

## Axiom 7

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[axiom 1 - metcalf's law](#)

[axiom 2 - early entrants win the field](#)

[axiom 3 - significance precedes momentum](#)

[axiom 4 - standards as power](#)

[axiom 5 - producer and consumer utility](#)

[axiom 6 - gatekeepers, intermediaries, and the attention deficit](#)

[axiom 7 - positive feedback loops](#)

[axiom 8 - differentiation of products and pricing](#)

[axiom 9 - switching costs and lock-in](#)

[axiom 10 - free information: cooperation in a competitive environment](#)

[bibliography](#)

### **Axiom 7 - Positive Feedback Loops**

*Virtual communities create increasing rates of return (or positive feedback loops) in three ways:*

*1) when a business incurs large up-front expenditures to develop a new product or service and the incremental cost of producing each incremental unit of the product or service is minimal;2) as businesses move up the learning curve, or experience curve...businesses typically achieve a certain percentage reduction in the cost of making and delivering that product or service to the customer;3) the last kind of increasing returns leverages network effects: the more units of product or service that are deployed, the more valuable each unit becomes. (Hagel and Armstrong, 44)*

*Positive feedback makes the strong get stronger and the weak get weaker, leading to extreme outcomes. (Shapiro and Varian, 175)*

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*In the industrial economy success was self-limiting; it obeyed the law of decreasing returns. In the network economy, success is self-reinforcing; it obeys the law of increasing returns (Kelly, 25).*

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