



Monday, January 6, 2014

The Hedgehog and the Fox: A Regulatory Parable

The 7th century BCE Greek lyric poet, Archilochus, observed: "the fox knows many things, but the hedgehog knows one big thing." [i] Twenty-two centuries later, Erasmus transliterated Archilochus's dictum by precisely rendering it into the Latin aphorism: "multa novit vulpes, verum echinus unum magnum." [ii] When it comes to these two ways of thinking and acting, things didn't change much between the 7th century BCE and the 16th century CE, when Erasmus penned his elucidation.

Isaiah Berlin, the British political philosopher, whose life span stretched nearly the whole 20th century, [iii] wrote a well-known essay in 1953, inspired by Archilochus's apothegm. It was entitled "The Hedgehog and the Fox: An Essay on Tolstoy's View of History." [iv]

Of Berlin's essay, Arnold Toynbee, one of the great historians of our time, wrote:

"This fragment of verse by the Greek poet Archilochus describes the central thesis of Isaiah Berlin's masterly essay on Tolstoy, in which he underlines a fundamental distinction between those people (foxes) who are fascinated by the infinite variety of things and those (hedgehogs) who relate everything to a central, all embracing system." [v]

Since its inception, it seemed clear to me that the Consumer Financial Protection Bureau (the "Bureau") is a hedgehog. It tends to view the world through the lens of a single defining idea: consumer financial protection. In accordance with this idea, the Bureau exercises this vision through a single, predominant, and coherent framework of regulations. As a hedgehog, the Bureau stays focused on this one foundational principle and repeatedly, unvaryingly, and rigidly seeks to implement that overriding proposition by applying the same methods and solutions, usually to the exclusion of other possible remedies.

This predilection is not simply a matter of judgment or style. Hedgehogs actually have one grand theory which they seek to extend into many domains, furthering their rule through a fervent belief in the guiding principle. They express their views with confidence; assurance; coolness; obstinacy; unrelenting drive; generally rigid adherence to an impliable mission; unwavering obedience and devotion to a regnant objective; a proclivity to roll results up into an aggregate value; and, a tendency to express themselves with such idiomatic phrases as "mission critical," "the ends justify the means," "by and large," "ball-park figure," "jack-of-all-trades," "grand strategy," "seeing the larger picture," and "the system is the solution." Usually, hedgehogs have a unique vision that gives rise to the ability to notice complex circumstances and discern the underlying patterns. In effect, their reach exceeds their grasp. Examples of hedgehogs are Plato, Dante, Proust and Nietzsche.

Residential lenders and originators (the "RMLOs") are, as a group, foxes - they draw on a wide variety of experiences and do not believe for a second that the world can be boiled down to a single idea, evinced through an all-embracing framework, howsoever cogent it

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appears to be.

Foxes are skeptical about grand theories. They are constrained in their forecasts, and adaptive to actual events. They tend to be more accurate in their predictions than hedgehogs, since they are more agile in assigning probabilities to their expectations. While hedgehogs see the larger picture, thereby missing opportunities, foxes notice each and every pixel contributing to it, and thus quickly find opportunities. Because the fox is acutely aware of each part of the whole, it devises complex strategies to gain an advantage on the hedgehog. Often, it succeeds in its plans due to this advantage.

The kinds of idiomatic expressions that foxes use are "zero in on something," "devil's in the details," "under construction," "mixed feelings," "barking up the wrong tree," "at this stage," "first in class", "trying something new," and "let's get another pair of eyes on this matter." Foxes are centrifugal: they pursue divergent ends and usually possess a sense of reality, which keeps them from designing a logistical framework that purports to contain all possibilities. They instinctively know that complexity does not conduce to a unitary structure. Although foxes may have a broad vision and much agility in complex interactions, often their grasp exceeds their reach. Examples of foxes are Montaigne, Balzac, Goethe and Shakespeare.

Foxes pursue many ends at the same time, with much energy and cunning. They see the world in all its complexity. Hedgehogs simplify a complex world into a basic principle or concept that unifies and guides everything. Foxes tend to be scattered, diffused, and inconsistent. For hedgehogs, the world is reductive; that is, all challenges and dilemmas are reduced to simple hedgehog ideas, and anything that does not correlate to the hedgehog idea is without relevance. Hedgehogs see what is essential and ignore the rest.


Generally, the fox's style is often deprived of rigorous models, specific goals, and global metrics. Foxes learn incrementally, over many iterations of experience. The foxy RMLO has a succinct advantage in swaying the hedgehog Bureau, because it nimbly responds to new information, constantly reconfiguring its market knowledge in reaction to changing circumstances. Such vital information leads to greater performance and the ability to provide solutions that open up new ways for the Bureau to fine tune its single overarching vision.

The Bureau has set compliance effective dates in January 2014 for many new rules that will affect RMLOs. As these rules go into effect, we enter the New Year noting a rather obvious example of the hedgehog's vision and the fox's hastening to fulfill it. Their relationship is bound by the unwavering path of the Bureau and the serpentine path of the RMLO. The Bureau's grand vision presents a broad plan of action that must be implemented. In complying with the Bureau's rules, the RMLO must bestir itself to be particularly attuned to working with the minutiae of details that are a part of the practical experience of actually originating and servicing residential mortgage loans.


In 2014, here are three questions to keep in mind about the relationship between the Bureau and the RMLO:

- 1) How prepared is your financial institution to comply with the Bureau's expectations?**
- 2) Are you ready to implement the Bureau's complex requirements?**
- 3) Does your company act like the visionary hedgehog or the nimble fox?**


Foxes are cunning and have the advantage of knowing how reality works, poking holes in the hedgehog's grand scheme of things, even as the many spindled hedgehog rolls into a big bulky ball. But beware of that ball! The hedgehog and the fox have learned never to underestimate each other. Although the fox is clever, swift, skilled in action, and knows many tricks, the hedgehog knows one big decisive trick: it can roll itself into a ball of sharp and painful spikes!




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[i] Archilochos (c. 680–c. 645 BC) was a Greek lyric poet from the island of Paros in the Archaic period.

[ii] *Adagia*, ("Erasmus") Desiderius Erasmus Roterodamus (October 27, 1466-July 12, 1536), Paris, 1500, from Robert Bland, *Proverbs, Chiefly Taken from the Adagia of Erasmus, with Explanations; and Further Illustrated by Corresponding Examples from the Spanish, Italian, French & English Languages*, Volumes 1-2, London, 1814

[iii] Sir Isaiah Berlin, (June 6, 1909-November 5, 1997), British social and political theorist, philosopher and historian of ideas.

[iv] Berlin, Isaiah, *The Hedgehog and the Fox: An Essay on Tolstoy's View of History*, Weidenfeld & Nicolson, London, 1953.

[v] Idem



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