

7. Kahneman, Knetsch and Thaler, 1991



assumed by classical economics. People also derive satisfaction – transactional utility – from the deal they make to obtain something as well as the thing itself. Understanding this point, that the journey is as enjoyable as the destination for many people, helps explain why so many busy and successful people are willing to offer their valuable time and effort to Second Track activities.

Thaler also argued that people do not properly appreciate the opportunity costs of their actions and spending decisions. The benefits of the alternative things which time and investment could have made are seldom considered when examining the success or failure of a project. A high-profile hospital unit might save 20 lives, for example, and be considered a triumph, but the same money might have saved 2,000 if directed to preventative measures. People are also prone to the 'sunk cost' fallacy which makes them throw good money after bad.

It is important to note that these human instincts are a product of our evolution, rather than our individual intelligence. Educated people may think themselves immune from such careless assumptions or base instincts, but this leaves them even more vulnerable to them – indeed, they will be able to rationalise any absurdity not only to their own satisfaction but also to their company board or electorate.

This theory also explains why people treat money differently depending on how they happened to obtain it, while classical economists would consider all money as merely an identical means of exchange. If we are lucky enough to find \$20 on the street, for example, we are likely to spend it on something frivolous rather than save it, while a large windfall, perhaps from an inheritance, will be seen as 'wealth' rather than a contribution to everyday expenses. This mental accounting also means people are happy

to spend large sums through credit cards while they would think twice before handing out hard cash – one of the main, but never stated reasons why banks and retailers are so keen to encourage painless seamless credit card transactions.

Thaler and Sunstein developed the earlier ideas of Simon and Gigerenzer in their book *Nudge*<sup>8</sup> to argue that people can be encouraged to make better decisions by good information, prompt feedback and a host of small prompts in the right direction. These insights have been seized upon by marketers as well as government agencies, and the most successful examples of them are those which we do not notice at all.

Many major issues, from the individual physical damage caused by smoking or obesity to the existential threat of climate change, can seem too distant, or diffuse, or simply overwhelming for individuals to take action about. People rationalise their decision to take an extra slice of cake, or drive a mile instead of walking, by telling themselves this particular contribution will make almost no difference overall, although the aggregation of these choices over time spells doom for either the individual or the planet. Agencies and activists have always struggled to make people realise the long-term accumulative consequences of their immediate actions, or the power of tiny but concerted changes. Today the gamification of small but positive steps to offer personal feedback and immediate gratification – think of Apple's exercise 'rings' – helps people turn things around.

Dan Ariely's *Predictably Irrational*<sup>9</sup> shows how simple mental tricks can affect people's perception of numbers, data and prices. Offering people an 'anchoring point'<sup>10</sup> for their willingness to pay a particular price, for example, can change how much

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8. Thaler and Sunstein, 2008

9. Ariely, 2008

10. Ariely, Loewenstein and Prelec, 2003

money they would be willing to part with, or shape their guesses around any particular data point. Such tricks are commonly used by marketers to shape people's perception of value, just as the 'zero price effect'<sup>11</sup> exploits people's predilection to over value something that is free.

People value getting a free sweet which otherwise costs 20 cents more than paying 1 cent for a sweet worth 21, despite the monetary difference being the same. Facebook, Google and another internet giants became rampant success stories because they realised that people will happily give up their privacy, data and common sense for the lure of 'free' services.

At the other end of the consumption scale, the higher prices of luxury goods are seen as a mark of quality in themselves and the willingness to pay it a sign of social and self worth, according to the theory of conspicuous consumption. People will gain more satisfaction from a product they spend more on, even if it is identical to a cheaper one, just as they gain more 'benefit' from a placebo than rationality argues they should.

Popular books like *Predictably Irrational* and *Nudge* helped bring the ideas of behavioural economists to marketers and policymakers as well as the general public itself. Interestingly, people's increasing familiarity with the ways in which they are being manipulated does not appear to lessen the effectiveness of such strategies, just as placebos still have a measurable effect even when people know they are taking a sugar pill, rather than proven medicine.

The debunking of the mythical *homo economicus* and acceptance that real-life *homo sapiens* is no more perfect in his economic decision-making than any other aspect of life, has led organisations like GAP

to use these psychological insights to encourage greater cooperation and new ways of thinking among groups of individuals from organisations where First Track procedures still hold sway.

## DUAL-SYSTEM THEORY

Behavioural economics therefore traces the ways in which human decision-making is influenced by people's circumstances, experiences and psychology. It helps explain why people's decisions can vary over time and space and how they are shaped by deep-seated cognitive biases, fleeting emotions, and powerful social influences. Understanding human decision-making in this way creates hope that implacable enemies can find ways to reconcile, and that new processes can find solutions where traditional procedures based on the assumption of relentless rationality and interest protect are doomed to fail.

Kahneman's 'dual-system' theory gained credence in the 1990s and posits a duality in human thinking to further explain our patent lack of rationality. Owing something to Freud's notion of a conscious and unconscious, he argues that people make decisions based on feelings and experience, what he termed System 1, as well as rational analysis, or System 2.

System 1 decision-making tends to be reflexive, emotional and instinctive, while System 2 is more deliberate, cerebral and considered. We like to consider ourselves rational beings, but given our animal natures, our powerful System 1 reactions to visceral issues or major challenges often hold sway.

While Gigerenzer called for rational algorithms to help people operate successfully in environments of limited information, Kahneman argues that our instincts – System 1 – generates many of the cognitive shortcuts – or heuristics – we use in our

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11. Shampanier, Mazar and Ariely, 2007



day-to-day activities. System 2 thinking may try to monitor or challenge such reactions but can be easily fooled or at least influenced by other internal psychological traits or external manipulation.

The 'availability heuristic' means that people's thinking is influenced by easily accessible examples or anecdotes, such as 'fake news' spread by social media on our ubiquitous smart phones. People will dismiss the weight of evidence supporting climate change on cold morning, as it allows them to avoid the issue and take the car for another day, just as they will use the example of 'Uncle Bill' who lived to 80 despite smoking thirty a day to ignore their own need to stop smoking.

The 'representativeness heuristic' tends to distort our calculation of probability and risk, while the 'affect heuristic' encourages us to see issues in terms of black and white, rather than nuanced shades of grey. The 'risks as feelings' model suggests our experience of an event is often shaped by the emotion we felt when making the decision to do it, which helps explain why we still enjoy a rainy holiday.

Salient information – data which people see as relevant to making a decision in a particular situation – can also be manipulated to encourage a desired response. Something with a success rate of 95% will have that fact trumpeted by its sales force, while a rival product would emphasise its 5% failure risk. Salience explains why brands spend vast sums on familiarising the public with their name, in the hope that this recognition will pop into our heads the next time we want to buy a car or breakfast cereal. Salience can also be used to encourage positive behaviours, and placing fruit and water next to a check out, rather than sweets and cola, helps boost the sales of the healthier option.

The power of System 1 thinking in our lives is manifested in people's deep-seated aversion to change. Rather than blame individuals for sloth, timidity or a lack of imagination, the Second Track recognises that habit, repetition and associative learning<sup>12</sup> mean that most people will always instinctively prefer the current situation to an alternative, unless given a strong personal incentive to change. This bias towards the status quo<sup>13</sup> – again, the valuing of the bird in the hand rather than two in the bush – is a constant source of frustration to proponents of reforms or innovations which could benefit all stakeholders, but the Second Track process accepts the need for nudges, incentives and innovations to whet people's appetite for change.

Assuming consent is a big step to securing it, both in finding leaders and participants in Second Track projects and selling services today. Products which have pre-ticked lists of added features – for added cost – will sell more extras than lists where ticks must be added. Even schemes with long-term and potentially life-changing consequences will have a much greater take-up rate if they are opt-out, rather than opt-in by nature. The number of transplant donors can be increased by an order of magnitude overnight, if an opt-out scheme replaces an opt-in card, for example, and the Australian Government's My Health Record follows the same approach to boost acceptance numbers.

People's inherent inertia means that positive changes which people must consciously opt out from will tend to have greater success than well-meaning schemes they must opt into. Although it raises questions about the ethics of customer choice, this psychological reality is the force behind many commercial and government 'nudge' approaches by self-styled 'choice architects'.<sup>14</sup>

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12. Duhigg, 2012

13. Samuelson and Zeckhauser, 1988

14. Goldstein, Johnson, Herrman and Heitmann, 2008

Driven by their System 1 instincts to protect what they have, people tend to value the present over the future and are poor predictors of even their own future experiences, behaviours and perceptions of value, let alone society's. Just as governments are obsessed with the cosmetics of one year's fiscal measures (or at most the short 'forward estimates' period), so individuals will choose a piece of cake today over their waistline – and type 2 diabetes – tomorrow.

One test of childhood maturity is to leave a child with a sweet on a plate, promising an extra sweet if the adult returns to find the first sweet unopened. Few children can resist the immediate temptation, and we change little as we age. Although the ability to defer immediate gratification and plan for the future is a major predictor of eventual outcomes, adults tend to eat their cake straight away, just as human societies have always chosen rampant environmental degradation in pursuit of short-term gain over long-term sustainability.

These theories of time discounting<sup>15</sup> explain why Australia forces its workers to save for their retirements through compulsory superannuation, as most people would not do it voluntarily, and the eternal allure of 'buy now, pay later' deals.

George Loewenstein also observed a diversification bias<sup>16</sup> in buying habits which encourages people to choose a wider variety of products when buying for long-term needs. This means we might be more inclined to buy five different types of drink for a long trip when we would have been better off buying more of our favourite one. Loewenstein also noted people's 'empathy gap' with themselves, meaning that our predictions about our future behaviour

made in a 'cold' state will bear little reaction to our actual behaviour in a 'hot state'.

The rosy picture we have of our future behaviour is a facet of people's general sense of over-optimism about eventual outcomes.<sup>17</sup> This has served humanity well in many ways – we were not deterred from sailing the seas or conquering the sky by shipwrecks or plane crashes – but also means that major projects are continually embarked upon with the same methods as those which have failed before because 'this time it will work' or different people are in charge. We constantly underestimate how long something will take or how much it will cost – be it a car journey to the CBD or a major defence project – despite the crushing weight of past experience. Conversely, we always overestimate how much pleasure – or pain – a future experience will bring us, which is why we keep buying cinema tickets and avoid the dentist.

The Second Track takes account of the internal and external forces shaping people's decision-making and uses them where it can for positive ends. By changing the perceptions of individuals, there is also hope they will change the organisations they help run. Even where organisations are presumed to target rational goals – such as profit maximisation – they are run by people who have the same swirling and opaque impulses as the rest of us.

Second Track thinking helps participants recognise these drivers to widen their own sense of the possible and to design projects which will shape people's behaviour in the wider world. As well as these individual traits, however, it also stresses the power of the group dynamic and the importance of quickly building trust among disparate individuals who have never met before.

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15. Frederick, Loewenstein and O'Donoghue, 2002

16. Read and Loewenstein, 1995

17. Ariely and Loewenstein, 2006



## BUILDING TRUST THROUGH THE SECOND TRACK

Trust is the glue which holds all groups and societies together. We trust that car drivers will stop at a red light. We trust that the bread we buy is made of grain rather than sand. We trust that teachers will look after our children and that water will flow from our taps. This trust has been built up over millennia, but we sometimes forget how hard it has been won and how it must still be enforced by regulation and the threat of punishment. There are no formal sanctions enforcing trust in a Second Track group, which underlines the importance of using group dynamics to build a sense of safety in sharing ideas and common purpose in turning them into reality.<sup>18</sup>

Just as trust had to be slowly and carefully built between suspicious adversaries in Second Track diplomatic negotiations, it must be generated between conflicting stakeholders in a Second Track group to allow mutually beneficial progress to be made. Second Track groups look to build virtuous circles or supportive feedback loops to fast-track this development. While trust is a prerequisite of progress, progress is also a builder of trust, and incremental gain in one will positively affect the other.

People value trust far more than tangible goods. People in relationships care far more about their partner's fidelity than their looks or earning ability, whatever their initial source of attraction, and, as any soldier or Hollywood screenwriter will tell you, people would far rather face a dangerous physical risk in a united team than possible betrayal by a group member.<sup>19</sup>

Human society could not survive if the risk of detection and punishment were all that held us back from exploiting others to benefit ourselves.

A religious, social or personal conscience stops most of us from doing wrong while no-one is watching, although official sanction must remain for those without such scruples. However, people's predilection for rationalising their poor behaviour must also be acknowledged. We judge others on their actions, but ourselves by our intentions, and we are all skilled at telling ourselves that our intentions were good, and that they just happened to result in our gain at someone else's expense.

Behavioural games such as the Prisoners' Dilemma show how fragile systems of mutual cooperation by suspicious individuals can be shattered by isolated instances of individual greed, but also how the mutual exchange of tokens – or experiences and ideas – can help cement ties of trust between very different people. There is a reason why visitors bear gifts in many different cultures.

There is hope that mutual cooperation can become the norm in most situations. Most adults, contrary to appearances on the road at times, retain a strong inbuilt sense of fairness<sup>20</sup> – almost as strong as a child's. Instances of road rage are inevitably sparked by someone breaking a convention of fairness, rather than the letter of the law or the slowness of a traffic flow. This innate sense of fair play encourages use to offer greater reciprocity when we receive a kindness, but also means we leap into disproportionate acts of retribution when we feel slighted. Charities send a cheap pen to a potential donor, hoping for a much larger gift in return, while countries may declare war over a provocation which, in hindsight, seems almost trivial. Britain and Spain fought an eight-year war in the 18th century after commercial and political interests in Britain stirred up outrage over the loss, several years before, of Captain Robert Jenkins' ear.

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18. Zak and Knack, 2001

19. Bohnet, Greig, Herrmann and Zeckhauser, 2008

20. Fehr and Schmidt, 1999



The Second Track relies on the creation of trust between virtual strangers or outright enemies. Second Track group thinking helps these self-selected but disparate individuals find a common sense of purpose by encouraging personal, professional and business bonds beyond any particular outcome-oriented activities. The process also uses people's natural instinct to cleave to social norms by expecting positive and active participation in its groups, creating another positive feedback loop as people see this behaviour from others.

The Second Track brings together 'coalitions of the willing' and proceeds by mobilising support, rather than seeking to persuade or ultimately involve naysayers. Projects will flounder if they fail to generate the required support but will not be pulled because they are blocked by others. This encourages people to pursue ideas in Second Track groups they would not back in other situations, not because the idea was poor, but because the 'usual suspects' would waylay them.

Second Track thinking reduces the ability of vested interests to slow change by blocking or opposing it outright or, more subtly, agreeing to change in principle but quibbling and stalling on every step in practice, so that nothing is achieved. Project coalitions can find new ways to bypass blocking entities, rendering the irrelevant, rather than bowing to their influence.

Social norms are a powerful driver of behaviour, and the Second Track creates its own ethos to help shape its participants' attitude as well as activity. People are more likely to moderate their drinking if they are told they consume more than average, whatever that average may be,<sup>21</sup> and in a similar way, they are motivated to offer more effort – or funding – if they see others in the group doing the same.

Rather than see an issue in First Track terms as a pawn in negotiations between existing and conflicting interests to find a least worst compromise, the Second Track places the issue at the centre of the discussion and offers room for people's community-based instincts to solve the 'tragedy of the commons' through mutually beneficial best-case scenarios.

While self-interest is often used as a motivator for personal involvement in particular projects, it is not the glue which binds a group together. Once the project gains momentum, the network effort of the group and their second- and third-tier social contacts creates access to people with the expertise and decision-making positions to turn ideas into pilots and then pilots into policy. Rather than suffer the destructive feedback loops of mutual distrust and game-playing seen in First Track processes, the Second Tracks positive feedback loops of mutual trust and reciprocity are fuelled by a succession of tangible outcomes rewarding and encouraging further efforts.

The disparate job titles of the high-level individuals involved in Second Track groups are perhaps less important than the more similar personality types of those who respond to the invitation and take an active part. The groups' voluntary nature means they naturally attract people who are motivated by good intentions, and the removal of their formal job title means their powerful System 1 instincts can be given free rein in a safe and mutually supportive environment, even when they must be suppressed in the participant's career.

Rather than remain inhibited by their more hide-bound peers in their professional role, a Second Track group creates a different dynamic to encourage people's better natures as well as

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21. Diclemante et al., 2001



their best efforts. They are not only a safe space to think and play, but to achieve. The tangible benefits which projects may generate for individuals offer an incentive, but such people are invariably already comfortable in their chosen careers. The psychological and social benefits of participation are the real benefits, however much they are couched in conventional financial terms.

## UNDERSTANDING REFORM

Well-intentioned and broadly accepted attempts at reform fail all the time,<sup>22</sup> not because their ideas are flawed, their target groups are apathetic, or their opponents are malevolent. They fail because of the many behavioural traits so deeply ingrained in human nature and society that they are seldom noticed or questioned and thus rarely tackled. Even the behavioural science strategies used by governments around the world have been trivial in their targets to date, while major issues remain ignored or addressed with First Track policies which have always failed in the past and will continue to fail in the future.

Second Track thinking embraces the fact that people tend to live in the moment, rather than think of the future and resist change even when it would benefit them. Projects whose incentives are based on more than classic economic calculations – effective though these can be at times – offer greater chance of success. Second Track groups do not blame people for acting like people always have, or look to change human nature overnight, but use human traits to nudge and encourage change which in turn creates momentum for more progress.

Many seemingly 'irrational' traits in humanity today seem far more rational when viewed in the light of millions of years of simian evolution. Evolutionary

biology explains far more about our behaviour than an accountant's profit and loss account. Our ancient ancestors lived in a world of large predators and so a presupposition that every rustle in the grass betrayed a tiger would ensure survival, even if 99 out of every 100 alarms were false. A blithe dismissal of possible warning signs would look prescient on the other hand, encouraging that individual's false confidence in their abilities right up to the moment they were pounced upon and eaten.

While the odds of being eaten by a large predator are now much slimmer, modern humans have their innate risk aversion fed by a plethora of sensationalist press reports and internet memes which battle for our attention in a crowded marketplace of ideas. Articles which play down risks are unlikely to be read and generate advertising revenues, while breathless warnings of imminent doom are guaranteed more attention.

It is therefore entirely rational for people to use heuristic shortcuts to make sense of the world, rather than attempt to make sense of every stimulus and interaction from first principles. Indeed, such short cuts, at their best, are markers of intelligence, rather than a failure of thinking.

These short cuts, to return to Simon and Gigerenzer, allow people to make use of the limited information they have and the finite processing power of their brains to make sufficiently good choices to handle everything which life throws at them, and even optimise their options in a best-case scenario.

Second Track groups do not dispense with cognitive short cuts but try to replace negative and defensive fears with positive alternatives. The assumption that people can interact as free-thinking individuals, rather than blinkered representatives, unearth

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22. A recent McKinsey report, based on responses from 2,900 public servants in 18 countries, including Australia, claims that as 80% of large-scale efforts to transform public services fail at translating 'bold visions into reality'. – Allas T. et al. (2018), *Delivering for citizens: How to triple the success rate of government transformations*, Report, McKinsey Centre for Government, May 2018

common ethical ground beneath their diverse roles and titles, turn discussion into action and drive tangible change themselves without waiting for government support, are the underlying assumptions of the Second Track process.

While GAP has amassed over 3,500 alumni over its 20 years, its Second Track groups still number around a dozen people. People still cannot manage more than 100 actual relationships at any one time, despite the illusion of infinite connectivity created by social media, and feel most comfortable in groups the size of an extended family or hunter-gatherer group.<sup>23</sup> Groups of this size are large enough to run down a mammoth, storm an enemy machine gun nest, play a game of cricket, or even design a new toothpaste commercial, but small enough to allow individuals to get to know each other and develop the mutual trust which all teamwork relies upon. They are large enough for the required spread of expertise and effort, but small enough for it to be used efficiently to achieve specific goals.

Proven both in international diplomacy and domestic policy discussions, the Second Track is now being analysed and formalised by academics for adoption elsewhere. The Second Track approach is not only applicable to other Western nations but can be used to improve Australia's relations with Pacific leaders, for example, or be employed in other countries, not least in Asia, which Australia is often told to look towards. Behavioural economics developed in the West can overcome the Western assumptions of self-seeking individualism and narrow economic rationalism of Australia itself. More collectivist cultures – whether than collectivism is a product of millennia of culture or decades of political indoctrination – may benefit from a twist which emphasises more individualist approaches. There is

little point in preaching a more 'holistic' approach to issues in cultures built on a holistic perception of reality.

However, it may be hoped, given the optimistic can-do attitude of the Second Track, that such approaches can be developed, as the Second Track itself should be seen as a spectrum of effective alternatives tailored to particular circumstances, rather than a narrowly prescribed set of procedures. Each Second Track group is different, shaped by its participants and subject at hand as well as external circumstances. The Second Track is part of the 'test and learn' approach used ever more widely in both business<sup>24</sup> and the public sector<sup>25</sup> and, like behavioural economics before it, may be about to gain wider academic and political recognition beyond its existing cadre of participants.

Second Track groups have tackled a broad spectrum of issues, just as behavioural economics has been applied at least in theory to a wide range of activities, from commercial marketing to personal health and financial choices. Various governments, notably in the UK in 2010, but also in the USA and recently Australia, have created behavioural insights teams to offer nudges to particular agencies or activities and, just as these could be taken much further, so the Second Track can be employed in a wide range of organisations in both the public and private sector to find new solutions to old problems and encourage innovation and behavioural change.

Like behavioural economics – or any other fashionable phrase – care must be taken not to label any alternative approach beyond formal channels as the Second Track. While the discussions and projects of GAP's Second Track groups are varied, the procedure of three or four 90-minute meetings, supported by the creation of subgroups,

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23. Rode and Wang, 2000

24. Davenport, 2009

25. Haynes, Service, Goldacre and Torgerson, 2012



teleconferences and an administrative secretariat – remains relatively constant. This gives structure to the meetings, builds on experience and offers either an end-date to groups which fail to produce outcomes, or force the creation of projects to turn productive discussions into world changing reality.

However, just as the adoption of the term 'behavioural economics' has allowed the economists which dominate public policymaking to adopt insights and strategies from psychology they would have otherwise dismissed, the acceptance of Second Track methodologies by decision-makers and thought leaders in government, business and the public service should encourage the use of a wider range of ideas and frameworks to improve policy and outcomes. The Second Track should not become a new limiting orthodoxy in itself but underline the need for alternatives to orthodoxy wherever the need appears. The 'test and learn' approach should always add to the 'conceptual toolkit' rather than declare it closed. While undue optimism about the future is a trap the Second Track investigation of complex project management warned against, the future prospects of success for the complex project of the Second Track itself appear bright based on the evidence in action so far.

In common with ideas from behavioural economics, the power of the Second Track can only be judged by its outcomes, just as individual groups and projects must prove their worth to survive and prosper. Despite their flexibility, broad scope and versatility, neither the Second Track or behavioural approaches will be required by every situation. Remembering that every problem looks like a nail to someone armed only with a hammer, proponents of the Second Track must remain open to other approaches, First Track or otherwise, if they are more appropriate.

It must be underlined that the Second Track complements existing approaches as part of the

holistic approach it promotes, rather than seeking to usurp or replace them. This ability to improve the effectiveness of well-established consultation methods, careful deliberation by the public service and ultimately the vibrant chaos of democracy itself should mean established interests see the Second Track as another arrow in their quiver, rather than a gun aimed at their heart. Just as behavioural nudges to reduce smoking must be accompanied by traditional health campaigns, peer pressure and tax rises to support the common aim of cutting smoking, so the Second Track cannot be presented as a panacea, an end in itself, or a cheap replacement for existing strategies. It is a way to make the current system work better, not put it out of business altogether.

Furthermore, just as the ethical issues raised by public agencies surreptitiously 'nudging' citizens into desired behaviours, so the moral issues of the Second Track must be borne in mind alongside its practical advantages. Paternalistic nudges to human behaviour can be misused or misconstrued, just as Second Track discussions of potentially controversial issues can be painted as a conspiracy against transparency and accountability by headline-seeking newspapers or political opponents.

Ultimately though, the choice to participate in Second Track groups remains a personal choice, and their self-supporting nature means they must produce tangible benefits – including paying customers – for projects to succeed. Behavioural nudges, in a similar way, may shape choices, but they cannot mandate them for the individuals concerned. The potentially greater disadvantages of their alternatives should also be factored into calculations. Behavioural nudges are less coercive than mandatory bans, for example, and Second Track approaches are less expensive and must prove their worth more immediately and consistently than institutionalised, self-perpetuating First Track avenues.

## WHY THE TIME IS RIGHT FOR THE SECOND TRACK

The failures of First Track processes are all around us, from the costly wreckage of failed IT projects in government to disastrous delays and budget bloats in Defence. Billions of taxpayer dollars are lavished on health and education, yet rates of chronic disease continue to soar while Australian children lag behind their international peers and a cohort of disadvantaged children is left behind to grow into disenfranchised adults. The increasing complexity of many issues – driven by globalisation and accelerating social and technological change – is outstripping the ability of traditional methods created in the 18th, 19th and early 20th century to comprehend, let alone control, them.

Complex problems can be differentiated from merely complicated ones in the way that an animal can be differentiated from a machine. A machine is a discrete collection of separate parts which can be disassembled and reassembled, while an animal cannot be resuscitated after dissection. Similarly, the human brain remains by far the most complex structure in the universe, despite the power of distributed computing to create the impression of intelligence and even creativity.

The need for a Second Track to generate more innovative policies and carry out trials more quickly is therefore increasing, as complex, environmental, social and political problems are outstripping the capability of traditional First Track procedures to tackle them. However, while it offers opportunity for new voices to join the discussion, the Second Track also relies on First Track participants to refresh their involvement by overcoming their reluctance to risk their 'day job' careers in novel pursuit of public good in their everyday roles.

Each group offers a protected as well as an alternative avenue for information sharing and activity. The groups' independence and confidential

nature of each discussion, held under the Chatham House rule of non-attribution, offer a non-partisan 'safe space' in which long-held opinions and 'war stories' can be aired.

There can be no simple solutions to complex problems, although simple measures can help to tackle aspects of them. The feedback loops, diverse internal drives and external influences which make a problem complex must be understood to comprehend it, and the solutions offered must use a range of insights in turn. While economic issues require an understanding of behavioural economics, and the creation of effective groups needs an understanding of individual motivation and group psychology, so insights from other cutting-edge fields of study can be brought to bear on particular problems. The need to employ 'systems thinking' to understand and therefore tackle the problems generated by complex systems themselves will also be a priority.

Just as viewing people as living humans, rather than economic automatons, provides a more accurate understanding of economic and social activity in the real world, so viewing problems as teeming ecosystems, rather than monolithic entities, aids our ability to understand them. A psychological reluctance to break group norms and disturb the status quo can prevent people 'at the coal face' reporting on problems in major projects at an early stage as much as fears over the loss of career progression or pay.

Similarly, the eradication of a particular species in an ecosystem can have unforeseen but catastrophic effects on the rest of the ecosystem. The fact that tackling one part of a problem can create unforeseen consequences which make the situation far worse must always be remembered, and the multidisciplinary nature of Second Track groups increases the chance that someone will have the experience and expertise to raise objections before

it is too late. Even if ideas create their own problems, the use of small-scale trials helps expose them for remedial action before widespread damage to the public interest – and the idea itself – is caused.

Behavioural economists argue that complexity fosters bias and false assumptions in decision-making, ranging from overconfidence and disjunctive bias<sup>26</sup> fuelled by people's reluctance to share bad news, to the natural risk aversion spooked by the clash of well-rehearsed vested interests. Decision-makers, cognisant of the sorry fate of predecessors blamed for major project failures, also over-compensate for adverse events with low probability but significant consequences by building in too much costly redundancy into project plans.<sup>27</sup>

The Second Track allows individuals in formal leadership roles faced with complex tasks to escape the constraints of slow First Track procedures, limited stakeholder communication and the behaviours expected by well-remunerated roles. Appealing to a sense of crisis in Australia is seldom productive after almost 80 years of peace and 25 years of economic growth in a country with a continent's worth of natural resources. However, the nation's productivity, resilience and dynamism have plenty of room for improvement, and the problems facing the country and the wider world are not going to solve themselves.

The Second Track process has evolved over time in the light of practical experience to become a powerful framework to encourage better cooperation between government, business and academia as well as fresh thinking across diverse topics. While it never seeks to subvert the democratic process or escape due scrutiny, the Second Track offers a productive additional avenue to explore and tackle problems which might otherwise dog Australian citizens, communities and states without hope of resolution.

It is far more common for dynamic new companies to replace traditional market leaders with new models of production and supply, than for old companies to transform themselves to meet new market conditions. The Second Track allows a new approach to policymaking, rather than embark on a lengthy and probably fruitless attempt to remove the cruff from First Track approaches and reinvigorate them. Similarly, just as new 'unicorns' tend to have flat management structures, with a minimum of formal roles, so Second Track groups retain a fluid structure with people creating their own roles, rather than being prescribed them. This flat structure maximises the flow of information on which innovation depends and reduces bureaucracy to an absolute minimum. It encourages frankness and a willingness to see all sides of the debate, allowing partisan actors to enjoy a statesman like role at an age when they still have the power and position to affect policy.

This does not mean that an endless stream of 'blue sky' thinking is accepted uncritically. Indeed, the multidisciplinary nature of Second Track groups allows ideas to be tempered with reality and experience at an early stage. A businessman may know why an academic's solution is not practical, just as a physicist may be able to explain why some 'blue sky' thinking regarding new technologies is mere wishful thinking. The testing of ideas at an early stage prevents the group wandering blind alleys in search of new ideas and ensures that ideas are framed as steps towards practical solutions, rather than theoretical ends in themselves.

While projects which emerge from Second Track processes are often valuable in themselves and lead to wider and faster adoption, the tacit knowledge they bring to light can also help participants and those they advise make more informed and therefore better decisions in their First Track roles. The Second Track's ability to generate

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26. Bazerman and Moore, 2013

27. Massingham, 2010

useful knowledge and spread and embed it within multiple, high-level and highly trusted social structures<sup>28</sup> is remarkable, and all the more important given the nature of many knowledge-based problems in society. A faster, more flexible and more agile world not only needs more agile policy discussion, but more support for the basic structures of government, commerce and civil society which sustain it.

Although Australia's frantic electoral schedule and fractious political scene offers the impression of vitality, policymaking is shaped by the need to reassure vested interests and mobilise voting blocks, rather than challenge them to change. The average minister spends little more than 18 months in any particular office, meaning that long-term plans hold little appeal when they involve current expenditure which will only benefit future officeholders. Simple problems are easily solved, or at least forgotten when they slip from the headlines, meaning that the issues which persist tend to be complex in nature, with a patchwork of competing stakeholders battling to protect their own turf rather than cooperate towards collective solutions.

The Second Track offers a way to cut the Gordian Knot of policy formulation and circumvent the turf wars, entrenched positions and stereotyped thinking which paralyse organisations internally, as well as the relationships between them.

The Second Track offers a way for individual organisations to raise, tackle and solve internal problems across departmental barriers in a safer, quicker and more effective way, as well as national issues. It reduces the risk of exploring and testing radical solutions, be they psychological, structural and technological in nature, while increasing the pace of implementation to match the frantic rate of external economic and social change.

The multidisciplinary nature of the Second Track allows participants to apply knowledge and

techniques learned from peers in the group to other contexts. This will increasingly include the nature of the Second Track itself, as participants of these groups look to create their own Second Track processes in their own departments or organisations. By tapping tacit knowledge, leveraging the power of networks, and encouraging new thinking – not least through the adoption of cutting-edge technology to leapfrog legacy approaches – the Second Track uses methods and methodologies which have proved incredibly successful in the commercial world.

However, the difference is that the Second Track does not undermine existing democratic and public service processes. It is instead a way to complement them, support them, improve their outcomes and help them work better. It does not ask people in First Track roles to abandon them but does help utilise their talents to the full. It offers a stable framework in which otherwise fragile or ad hoc cooperative arrangements can flourish in a growing atmosphere of trust.

The Second Track also builds social capital – the knowledge created from relationships – and turns it into tangible activity and positive change which benefits not only the group's participants, but potentially all Australians. By allowing capable people with no common ties to quickly establish trust and create new social connections, it boosts the network effect of all their existing relationships, bridging different groups and creating a further array of possible projects, linkages and connections.

While the Second Track finds freedom outside the glare of publicity, its multidisciplinary nature mitigates against the secret creation of new, self-serving cartels against the public interest. Rather than carve up existing markets, it looks to create new niches in its commercial offerings or increase the outcomes from current spending.

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28. Swan and Scarbrough, 2005



Small, independent groups of outstanding individuals can achieve outstanding results in pursuit of an agreed goal, but their efforts must be curtailed by common sense and a sense of humility if they are not to lead to disaster. The incorporation and interlinking of social networks they encourage not only increases their power to act but also serves as a brake on unethical activities.

Above all, the Second Track puts its faith in people to solve the problems which humanity has created. Technology is merely a way to put human ingenuity into operation, it is knowledge and creativity embodied in human beings – rather than disembodied books, reports or data systems – which counts. Just as the human factor is vital to understanding economics, and economics is crucial to understanding the world, so the human factor is at the heart of the Second Track itself. The Second Track unleashes and aggregates the tacit knowledge locked in the brains of its participants, as well as the idealism and passion in their hearts.

It is pointless to berate rational individuals in positions of power for a want of courage or imagination when the incentives in their place of work mitigate so strongly against it. Even the discussion of radical options can end a public servant's career, and politicians show little loyalty to officials which step beyond the orthodox. The Second Track offers a proven method to reduce the risks which individuals face when contemplating fresh or radical action. Australia has no shortage of good ideas, or good people to implement them, they merely lack the platform on which to demonstrate them, the platform the Second Track provides.

The Second Track values the future above the present, the new above the old, and the practical above the theoretical. Rather than accepting the dogma of prioritising short-term cashflows (such as the 'forward estimates') over the long-term, it believes that Australia and Australians are worth

investing in. It encourages holistic approaches and system thinking to tackle complex problems, rather than reductionist measures to get through just another day.

The world has faced and overcome greater threats than those looming over it now, and in truth the pace of technological change was faster in the 1910s or 1950s than it is today. The problems we face are both comprehensible and solvable with the right structures in place. As well as helping to solve them, the Second Track offers people well-established in their careers the opportunity to learn from people they would not otherwise meet, tackle issues in ways they would not otherwise contemplate, and gain insights they may well use elsewhere.

## STUDYING THE SECOND TRACK

After two decades of projects encompassing health, education, security, energy, regulation and the environment, GAP has commissioned a number of prominent academics, including Dr Peter Massingham, Director, Centre of Knowledge Management, University of Wollongong, and Ian McAuley, an Independent Public Policy Professional and Lecturer at the University of Canberra, to formulate a general theory of Second Track processes. Catherine Fritz-Kalish joined the research team as a partner investigator.

This theory will be based on twenty years of GAP's operations to both substantiate GAP's claims to its effectiveness and formalise its processes to encourage its adoption by a wider range of government agencies, consultative processes, commercial firms and social entities.

This research will examine the attitudes and assumptions which underpin First Track processes and assess the First Track's ability to handle the complex problems of today. It will then examine the both the structures and interactions of Second Track groups and the behaviours and cognitive processes



of individuals engaged in them. Finally, it will examine the effectiveness and distinctiveness of Second Track decision-making and offer metrics by which these can be assessed in the future.

The study's grounded theory approach<sup>29</sup> will allow the theory to emerge from the research activities surrounding each of the research questions. These structural, social, and cognitive elements will draw upon theory from multiple disciplines including knowledge management, behavioural economics, applied psychology, network analysis, complexity theory, ecology and corporate governance. The danger of creating universal principles on a handful of limited and subjective case studies will also be muted by 'triangulating' the data and seeking corroboration from multiple sources of evidence, ranging from surveys, focus groups, and face-to-face interviews to in-depth content analysis of GAP's many reports.

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