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Challenging the Neo-liberal Myth

Some of the best and most relevant books on economics, defined as the practical art of managing a local, national or global economy for the long-term benefit of all its members, seem to be written by scientists, not economists. In this issue two books by scientists (in this case a geophysicist and a high-energy physicist) are reviewed. **Davies**, Geoff: [*Economia*](#) has just been published by ABC Books in Australia. **Capra**, Fritjof: [*The Hidden Connections*](#) was first published in 2002. Both are very wide-ranging in their scope and both are very highly recommended. Detailed reviews of each book have been added to the site.

Both reach similar conclusions, but take a different approach to developing their arguments, which makes a comparison between them very interesting.

Davies gives a lot of attention to the mythology on which the currently dominant neo-liberal economics is based and to the impact of different monetary structures on wealth creation and distribution.

Capra builds his argument from theories of the basis of life and consciousness and the emergent properties of succeeding levels of complexity of organization.

Both authors, in different ways, identify the serious mismatch between the explicit goals of organizations and the behaviour of an organic adaptive society and world. Their solutions are complementary, but with substantial differences of emphasis. Both stress that the structural changes required are not particularly radical – what is needed is a huge change in mindset.

There are some signs that this change in mindset is beginning to find its way from an embattled group of scientists and 'green' thinkers into the mainstream of economic and political thought. But there is still a long way to go and the sense of a race against time is very strong. These two books, both moderate in tone but presenting powerful arguments for change, may help to further 'disturb the system' in a useful direction.

At the core of both books is the thesis that the linear, mechanistic, general equilibrium view of the world that is central to the neo-liberal world view is a grossly

inaccurate travesty of the way society and the environment actually behave. In consequence the associated policies, measures of progress and reward systems for productive organizations are fatally flawed. Both authors subscribe to a view of both natural and human (societal) organization as expressions of non-linear dynamics (complex adaptive systems) that are in some sense living or at least life like. Both are concerned to develop an economics and a practice of societal and organizational governance that works *with* rather than *against* these principles of organization.

The drive to a new worldview and a new economics has been vigorously pursued for well over a decade, with its intellectual origins reaching back much further. Many of the relevant authors and books are listed and described in the first four of the topic articles on this site: [Business and the Economy](#), [Ecology and the Environment](#), [Complex Adaptive Systems](#), and [Society and Business](#). Both books reviewed here also contain excellent bibliographies.

The first three chapters of *The Hidden Connections* provide a masterly overview of the origins and implications of modern theories of life, consciousness and social reality. This overview requires close concentration, because it packs a great deal of intellectual content into a few pages.

The rest of the book relies on the intellectual foundation established in these chapters to analyse what is wrong with the present system and to develop ways of bringing it into harmony with wider systems. However, it is not necessary to read the first three chapters to follow the argument in the rest, particularly if you are already familiar with the main concepts.

The balance of the book develops:

- A view of organizations and leadership which is based on the work of Wheatley & Kellner-Rogers (see [A Simpler Way](#)) on the implications of seeing organizations as living systems, and on the implications of recognizing knowledge as a key factor of production;

(continued over)

- an analysis of globalization which builds on **Castells: *The Information Age, Economy, Society and Culture***, a three volume analysis of the fundamental processes underlying globalization, which contains the conclusion, in Capra's words:

"... this new capitalism is profoundly different from the one formed during the Industrial revolution ... It is characterized by three fundamental features; its core economic activities are global; the main sources of productivity and competitiveness are innovation; and it is structured largely around networks of financial flows."

Capra gives an overview of the drivers of these developments – including the growing dominance of the global casino of financial markets – and the impacts on poverty, culture, society and the environment.. It is a useful summary of the issues;

- a devastating detailed case study of the effects of a bio-technology industry driven by profit to misrepresent both the rationale and the effects of genetic engineering;

The final chapter is concerned with 'Changing the Game' which, to Capra, means changing "the basic principle of unfettered capitalism: that money-making should always be valued higher than democracy, environmental protection or any other value". In this he is wrong in an important way. To the true believers, unfettered money-making is *by definition* the best way of achieving these other values, through reliance on the much vaunted and, in today's world at least, entirely fictitious "invisible hand". But whether based on a value or a belief, he is right in arguing that it must change. He also argues, after Castells, that "change flows from the ability to use symbols and cultural codes effectively for framing political discourse". The Internet and spontaneous groupings of concerned citizens can make a difference. Capra argues that a powerful coalition is emerging around three issues:

- the challenge of reshaping the governing rules and institutions of globalization;
- the opposition to genetically modified (GM) foods and promotion of sustainable agriculture; and
- ecodesign – a concerted effort to redesign our cities and technologies to make them ecologically sustainable.

He expands on each of these issues to identify growing points available to meet human needs sustainably.

In *Economia*, Davies uses many of the same building blocks to his argument as Capra – and indeed relies on Capra's earlier work for some aspects of his own case. But his emphasis is different. He devotes more attention to a direct attack on the mythology underlying the neo-liberal 'solution', particularly the elements that allow neo-liberals to believe that application of their dogmas produces 'the greatest good for the greatest number' and the view that our current monetary system is the best and most natural way of meeting the needs of a productive economy. He also makes it clear (which Capra does not) that he is not attacking the principle of a market economy, but does believe (with Hawken and others) that the guiding principles within which a market economy operates require careful attention – and substantial change.

His solution is also set out in greater detail. Key features include the use of:

- incentives and disincentives to guide market participants to act in ways that support societal goals. Basically this means requiring them to be responsible for their social/environmental costs;
- appropriate measures - such as 'triple bottom line' measures and the Genuine Progress Indicator (GPI) or Index of Sustainable Economic Welfare (ISEW) - replacing the blunt and misleading instrument of Gross Domestic Product (GDP);
- a variety of community based money supply instruments to provide support to development at the community level, and also to stabilize international financial markets, which currently act to destabilize productive development;
- explicit goals to replace the currently ill-stated and often conflicting goals of the economy. Current goals effectively amount to maximizing material throughput. The assumption that this will maximize utility is demonstrably false; and
- taxes on waste, not on work. Davies offers the excellent slogan that we should "tax bads and nuisances, not goods and services".

The central message is that a market economy can be a key tool for achieving sustainability and quality of life for all. For it to fill this role, it needs to be embedded in an understanding of the systemic nature of the environment and society - and operate within a design that provides appropriate incentives and disincentives. The actual physical changes that are needed are not all that radical. The radical change needed is in mindset from the currently dominant neo-liberal mythology.

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