

BY THE BESTSELLING AUTHOR OF THEORY U

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LEADING FROM THE EMERGING FUTURE

From
Ego-System
to Eco-System
Economies



**APPLYING THEORY U TO
TRANSFORMING BUSINESS, SOCIETY, AND SELF**

INTRODUCTION

Breathing Life into a Dying System

Finance. Food. Fuel. Water shortage. Resource scarcity. Climate chaos. Mass poverty. Mass migration. Fundamentalism. Terrorism. Financial oligarchies. We have entered an Age of Disruption. Yet the possibility of profound personal, societal, and global renewal has never been more real. *Now* is our time.

Our moment of disruption deals with death and rebirth. What's dying is an old civilization and a mindset of maximum "me"—maximum material consumption, bigger is better, and special-interest-group-driven decision-making that has led us into a state of organized irresponsibility, *collectively creating results that nobody wants*.

What's being born is less clear but in no way less significant. It's something that we can *feel* in many places across Planet Earth. This future is not just about firefighting and tinkering with the surface of structural change. It's not just about replacing one mindset that no longer serves us with another. It's a future that requires us to tap into a deeper level of our humanity, of who we really are and who we want to be as a society. It is a future that we can sense, feel, and actualize by shifting the *inner place* from which we operate. It is a future that in those moments of disruption begins to *presence* itself through us.

This inner shift, from fighting the old to sensing and presencing an emerging future possibility, is at the core of all deep leadership work today. It's a shift that requires us to expand our thinking from the head

to the heart. It is a shift from an *ego*-system awareness that cares about the well-being of oneself to an *eco*-system awareness that cares about the well-being of all, including oneself. When operating with ego-system awareness, we are driven by the concerns and intentions of our *small ego* self. When operating with eco-system awareness, we are driven by the concerns and intentions of our emerging or *essential* self—that is, by a concern that is informed by the well-being of the whole. The prefix *eco*- goes back to the Greek *oikos* and concerns the “whole house.” The word *economy* can be traced back to this same root. Transforming our current ego-system economy into an emerging eco-system economy means reconnecting economic thinking with its real root, which is the well-being of the whole house rather than money-making or the well-being of just a few of its inhabitants. But while the whole house was for the Greeks something very local, today it also concerns the well-being of our global communities and planetary eco-systems.

This shift in awareness from ego-system to eco-system is something that we are approaching and living through not only as groups and organizations, but also as a global community. Pioneering the principles and personal practices that help us to perform this shift may well be one of the most important undertakings of our time.

Crumbling Walls

Numerous books have been written about today’s global crises. Why add another one? We hope to contribute some frameworks, methods, and tools that can help leaders and change-makers understand what is going on and be more effective in helping communities shift from ego-system to eco-system economies.

The world has changed. Walls are crumbling. Tyrants are toppling. The polar caps and glaciers are melting. We have been watching these developments for years. But the two things that appear to be deeply frozen and unchanged are our *collective habits of thought* and the *actions* that they produce and reproduce in our world.

Why is that? Why do we collectively create results that nobody wants? What keeps us locked into old tracks of operating? And what can we do to transform these patterns that keep us firmly in the grip of the past?

The Blind Spot: How to Lead from the Emerging Future

We have written this book for change-makers in all sectors, cultures, and systems, including business, government, civil society, media, academia, and local communities. The book addresses what we believe to be a *blind spot* in global discourse today: how to respond to the current waves of disruptive change from a deep place that connects us to the emerging future rather than by reacting against the patterns of the past, which usually means perpetuating them.

In this book, we argue that responding from the emerging future requires us to shift the inner place from which we operate. It requires us to *suspend* our judgments, *redirect* our attention, *let go* of the past, *lean into the future* that wants to emerge through us, and *let it come*.

The ability to shift from reacting against the past to leaning into and presencing an emerging future is probably the single most important leadership capacity today. It is a capacity that is critical in situations of disruptive change, not only for institutions and systems, but also for teams and individuals. In the old days, we used to learn one profession and practice it throughout our working lives. Today we face rapidly changing environments that increasingly require us to reinvent ourselves. The more dramatic the changes in our environment, the less we can rely on past patterns, and the more we need to learn to pay attention and *tune in* to emerging future opportunities.

This book is a quest to answer three interrelated questions:

1. In the face of disruption, how do we lead from the *emerging future*?
2. What *evolutionary economic framework* can guide our journey forward?
3. What *strategies* can help us to function as vehicles for shifting the whole?

Let's start by taking a quick tour through what we call the iceberg model of the current system. Why an iceberg? Because the name implies that, beneath the visible level of events and crises, there are underlying structures, mental models, and sources that are responsible for creating

them. If ignored, they will keep us locked into reenacting the same old patterns time and again.

Progressing through the levels of the iceberg, from surface to depth, will illuminate several blind spots that, if attended to, can help us rebuild our economy and society to be more intentional, inclusive, and inspired.

Symptoms: Landscape of Pathologies

Like the tip of an iceberg—the 10 percent that is visible above the waterline—the symptoms of our current situation are the visible and explicit parts of our current reality. This symptoms level is a whole landscape of issues and pathologies that constitute three “divides”: what we call the *ecological divide*, the *social divide*, and the *spiritual-cultural divide*.

THE ECOLOGICAL DIVIDE

We are depleting and degrading our natural resources on a massive scale, using up more nonrenewable precious resources every year. Although we have only one Planet Earth, we leave an ecological footprint of 1.5 planets; that is, we are currently using 50 percent more resources than our planet can regenerate to meet our current consumption needs. As a consequence, one-third of our agricultural land has disappeared over the past forty years. Rapidly falling water tables are taking us on a path toward food riots. Food prices are expected to double by 2030.

THE SOCIAL DIVIDE

Two and a half billion people on our planet subsist on less than US\$2 per day. Although there have been many successful attempts to lift people out of poverty, this number has not changed much over the past several decades. In addition, we see an increasing polarization in society in which, in the case of the United States, the top 1 percent has a greater collective worth than the entire bottom 90 percent.¹

THE SPIRITUAL-CULTURAL DIVIDE

While the ecological divide is based on a disconnect between self and nature, and the social divide on a disconnect between self and other, the spiritual-cultural divide reflects a disconnect between self and Self—

that is, between one's current "self" and the emerging future "Self" that represents one's greatest potential. This divide is manifest in rapidly growing figures on burnout and depression, which represent the growing gap between our actions and who we really are. According to the World Health Organization (WHO), in 2000 more than twice as many people died from suicide as died in wars.²

What, if anything, have we as a society learned from addressing these issues over the past hundred years?

In the twentieth century we created ministries and UN agencies to deal with each of these divides. In addition, we created dedicated non-governmental organizations (NGOs) to address single issues; in academia we created dedicated university departments, scholarly journals, and professional career paths to combat each symptom. Today we realize that this silo-type approach—dealing with *one symptom cluster at a time*—isn't working. On the contrary, it seems to be part of the problem.

We seem to have a blind spot that prevents us from seeing the rest of the iceberg, the deep systemic structures below the waterline.

Structures: Systemic Disconnects That Give Rise to Symptoms

Today's system does exactly what it is designed to do. But it is a system that features a number of significant structural disconnects. Here are some of them:

1. *A disconnect between the financial and the real economy.* The total value of foreign exchange transactions worldwide amounted to US\$1.5 quadrillion (1 quadrillion is 1,000 trillion) in 2010, whereas the total value of international trade was only US\$20 trillion, or less than 1.4 percent of all foreign exchange transactions. Says Lawrence Lau, professor of economic development, emeritus, Stanford University, and chairman, CIC International (Hong Kong): "The overwhelming majority of foreign exchange transactions are thus purely speculative, in effect, pure gambles, and serve no useful social purposes."³ This disconnect between the financial and the real economy produces the

financial bubbles that keep plaguing the global economy: the Latin American debt crisis (1980s); the Asian financial crisis (1997); the dot-com bubble (2000); and the US housing crisis (2006–07), which was followed by the world financial crisis (2007–09) and the euro crisis (2010–). Such financial bubbles destabilize the real economy instead of serving it.

2. *A disconnect between the infinite growth imperative and the finite resources of Planet Earth.* The disconnect between the infinite growth that current economic logic demands and the finite resources of Planet Earth has produced a massive bubble: The overuse of scarce resources such as water and soil has led to the loss of a third of our agricultural land globally in roughly one generation's time.
3. *A disconnect between the Haves and the Have Nots.* This disconnect has given rise to an extreme inequity bubble in which the richest 1 percent of people in the world (adults with incomes over US\$ 500,000) own 40 percent of the world's wealth while half of the world's population (50 percent) own just 1 percent of the world's household wealth.⁴ The increasing polarization of wealth and income undermines equal access to opportunity and thus erodes basic human rights in society today.
4. *A disconnect between institutional leadership and people.* This disconnect results in a leadership void that shows up in the widely shared sense that we are collectively creating results that nobody wants. This collective condition of felt helplessness and disempowerment is a hallmark of our systemwide leadership void (or bubble) today.
5. *A disconnect between gross domestic product (GDP) and well-being.* This disconnect shows up as a bubble of material consumption that does not advance actual well-being. Research on developed countries shows that, contrary to popular belief, higher GDP and higher material consumption do not translate into more well-being, as we will discuss in more detail below.
6. *A disconnect between governance and the voiceless in our systems.* The disconnect between current governance mechanisms and the voices of the underserved is a governance failure in which people are affected by regimes that they are completely unable to influence or

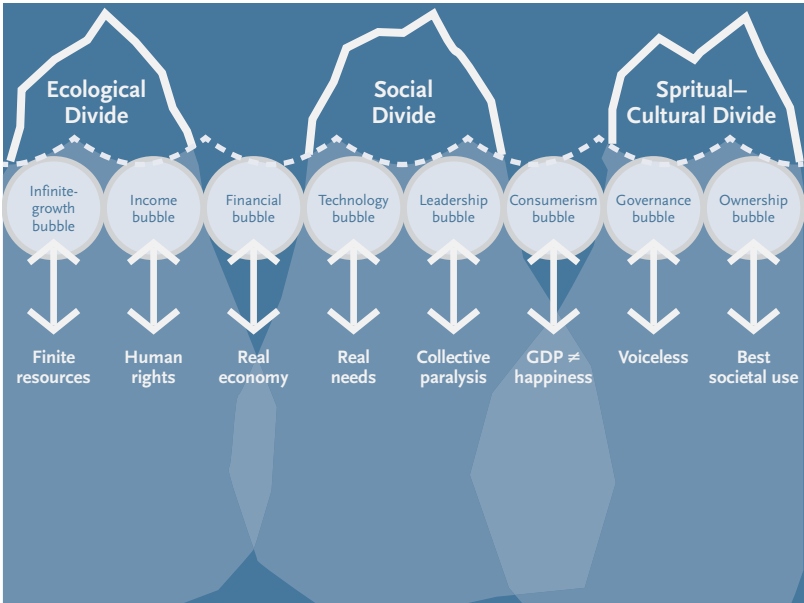


FIGURE 1. The iceberg model: a surface of symptoms and structural disconnects (bubbles) below it.

change. For example, many farmers in India have lost ownership of their seeds to Monsanto.

7. A *disconnect between* actual ownership forms *and* best societal use of property. The disconnect between actual ownership and best societal benefit results in a bubble in which state and private property, despite their merits, allow the overuse and mismanagement of the ecological and social commons in epic proportion.
8. A *disconnect between* technology *and* real societal needs. This disconnect generates technology bubbles that serve the well-being of a few in already overserved markets. For example, most R&D spending by the pharmaceutical industry caters to markets at the top while largely ignoring the needs at the base of the socioeconomic pyramid.

These bubbles and structural disconnects produce systems that are designed to *not* learn. The systems operate through *delayed* or *broken feedback loops* that prevent decision-makers from experiencing and personally feeling the impact of their decisions. In our current complex

global systems, decision-makers often affect large groups of people with their actions but never see, feel, or become aware of their actions' consequences. Without feedback, or with delayed feedback, there is no learning. As a result, institutions tend to change too little and too late.⁵

POSITIVE EXTERNALITIES FLOW TO THE TOP, NEGATIVE EXTERNALITIES TO THE POOR

A second feature that the bubbles share concerns externalities. *Externality* is a term that is used in economics to designate unintended side effects on third parties or costs that are not accounted for in prices. Externalities can be positive (benefits) or negative (costs). For example, I may enjoy driving my car, but, unlike the cyclist behind me, I rarely notice the negative externality—air pollution—that I cause.

In today's society, positive externalities tend to flow to the top, while negative externalities tend to flow to the bottom of the socioeconomic pyramid. We see this both in organizations and in societies. Globally, for centuries, raw materials have flowed from the global South to the global North, from developing to developed countries, while toxic waste and toxic products have flowed the other way. All these flows are rationalized by economic theories such as comparative cost advantage. But these theories don't include the impact of externalities.

Whenever ecological issues and environmental disasters strike, the poor pay the highest price (e.g., after Hurricane Katrina in the United States and after the tsunamis of 2004 and 2011 in Indonesia and Japan). When food prices begin to soar as result of manmade environmental problems, the 2.5 billion people who live below the poverty line suffer the most.

In the United States, the 2008 economic meltdown brought the most suffering to low- and middle-income families. Today we know that toxic home mortgages were specifically targeted to the poor by the financial industry. While Wall Street profits have rebounded, the less-privileged have continued to lose: First they lost jobs; then they lost funding for teachers, school activities and meals, and libraries; then they lost heating assistance and medical services.

Yet those whose collective behavior created the crisis, the Wall Street

bankers, are by and large back to enjoying their bonus packages. In fact, their leverage for extracting even more government subsidies in the future increased after 2008. In 1995, the six largest bank holding companies in the United States held combined assets valued at less than 17.1 percent of US GDP.⁶ Thirteen years later, on the eve of the financial crisis in 2008, these organizations' assets were 55 percent of GDP. By 2010, it had only gotten worse, with their combined assets reaching 64 percent of GDP. That is, the ability of the six largest Wall Street banks to take excessive risk in order to privatize profits and socialize losses by forcing a taxpayer-funded bailout has gone up, not down.⁷

MONEY FLOWS THE WRONG WAY

A third feature concerns the flow of money. In order to achieve *economies of scale* and minimize lending risks, banks and financial institutions organize around financing large projects for well-known clients with sufficient security who use existing business models and known technologies in familiar markets.

Smaller projects that involve new entrepreneurs without track records or security require banks to make individualized loan decisions, which are riskier and more expensive. Decisions on whether to fund innovations in renewable energy, for example, require expertise that traditional loan officers usually do not have. As a result, entrepreneurs and companies that are small or new, or that are venturing into new sectors or sectors with traditionally small returns, have the most restricted access to capital and pay a higher price.

Thus, in an externality-unaware financial system like the one we have today, money flows the wrong way: Those who are innovative, step into new ideas, or even work intentionally with lower returns in order to create societal benefits pay the highest prices, while those who may already have more than they really need pay the lowest prices.

These are all examples of the same fundamental issue: The economic playing field is tilted to favor big players that privatize profits at the top and socialize losses. Which raises a question: Why is our economic playing field tilted in this way? This brings us to the fourth common feature: the role of special-interest groups.

GOVERNANCE IS DRIVEN BY SPECIAL-INTEREST GROUPS

Many organized interest groups, including the banking, agriculture, nuclear, oil, and pharmaceutical industries, command a disproportionate influence on the very regulatory bodies that were originally designed to supervise them. At issue is not only the vast amount of money and lobbying power that these groups command, but also the revolving-door practice that is pervasive in Washington, DC, and other capitals worldwide.

To give one of many possible examples, on November 5, 2008, the day after Barack Obama was elected president, Michael Froman of Citigroup, an influential Obama fundraiser during the election campaign, was appointed to assemble the Obama administration's economic team. While working in this role, Froman remained an employee of Citigroup for two more months, even as he helped appoint the very people who would shape the future of his own firm in the following weeks and months.⁸ The result is history.

Likewise, many of the same people responsible for the deregulation of the financial industry during the Clinton administration returned to key government positions in the Obama administration, where they devised massive bailout programs for their former colleagues at their too-big-to-fail banks.

This pattern is repeated in the food industry. A revolving door between Monsanto, the agribusiness giant, and its two regulating government agencies, the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA), hinders effective oversight. The potential damage from this alliance is no less catastrophic than the alliances in the financial sector.

In all these cases, the problem arises when the political process is tilted by an uneven playing field and a lack of transparency. As we know from the economist Mancur Olson's work on collective action, groups with only a few members can organize themselves easily and speak with a common voice.⁹ Obvious examples are the big players in finance, food, health, and energy. Larger and more diverse groups usually are not able to organize as easily and consequently have more difficulty making their members' interests heard. Ordinary taxpayers, who pay for the bailouts, and future generations are two good examples.

These structural issues matter a lot and need to be fixed. But they

may not be the root cause of the landscape of pathologies discussed above. So, given all these bubbles and disconnects, what is the *force motrice* that keeps us reenacting these highly dysfunctional structures?

Mental Models That Give Rise to Systemic Bubbles and Disconnects

This force is called *thinking*. As Albert Einstein put it so eloquently: “We cannot solve problems with the same kind of thinking that created them.”¹⁰ Thinking creates the world. The structures of yesterday’s economic thought manifest in the structures of today’s institutions and actions. If we want to upgrade our global economic operating system, we need to *start* by updating the thinking that underlies it; we need to update the essence of *economic logic and thought*.

Using the iceberg model that guides the journey of this book, we refer to this deeper layer as “thinking,” “mental models,” or paradigms of economic thought.¹¹ Outmoded mental models have produced an *intellectual bankruptcy*: the bankruptcy of mainstream economic thought.

Ego-System Awareness versus Eco-System Reality

Today’s thinking shapes how we enact tomorrow’s reality. This link between thought and social reality creation is nowhere more visible than in our economy.

The eight disconnects that we listed above represent a decoupling of two worlds: a decoupling of the structure of *societal reality* from the structure of *economic thought*. We could also say that they’re a decoupling of the structures of eco-system reality from the structures of ego-system awareness. Today’s economic reality is embedded in a global eco-system of environmental, social, political, and cultural contexts that are highly intertwined and that evolve in uncertain, complex, and volatile ways. These conditions require a mindset on the part of decision-makers that is more open, attentive, adaptive, and tuned in to emerging changes.

Instead, what we often observe in current reality is a disconnect between reality and awareness; that is, between an eco-system-centric global economy and an ego-system-centric awareness of institutional

decision-makers. The result is a war of the parts against the whole. We see the impact of this disconnect, for example, in the dramatic over-use of scarce resources, which is often spoken of as “the tragedy of the commons.”¹²

Bridging the gap between eco-system reality and ego-system awareness is the main challenge of leadership today. Decision-makers across the institutions of a system have to go on a *joint journey* from seeing only their own viewpoint (ego-awareness) to experiencing the system from the perspective of the other players, particularly those who are most marginalized. The goal must be to co-sense, co-inspire, and co-create an emerging future for their system that values the well-being of all rather than just a few.

This is not just an ethical but an *economic* imperative. Let’s consider the euro crisis, which emerged after the 2008 global financial crisis, as a case in point. The euro crisis is to no small degree a function of Germany and some other countries reverting to a nation-state-centered way of seeing reality. What made the EU such an unlikely success story after World War II? A Franco-German accord with other core EU countries in which all shared an intention to create a future that was different from the past. With the memories of the war still lingering, West Germany was willing to pay a bit more than a narrow state-centric interest would have required. The resulting EU process has largely been a success. The EU today has, contrary to conventional wisdom in the United States, the world’s largest economy, with a GDP of US\$17.6 billion in 2011 (followed by the United States at US\$15.1 billion and China at US\$7.3 billion) that has benefited most of the 500 million citizens in its 27 member states.

The success of the EU suggests that good economics and good politics require defining one’s self-interest broadly (eco-centrally), not narrowly (ego-centrally), so that it is aligned with the well-being of others and the whole. Sadly, the emerging failures of the EU prove the same point. Bad economics and bad politics result from defining one’s self-interest too narrowly. In the euro crisis, we can see in a nutshell how a narrowly defined self-interest translates into poor economic and political decision-making. In September 2008, after the collapse of Lehman Brothers, the German finance minister claimed in front of the parliament that this was an American problem, not a European or

German problem.¹³ The second and bigger error of judgment happened on October 12, 2008, when the German chancellor and finance minister met with their EU colleagues in Paris at the first crisis summit and decided that each country would develop its own rescue mechanism rather than a joint European mechanism that could have taken care of all of them.¹⁴

What is missing from how this story unfolded is a moment of *reflective disruption* in which all players would have come together, looked in the mirror, and realized what they were doing to themselves. They could have thrown out their nation-centric ego-view and replaced it with a mindset that could deal with the complex global eco-system realities they're up against now. This second view is what we call eco-system awareness, because it values and accounts for the well-being of others and the well-being of the whole.

A Journey from Ego-System to Eco-System Awareness

The surface landscape of symptoms and the eight underlying structural disconnects arise from the same deep source: a framework of economic thought that is stuck in the past. The framework we use today may have been appropriate in earlier times, but it is no longer in touch with the complex challenges and demands of our time.

How did we get here? What does the evolution of economic thought over time look like? What are the different frameworks of economic thought that are available to us now, and what might be next?

Figure 2 shows four stages, logics, and paradigms of economic thought, each of which devises a different solution to the principal problem facing each modern economy: How do you coordinate collaboration processes that are characterized by a division of labor? They are as follows:

- 1.o: The state-centric model, characterized by coordination through hierarchy and control in a single-sector society.
- 2.o: The free-market model, characterized by the rise of a second (private) sector and coordinated through the mechanisms of market and competition.

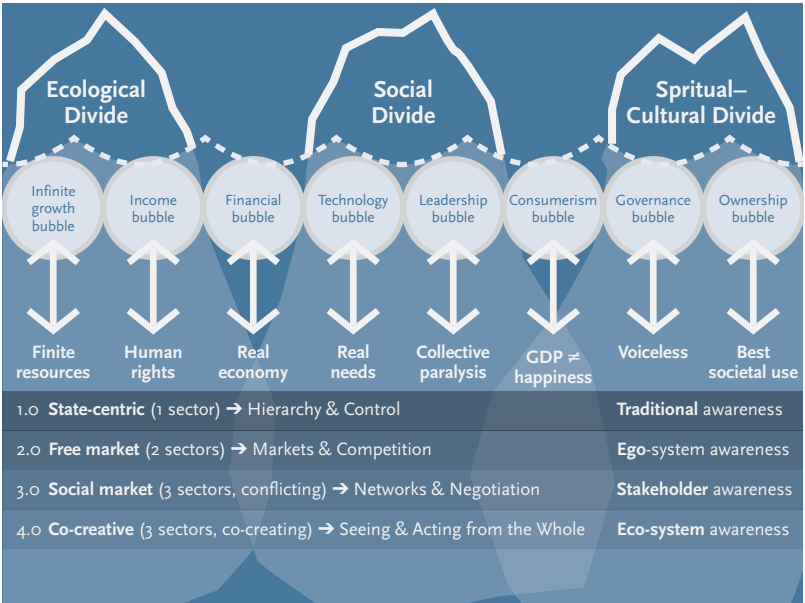


FIGURE 2. The iceberg model: symptoms, structures, thought, and sources.

3.0: The social-market model, characterized by the rise of a third (NGO) sector and by negotiated coordination among organized interest groups.

4.0: The co-creative eco-system model, characterized by the rise of a fourth sector that creates platforms and holds the space for cross-sector innovation that engages stakeholders from all sectors.

As in evolutionary stages, the earlier stages continue to exist at the later stages: That is, all four coordination mechanisms are complementary; they are not substitutes for one another.

Today, though, we are having the wrong conversation. Economic and political discourse is often framed as a choice between more privatization, deregulation, and slashing of the welfare state and more regulation, government, and stimulus-based deficit spending. This debate reflects the world of the twentieth century, not the world of the twenty-first century.

To paraphrase the quote above attributed to Einstein, we cannot solve the current 4.0 type of eco-system problems with the 2.0 and 3.0 ego-

system thinking that created them. What we need is to co-create a new economic framework that helps us to rethink and evolve all the core concepts of economics from an awareness-based view. We also need to link this framework to practical methods and tools for addressing challenges in our current reality.

Are you thinking now that this discussion of economic thought is getting a little boring? Well, it's exactly *that* pattern of thinking that keeps us from seeing past our blind spot. *The blind spot of our time is that we take mainstream economic thought for granted, as if it were a natural law.* But in reality, all so-called economic laws begin to melt and morph into something else the moment you begin to change the most important variable: the *quality of awareness* of the participants in a system. Who are these participants? They include leaders and change-makers in business, government, and civil society, as well as consumers, investors, and communities. They include you.

In chapter 3, we reconstruct the evolution of economic logic and thought as the deeper grammar that underlies the evolution of the economy. And we show that the essence of this developmental path can be traced as an evolution of human *consciousness*.

The frameworks of economic thought articulate four different economic logics or paradigms that give rise to four different operating systems. The 1.0 Economic Operating System is based on traditional awareness and hierarchical thinking. The 2.0 Economic Operating System is based on ego-system awareness and me-centric thinking (in neoclassical economics, this “me” is referred to as *homo oeconomicus*, an idea of a human being who acts only by maximizing self-interest). The 3.0 Economic Operating System is based on institutional stakeholder awareness and some negotiated coalitions that internalize concern for the well-being of key stakeholders. For example, corporations negotiate and partner with labor unions. The emerging 4.0 Economic Operating System (discussed in detail later) is based on eco-system awareness—that is, an awareness that values the well-being of all others and serves the well-being of the whole.

As the *laws* of economics morph along with the level of *awareness* that the agents in a system are operating from, we need to create a new economic science that accounts for the entire matrix (1.0 to 4.0) rather

than limiting the inquiry to just one of its rows or paradigms (chapter 3 provides a detailed discussion). What we need today, to paraphrase the psychologist Eleanor Rosch, is an economic science that is performed with the mind of wisdom.¹⁵ We need an economic science that describes and follows the journey from 1.0 to 4.0 on all levels, for individuals and teams as well as for institutions and systems.

Sources That Give Rise to Mental Models, Structures, and Symptoms

The journey from ego-system to eco-system awareness, or from “me” to “we,” has three dimensions: (1) better relating to *others*; (2) better relating to the *whole* system; and (3) better relating to *oneself*. These three dimensions require participants to explore the edges of the system and the self.

Exploring the edges of the system means going to the place of most potential: for example, walking in the shoes of some of the most marginalized people, such as residents of remote villages in Africa or immigrants in a developed country (see chapter 7). It is our experience that the new in any system shows up first at the periphery. That’s where you see the problems and the opportunities as if through a magnifying glass. Diverse stakeholder groups can use their shared experiences to become aware, to make sense of what is actually going on.

Exploring the edges of the self means shifting the inner place from which one operates. It means opening the mind, the heart, and the will. It means suspending old habits of judgment. It means empathizing. And it means letting go of what wants to die in oneself and letting come what is waiting to be born.

Over the past eighteen years, we have been working on creating environments for these types of outward and inward journeys across organizations, systems, sectors, and cultures. What is so surprising is how reliably this journey to the periphery of a system works. It’s not easy. It’s hard work. And you cannot engineer it in the old way, which is by controlling it. But you can create conditions that allow a deeper alchemy to work—that is, conditions that help leaders in a system to broaden and deepen their view of the system from ego to eco, from “me” to “we.”

A new type of awareness-based collective action is emerging from this line of experimentation and work. It doesn't use the old collectivization model in which the common DNA is imposed from above, the old top-down pyramid that we all know only too well. In this more horizontal model, each individual node is mindful of the well-being of others. It is this shared awareness that allows for fast, flexible, and fluid coordination and decision-making that are far more adaptive and co-creative than any other organizational model currently being used in major societal institutions.

The Journey to U

We arrived in the United States in 1995 to work with the MIT Center for Organizational Learning, which had been founded by Peter Senge and his colleagues, together with a group of global companies, in the early 1990s. Upon arrival, we learned that Senge and his organization were part of the same MIT System Dynamics group that had produced the influential *Limits to Growth* study, which shaped our thinking earlier and helped to spark the worldwide environmental movement in the 1970s.¹⁶

In his work, Senge kept noticing how well developed the skills of the system dynamics PhD students were in analyzing the broken systems of our current society. But their practical impact on changing any of these systems was almost zero. Based on that puzzling observation, Senge became interested in the behavioral dimension of change.

Senge's book *The Fifth Discipline* is based on blending (1) system dynamics, (2) organizational change, and (3) the creative processes. This synthesis resulted in the concept for the MIT Center for Organizational Learning and in an initial set of methods and tools developed by this small group of action researchers at MIT.

After a few years, Senge and his colleagues noticed that the tools worked very well in the hands of some practitioners, but that in other cases the application of the same tools resulted in no significant change. Why are the same tools effective in the hands of some and ineffective in the hands of others? We have investigated this question in our research, which has included 150 interviews with leaders, entrepreneurs, and innovators (many of which were conducted by Otto and our colleague

Joseph Jaworski), as well as active participation in change processes in companies, governments, and communities.¹⁷ The result of this eighteen years of work is a 2.0 framework for learning, leading, innovating, and profound systemic renewal. We call this framework Theory U for the shape of the drawing used to depict it. It has been fully described in Otto's book *Theory U* and in the book *Presence*, which Otto co-authored with Senge, Jaworski, and Betty Sue Flowers.¹⁸

The gist of this framework is simple: *The quality of results produced by any system depends on the quality of awareness from which people in the system operate.* The formula for a successful change process is not “form follows function,” but “form follows consciousness.” The structure of awareness and attention determines the pathway along which a situation unfolds.

Shifting the Inner Place from Which We Operate

We stumbled onto this deep territory of leadership research when we interviewed Bill O'Brien, the late CEO of Hanover Insurance. Summarizing his most important insights from leading transformational change in his own company, O'Brien said: “The success of an intervention depends on the *interior condition* of the intervener.”¹⁹ We might say it this way: The success of our actions as change-makers does not depend on *what* we do or *how* we do it, but on the *inner place* from which we operate (see figure 3).

When I (Otto) first heard O'Brien say that, I thought, “Boy, what do I really know about this inner place? I know nothing! Do we have *one* or *several* or an *infinite number* of these places?” I didn't know, because that place is in the blind spot of our everyday experience. We can observe *what* we do and *how* we do it. But the quality of the source (or inner place) from which we operate in “the Now” tends to be outside the range of our normal observation, attention, and awareness.

This puzzling insight into the deeper *source* level of social reality creation set us on an intriguing path of inquiring about and integrating recent findings in leadership, management, economics, neuroscience, contemplative practice, and complexity research. The essence of our

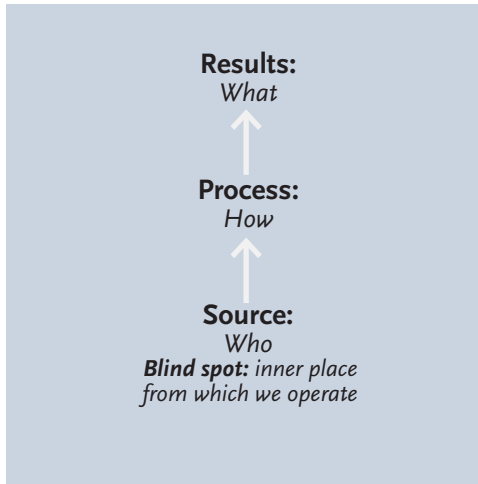


FIGURE 3. The blind spot of leadership.

view concerns the power of attention: We cannot transform the behavior of systems unless we transform the quality of attention that people apply to their actions within those systems, both individually and collectively.

Leading from the Emerging Future

In exploring this territory more deeply, we realized that most of the existing learning methodologies relied on learning from the past, while most of the real leadership challenges in organizations seemed to require something quite different: letting go of the past in order to connect with and learn from emerging future possibilities.

We realized that this second type of learning—learning from the emerging future—not only had no methodology, but also had no real name. And yet innovators, entrepreneurs, and highly creative people all express an intimate relationship with this deep source of knowing. Otto started referring to it as Theory U and presencing. *Presencing* is a blended word combining *sensing* (feeling the future possibility) and *presence* (the state of being in the present moment). It means sensing and actualizing one's highest future possibility—acting from the presence of what is wanting to emerge.

The proposition of Theory U, that the quality of the results in any kind of socioeconomic system is a function of the awareness that people in the system are operating from, leads to a differentiation among four levels of awareness. These four levels affect where actions originate relative to the boundaries of the system.

Consider the example of listening. We call the first level of listening *downloading*. It describes habitual behavior and thought and results in “same old, same old” behaviors and outcomes. This type of listening originates from the center of our habits, from what we already know from past experience. Here’s an example: When President George W. Bush and Vice-President Dick Cheney received CIA briefings about an imminent attack on the United States prior to 9/11, they were so focused on getting the war against Saddam Hussein going that they were unable to hear and recognize the numerous strong warnings from the intelligence community. They were unable to hear anything that didn’t agree with what they thought they already knew. That inability trapped the decision-makers inside the world of their preconceived notions and views.²⁰

In contrast, level 4 listening, called *presencing*, represents a state of the social field in which the circle of attention widens and a new reality enters the horizon and comes into being. In this state, listening originates outside the world of our preconceived notions. We feel as if we are connected to and operating from a widening surrounding sphere. As the presence of this heightened state of attention deepens, time seems to slow down, space seems to open up, and the experience of the self morphs from a single point (ego) into a heightened presence and stronger connection to the surrounding sphere (eco). Examples of this shift are seen when a sports team raises its level of play to be *in the zone* or when a jazz ensemble *finds its groove*.

The two intervening levels are level 2 (factual listening) and 3 (empathic listening). We will discuss all four levels in more detail when we introduce the Matrix of Social Evolution in chapter 4.

What does it take for individuals, teams, institutions, and larger systems to shift their attentional logic and mode of operating from downloading to presencing?

Principles of Presencing

We will answer this question in much more detail throughout the book. But for now let us share a few key principles that reflect what we have learned over the past few years and which may resonate with some of your own experiences:

1. *Energy follows attention.* Wherever you place your attention, that is where the energy of the system will go. “Energy follows attention” means that we need to shift our attention from what we are trying to avoid to what we want to bring into reality.
2. *Follow the three movements of the U.* We refer to this as the U process because of the “shape” of the journey. In order to get to the deep point of transformation (at the bottom of the U), it is necessary first to go down the U (the left-hand side) by opening our minds, hearts, and wills, and then, after passing through the “eye of the needle” at the bottom, go up the U (the right-hand side) to bring the new into reality (see figure 4). In the words of our colleague, economist Brian Arthur, the three main movements of the U process are:
 - a. Going down the U: *Observe, observe, observe.* Stop downloading and totally immerse yourself in the places of most potential, in the places that matter most to the situation you are dealing with.
 - b. At the bottom of the U: *Retreat and reflect; allow the inner knowing to emerge.* Go to the places of stillness where knowing comes to the surface. Here you share and reflect on everything that you have learned from a deep place of listening, asking, “What wants to emerge here?,” “How does that relate to the journey forward?,” and “How can we become part of the story of the future rather than holding on to the story of the past?”
 - c. Going up the U: *Act in an instant.* Explore the future by *doing*. Develop a prototype. A prototype explores the future by doing something small, speedy, and spontaneous; it quickly generates feedback from all the key stakeholders and allows you to evolve and iterate your idea.

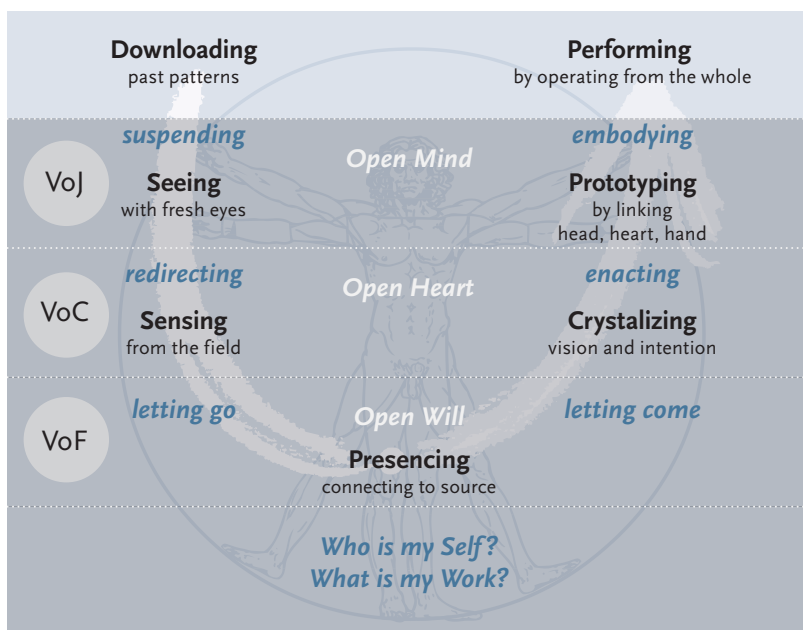


FIGURE 4. The U process of co-sensing and co-creating: presencing.

3. *Go to the edges of the self.* To apply this process in the context of institutions, we have to power it with a new leadership technology. The core of this technology focuses on tuning three instruments: the open mind, the open heart, and the open will. With an open mind, we can *suspend* old habits of thought. With an open heart, we can *empathize*, or see a situation through the eyes of someone else. With an open will, we can *let go* and *let the new come*.
4. *Pass through the eye of the needle.* At the deepest point of each U journey is a threshold. Crossing that threshold, passing through the eye of the needle, can feel like dying and being reborn. According to the Bible, “It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God.”²¹ The phrase “eye of the needle” refers to a gate in ancient Jerusalem: For a man to fit his camel through Jerusalem’s gate, he had to remove all the bags from the camel’s back. Likewise, if we want to go through the eye of the needle at the bottom of the U, we have to let go of everything and offload all the baggage that isn’t essential. Going through that gate

means encountering the two root questions of our journey: “Who is my Self?” and “What is my Work?” The capital-S *Self* is our highest future possibility. The capital-W *Work* is our sense of purpose or calling. It’s what we are here on this earth to do.

5. *Transform the three enemies.* Why is the U journey the road less traveled? Why is it that a lot of people are aware of this deep process of knowing and yet it rarely happens in the context of our larger systems? Because the moment we commit ourselves to going on this journey, we start to encounter our three principal enemies: the *voice of doubt and judgment* (VoJ: shutting down the open mind), the *voice of cynicism* (VoC: shutting down the open heart), and the *voice of fear* (VoF: shutting down the open will).
6. *Always start by “attending to the crack.”* Where do we meet the future first? “Seek it with your hands. Don’t think about it, feel it” is the essential instruction that Bagger Vance gives to Junah in the Robert Redford movie *Bagger Vance*. The future shows up first in our feelings and through our hands, not in our abstract analysis. “Attending to the crack” means attending to the openings, the challenges, and the disruptions where we *feel* the past ending and the future wanting to begin.
7. *Hold the space for transforming the fields of conversation from debate to dialogue and collective creativity.* Each social field needs a container. Higher-level conversation like dialogue and collective creativity requires higher-quality containers and holding spaces. “Transforming the quality of conversation” in a system means transforming the quality of relationship and thought—that is, the quality of tomorrow’s results.
8. *Strengthen the sources of presencing in order to avoid the destructive dynamics of absencing.* Modern society emerges from the interplay of two powerful social fields: presencing and absencing. The field of presencing works through the opening of the mind, the heart, and the will. We know that there are plenty of inspiring examples of this process across the planet. But everyone who works in institutions and systems also knows that there is another field out there. That field is characterized by getting stuck with the idea that there is only One

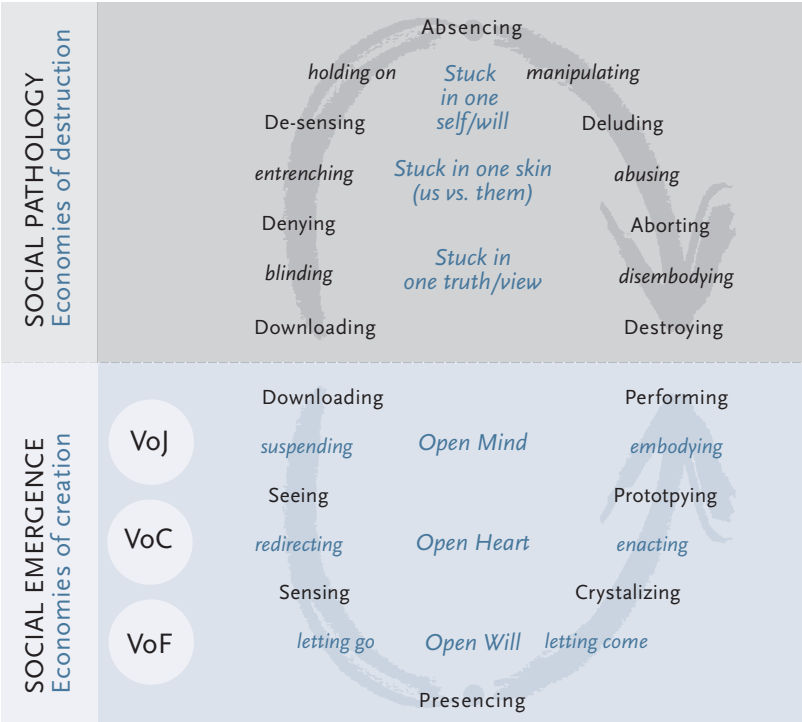


FIGURE 5. The social spaces of collective creation (presencing) and destruction (absencing).

Truth rather than operating with an open mind, by getting stuck in Us versus Them rather than operating with an open heart, and by being frozen inside one rigid identity rather than operating with an open will. What do we call social systems that have these three characteristics? Fundamentalist. Fundamentalism is the result of closing down and freezing our mind, heart, and will—as opposed to opening, warming, and illuminating them.

We live in the tension of these two fields. We are not one, but are often torn in two. Sometimes we operate from our highest future possibility (presencing). But every now and then we lose it and get stuck in old patterns of downloading (absencing). We experience this fragile nature of current reality not only in personal relationships, but also in the area of global development and change. We are torn

between these two fields, and we need to learn how to strengthen our grounding in the field of presencing.

Social reality emerges continuously from the interplay of these two forces: the field of presencing that enables us to co-create from a deeper level of humanity and intention, and the field of absencing that, through our blind spot of not being aware, traps us in patterns of destruction and self-destruction (see figure 5).

The Journey of This Book

This book journeys through an emerging framework for transforming institutions, society, relationships, and self. The first four chapters invite you to travel down the left side of the U through four levels of the iceberg, from the visible top to the less visible underlying levels:

1. symptoms: disruption, death, and rebirth (chapter 1);
2. structure: systemic disconnects (chapter 2);
3. thinking: the Matrix of Economic Evolution (chapter 3); and
4. source: traveling through the eye of the needle (chapter 4).

The next four chapters take you up the right side of the U into envisioning, enacting, and embodying the new:

5. leading individual transformation (chapter 5);
6. leading relational transformation (chapter 6);
7. leading institutional transformation (chapter 7); and
8. leading from the emerging future (chapter 8).

Chapters 5 and 6 outline the personal and relational revolution that this book tries to illuminate. Chapter 7 focuses on what we call the Matrix of Institutional Transformation, a roadmap for the evolutionary path of key institutions and societal systems from 1.0 to 4.0. This map suggests that the transformational experiences necessary in education, health, finance, business, government, and civil society are not actually all that different. They all feature similar journeys of inverting and flipping pyramid-style systems to cultivate the soil of a co-creative field

of shared intention, awareness, and action across institutional boundaries. Chapter 8 concludes with a specific view of what we, as the current generation of change-makers on this planet, are called to do over the next decade or two.

Each chapter ends with concluding remarks and practical questions for individual reflection and for group work. They are formulated to give you a practical tool to join the emerging global movement in seeing the ecological, social, and spiritual crises of our time as three aspects of a deeper issue that calls us to shift from egocentric to ecocentric as the gateway to transforming business, society, and self. The questions at the end of each chapter aid you in forming your own group. The website (www.presencing.com) and its global classroom sessions provide you ways to connect with others in order to co-sense and co-create our path forward.

On the Surface: Symptoms of Death and Rebirth

This chapter explores the symptoms at the tip of the iceberg of our current reality. We move from the toppling of tyrants to an exploration of the deeper fault lines that keep generating the disruptive changes of our time. We also look at these disruptive events from the viewpoint of change-makers: In the face of disruption, what determines whether we end up in moments of madness or mindfulness?

The Toppling of Tyrants

In the fall of 1989, two weeks before the Berlin Wall crumbled, we took an international student group to East Berlin, where we met with civil rights activists in the basement of a church. At one point, the professor who was with us, peace researcher Johan Galtung, put a prediction on the table: “The Berlin Wall will come down before the end of the year.” Everybody doubted that, including the people who were organizing the resistance against the East German regime. And we were all wrong. The Wall came down and the Cold War came to an end just months after that meeting.

Nearly two decades later, in the fall of 2008, the bankruptcy of Lehman Brothers, a global financial services firm, sent shock waves around the globe and within hours brought the financial systems of the United States and Europe to the brink of collapse. Today the remaining Wall Street megabanks and their European counterparts have survived because of massive taxpayer-financed bailouts from their governments. On October 11 of that year, the head of the International Monetary Fund (IMF) warned that the world financial system was teetering on the “brink of systemic meltdown.”¹

In December 2010, Mohamed Bouazizi, a young fruit and vegetable seller in Tunisia, set himself on fire in protest of his treatment by police, who wanted to extract bribes from him and, when he refused, took away his merchandise and beat him. In January 2011, a twenty-six-year-old Egyptian activist, Asmaa Mahfouz, posted a video online urging people to protest the “corrupt government” of Egypt’s president, Hosni Mubarak, by rallying in Cairo’s Tahrir Square.² With that video she sparked and inspired an uprising among the Egyptian population. A week later, on January 25, thousands joined her in Tahrir Square. Within days, the movement counted millions. At first the Egyptian police responded with brutality. But less than four weeks after Mahfouz had posted her initial video, President Mubarak resigned.

A month later, a 9.0 earthquake struck off the coast of Japan, generating a massive tsunami that killed more than twenty thousand people. The Fukushima Daiichi nuclear power plant was protected by a seawall designed to withstand a tsunami of 19 feet (5.7 meters). Minutes after the earthquake struck, a tsunami of 46 feet (14 meters) arrived, easily crossing the seawall and knocking out the plant’s emergency power generators. As a consequence, the radioactive fuel began overheating and put the plant on a path toward catastrophic meltdown.

As the year went on, the Arab Spring spread across the globe. Muammar Gaddafi was toppled in Libya. The Occupy Wall Street movement, which took inspiration in part from the Arab Spring, staged actions in more than a thousand cities across the globe.³

The collapse of the Berlin Wall, the demise of the Mubarak and Gaddafi regimes, the meltdown of the Fukushima Daiichi nuclear power plant, and the near-meltdown of the western financial system all share some features:

1. the end of an inflexible, centralized control structure, one that previously had been considered indestructible
2. the beginning of a spontaneous, decentralized grassroots movement of people letting go of their fear and waking up to another level of awareness and interconnectedness
3. the opening of some small cracks in the old system, followed by its crumbling and eventual collapse

4. the rebound of the old forces as soon as the memory of the collapse began to fade away; the old forces tried to obscure the actual root causes of the breakdown in order to extend their privileged access to power and influence (an example is Wall Street's financial oligarchy)

We believe that these kinds of events will keep coming our way. These disruptive changes mark the beginning of a new era that we have entered as a global community, an era of increasing disruption. Sometimes such movements will give rise to movements that bring about profound change, and sometimes they will falter and fail. In many cases, as we discuss later in the book, these disruptions are already on their way. It is too late to prevent all of them. So where is our point of control? It is in how we respond to the impact that these disruptions have on how we work and live.

A disruptive change affects not only our outer world, but also our inner self. Such moments bring our world to a sudden stop. They may be terrifying, but they also constitute a great blank space that can be filled in one of two ways: by *freezing* and reverting to the patterns of the past, or by opening us up to the *highest future possibilities*. The second response—leaning into, sensing, and actualizing one's emerging future—is what this book is about.

Presencing

At the moment when we reach the point of meltdown, we have a choice: We can freeze and revert to our deeply ingrained habits of the past, or we can stop and lean into the space of the unknown, lean into that which wants to emerge.

This second possibility—to lean into and connect to our highest future potential—we refer to as presencing. As noted in the introduction, the word *presencing* merges the terms *presence* and *sensing*. It means to sense and operate from the presence of an emerging future field. As we connect with this field of heightened awareness, our attention morphs from *slowing down*, *opening up*, *redirecting*, and *letting go* to *letting come*, *crystallizing*, and *embodying* the new. Figure 4 (see the introduction) summarizes this process.

This material has been excerpted from

***Leading From the Emerging Future
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by Otto Scharmer & Katrin Kaufer

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The process of connecting to our Self, our highest future possibility, and moving toward action can be a sequence that we go through in an instant or over a period of many years. It is an archetype of the human journey. It is a process of opening up, of allowing something new to land, to emerge, and to come into reality through us.

A real-life example of this process was sparked by the video that Asmaa Mahfouz posted on January 18, 2011, which inspired people around the world. In it, she speaks from a place that transcends the three primary obstacles—doubt, cynicism, and fear—that prevent us from connecting to our source of deep presence and authenticity.

Instead of expressing doubt, which government propaganda tried to perpetuate, she speaks with great clarity. Instead of expressing cynicism, she speaks from a state of deep connection and empathy. And instead of expressing fear, which would isolate her, she speaks from a place of vulnerability, commitment, and courage:

Four Egyptians have set themselves on fire to protest humiliation and hunger and poverty and degradation they had to live with for 30 years. Four Egyptians have set themselves on fire thinking maybe we can have a revolution like Tunisia; maybe we can have freedom, justice, honor, and human dignity. Today, one of these four has died, and I saw people commenting and saying, “May God forgive him. He committed a sin and killed himself for nothing.”

People, have some shame.

I posted that I, a girl, am going down to Tahrir Square, and I will stand alone. And I’ll hold up a banner. Perhaps people will show some honor. I even wrote my number so maybe people will come down with me. No one came except three guys—three guys and three armored cars of riot police. And tens of hired thugs and officers came to terrorize us. They shoved us roughly away from the people. But as soon as we were alone with them, they started to talk to us. They said, “Enough! These guys who burned themselves were psychopaths.” Of course, on all national media, whoever dies in protest is a psychopath. If they were psychopaths, why did they burn themselves at the parliament building?

I’m making this video to give you one simple message: We want to go down to Tahrir Square on January 25th. If we still have honor and want to live in dignity on this land, we have to go down on Janu-

ary 25th. We'll go down and demand our rights, our fundamental human rights.⁴

The first time Mahfouz went to Tahrir Square, she was, as she says, joined by three young men. The next time, a week after posting the video blog, she was joined by over fifty thousand protesters, and a week later, on February 1, over one million people protested peacefully. On February 11, the supposedly “unsinkable” regime was finished and Mubarak resigned.

This process of co-creating disruptive change is not a singular, isolated case. It is part of a much bigger picture that is starting to become visible now. We have seen similar efforts in several other sectors, systems, and cultures. The change-makers embarking on these journeys venture away from well-known paths and put themselves at the edges of the unknown. They are connecting to deep sources of knowing, sensing the future that wants to emerge. But more often than not, change leaders don't talk about this deep personal zone of change because there is no widely understood or accepted language for doing so.

Mahfouz is a very visible figure at the tip of an iceberg that may represent, in the words of the author and activist Paul Hawken, “the largest movement in all of social history.”⁵ It includes grassroots civil society movements that have brought down the tyrant-led regimes in Egypt and Tunisia, the Communist-led regimes in Eastern Europe, and the apartheid regime in South Africa. The movement also includes a new breed of business entrepreneurs who create “hybrid” business enterprises that aim for a triple bottom line, combining profitability with a social mission and environmental objectives.

This new global movement has no name, no leader, no ideology, no single program, no single center. Instead people are sharing a new interior field, an emerging field of connection and consciousness, a collective concern about the well-being of all living beings, including our planet.

Absencing

Of course, presencing doesn't happen if we are on autopilot. When confronting a moment of meltdown, instead of leaning into the future, we

can also choose to revert to habitual patterns of the past. Mubarak did that on February 10, 2011, when he initially refused to step down. Erich Honecker and the East German Politburo did it in the early fall of 1989, trying to hold on to their crumbling system. The Wall Street banks did it on the brink of collapse, when they still couldn't resist further expanding their power through, in the words of former IMF Chief Economist Simon Johnson, "a quiet coup."⁶ The Catholic Church does it when, even in the face of the most heart-wrenching cases of child abuse, it holds on to its old institutional routines. But it's not just *them*. We all do this when we refuse to let go of what worked in the past but no longer does.

Whenever we respond to the inner space of emptiness by downloading the old rather than by leaning into the new, we are embarking on and co-enacting a journey of social pathology that looks roughly like this: downloading, denying, de-sensing, absencing, deluding, destroying, and (eventually) self-destroying.

As shown in figure 5 in the introduction, the absencing journey is the inversion of the presencing journey. Instead of opening the mind, heart, and will, the absencing cycle holds on tightly to the past. It does not dare to lean into the unknown, the emerging future. As a consequence, the space of absencing throws us into a trajectory of denial (not seeing what is going on), de-sensing (lacking empathy with the other), absencing (losing the connection to one's higher Self), delusion (being guided by illusions), and destruction (destroying others and ourselves).

A good illustration of absencing is what Hitler and the Nazis did to Central Europe and the rest of the world. Today, look at what we are doing collectively to our own planet. The fundamental pattern is the same.

Thus, being thrown into the space of absencing means getting stuck in the tyrannies of

1. One Truth (ideology)
2. One "Us" versus "Them" (rigid collectivism)
3. One Will (fanaticism)

The triple tyranny of "One Truth, One Us, One Will" is also referred to as fundamentalism. It's the structure that people rose up against in World War II. Whether we talk about the struggle for decolonization and

independence in the global South, the struggles against the apartheid system in South Africa, or the struggle against tyrannical regimes in Eastern Europe, Latin America, and North Africa, the deeper struggle in all these places has always been the same: People keep rising and fighting against the same tyranny that emerges from the fundamentalism of One Truth (a closed mind), One Us (a closed heart), and One Will (a closed will). That rigid worldview has led to social structures defined by three key features:

1. unilateral, linear communication
2. low, exclusion-based transparency
3. an intention to serve the well-being of the few

The alternative is not well defined, but could be sketched as follows:

1. multilateral, cyclical communication
2. high, inclusion-based transparency
3. an intention to serve the well-being of all

How to achieve the second model is a central topic of this book. And what is striking today is that most people on the planet would probably reject the first model, which merely reproduces widespread structural and cultural violence.⁷

The battle over the fundamentalism we are referring to here will not be won by defeating Al Qaeda. It's a battle for the future of our planet. It will not be won by dropping bombs on other people. *The primary battlefield of this century is with our Selves.* It is a battle between the self and the Self: between our existing, habituated self and our emerging future Self, both individually and collectively. It is a battle between absencing and presencing that plays out across all sectors and systems of society today.

Moments of Madness and Mindfulness

What determines whether we as individuals, teams, institutions, and systems operate from the state of absencing or the state of presencing? What is the lever that allows us to shift from one state to the other? What can we do to move from madness to mindfulness?

Let us look at a concrete example. On April 26, 1986, an accident happened at reactor number four of the Chernobyl nuclear power plant in Ukraine. As the worst-case scenario started to unfold, the children and citizens of the city next door, Pripyat, received no warnings. Citizens of the region, Russian and European, were exposed to a cloud of nuclear radiation that first traveled north to Scandinavia and then covered almost all of Europe and its 500 million inhabitants.

Not only were Europe's citizens not warned about the potential threat, even the top Soviet leaders in the Kremlin were in the dark. Mikhail Gorbachev, who at the time was general secretary of the Communist Party, recounts: "I got a call around 5 A.M. I was told there was some accident at the Chernobyl nuclear plant. The first information consisted of 'accident' and 'fire.' The information report was that everything was sound including the reactor. . . . At first, I have been told there was no explosion. The consequences of this information were particularly dramatic. . . . What had happened? A nuclear explosion, a cloud, serious contamination? It was Sweden that alerted us!"⁸

Gorbachev was told that the accident posed no threat to the surrounding environment and was under control. No one, according to Gorbachev, told him in these early days that a series of explosions had occurred in the core of the reactor and had blown the twelve-thousand-ton cover of the reactor into the air, releasing a highly radioactive vapor into the environment. Later, high radiation levels set off alarms at the Forsmakr Nuclear Power Plant in Sweden, over a thousand kilometers away. The Swedish government alerted its population about radioactive dust.

Although radiation was still emanating unchecked from the Chernobyl plant, the evacuation of citizens living next to the plant did not begin until more than twenty-four hours after the accident. Only after Gorbachev formed a commission of nuclear experts and gave them access to unlimited resources, people, and technology did a full-blown crisis response begin.

At the same time that this crisis response was unfolding, many of the old patterns of downloading continued to play out—with disastrous consequences. The nuclear experts met in a hotel next to the damaged power plant in a city that had been fully evacuated, thereby exposing

themselves to high levels of radiation that at least some of them must have been aware of. Even the traditional May First celebrations were held in Kiev, the capital of Ukraine, less than one hundred kilometers away from the disaster area. Local high officials attended.

In a later interview, Gorbachev reflected on the reaction of the nuclear experts: “These were outstanding people, specialists. I could not believe they would do something [so] irresponsible, suicidal. The experts underestimated the situation. The old criteria weren’t any good anymore. There had been nuclear accidents before . . . [but] there had never been an accident of this scope. They [the nuclear experts] even thought the power plant would be back in service—by May or June.”⁹

Then, finally, when the full gravity of the nuclear catastrophe had sunk in, the Soviet Union mobilized five hundred thousand people in the battle to prevent an even bigger catastrophe. The decontamination and cleanup efforts continue today, consuming 5 to 7 percent of annual government spending in Ukraine (2003–05 figures).¹⁰

Another example of responding to a challenge by downloading old patterns of behavior was provided by the French Minister for Public Health and Social Security, Pierre Pellerin, who claimed that the cloud of nuclear fallout, which had reached all of Northern, Central, and Western Europe, had never crossed the borders into France. (France still derives over 75 percent of its electricity from nuclear energy, the highest percentage in the world.)

The Chernobyl catastrophe is a stark example of how downloading old behavior in a context in which it no longer fits results in patterns of denial, data distortion, delusion, destruction, and self-destruction. But the story does not end here. Gorbachev realized that if the melted nuclear core had reached the groundwater beneath the reactor, Europe might have become an uninhabitable wasteland. He says, “Chernobyl showed us the true nature of nuclear energy in human hands. We calculated that our most powerful missiles, the SS-18s, were as powerful as 100 Chernobyls. . . . And we had 2,700 of them, and they were intended for the Americans. Imagine the destruction. . . . Chernobyl convinced everyone, Soviets and Americans alike, . . . [of] the magnitude of the nuclear volcano our countries are sitting on. Not just our two countries, but the entire world!”¹¹ A year and a half after Chernobyl, Gorbachev

retired all of the Soviet Union's nuclear warheads with a range of five hundred to five thousand kilometers.

Watching the catastrophic events of Chernobyl unfold, Gorbachev allowed his thoughts to slow down and his mind to become aware, to let go of the old military logic of MAD—mutually assured destruction—and to let the seeds of disarmament germinate and grow. These seeds ended up changing the course of world history for the better.¹²

This story raises an obvious question: How should the course of disruptive events, those beginning to shake up our planet as we speak, affect *our* thoughts and awareness as a global community today? What is it that *we* need to let go of? And what seeds of the future do we need to let germinate and grow?

Fault Lines

Natural catastrophes like volcanic eruptions, earthquakes, and tsunamis tend to happen along the fault lines of tectonic plates—that is, in regions where the earth's tectonic plates meet and exert their massive force against each other. We can't fully predict where or when major ruptures and eruptions will happen. But knowing the geography of the fault lines means knowing the zones of potential impact.

Social and economic breakdowns and eruptions are very similar in this regard. They tend to show up along the fault lines that divide the collective social body of our communities and societies. Again, we cannot fully predict when or where a disaster will occur, but understanding the space of possibility allows us to be much more attentive to subtle signals that foreshadow bigger events like the collapse of the Berlin Wall, the meltdown of the financial system, and the toppling of authoritarian regimes.

What is the geography of the major fault lines that divide the collective socioeconomic body—the sum total of human relationships—today? We believe that there are three major fault lines, concerning three principal relationships that we engage in as human beings: (1) our relationship with nature and our planet; (2) our relationships with one another; and (3) our relationship with ourselves. When these relationships rupture, they create three divides: ecological, social, and spiritual-cultural.

THE ECOLOGICAL DIVIDE

The ecological divide is the fault line in the relationship between humans and nature. In spite of significant improvements in eco-efficient production methods, all advances in increased resource efficiency have been overshadowed by the so-called *rebound effect*: that is, by higher levels of total output (GDP) that lead to higher absolute numbers of resource use. Today we overuse the regeneration capacity of our planet by 50 percent. If current trends continue, our overuse will grow to an unimaginable three planets by 2050.¹³ Of course, this is never going to happen, as severe ecological disruptions will set us on a different path. Nevertheless, it shows how irresponsible our current developmental path truly is. Here are some of the current and short-term symptoms:

Water. During the twentieth century, the global demand for fresh water increased sixfold, according to the United Nations Environment Programme (UNEP). This was accompanied by a reduced supply of fresh water. As a result, water is in short supply in countries where one-third of the world's population lives. Moreover, about one in every five people on earth lacks access to safe drinking water.¹⁴

Soil. The loss of topsoil is largely irreversible during the course of a human lifetime. Soil forms at a rate of approximately one centimeter every one hundred to four hundred years.¹⁵ Yet, over the past forty years, soil erosion has caused nearly a third of the world's arable land to become unproductive.¹⁶ This translates into two billion hectares of arable and grazing land worldwide, an area larger than the United States and Mexico combined.¹⁷

Climate. From 1995 to 2006, every year except one ranks among the twelve warmest years ever recorded.¹⁸ Carbon dioxide is at record levels in the atmosphere. In November 2012, the World Bank released a report warning that the world is "barreling down a path to heat up by four degrees [Celsius] at the end of the century." The result would mean extreme heat waves, a likely sea level rise of 0.5 to 1 meter by the year 2100, with higher levels possible, and smaller island nations becoming unable to sustain their populations.¹⁹

Eco-systems. The Millennium Eco-System Assessment concludes that "over the past 50 years, humans have changed eco-systems more

rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fiber, and fuel. This has resulted in a substantial and largely irreversible loss in the diversity of life on earth.”²⁰ About 60 percent of the eco-systems examined during this comprehensive four-year study were found to be degraded or were being used unsustainably.

According to the UNEP, which has made extensive efforts to put a price on the “services” humans derive from natural eco-systems, the ecological infrastructure of the planet is generating services to humanity worth over US\$70 trillion a year, perhaps substantially more. “Mismanagement of natural and nature-based assets,” says UNEP Executive Director Achim Steiner, “is undercutting development on a scale that dwarfs the recent economic crisis.”²¹

THE SOCIOECONOMIC DIVIDE

With the financial crisis of the early twenty-first century, awareness of the socioeconomic divide within societies around the world has grown. The fault lines are increasingly visible. Globally, the richest 1 percent own 40 percent of the world’s wealth, while half of the world’s population own just 1 percent.²² This disparity is one of many that reveal the rapidly deepening socioeconomic divide. On the income side, the numbers are similar: The top 10 percent receive one-half of the world’s income.²³

Although enormous progress has been made in lifting hundreds of millions of people out of poverty—particularly in Asia—the social divide has in fact deepened over the past thirty years, as evidenced by the following observations:

Hunger. One in eight people around the world go to bed hungry at night. Of those experiencing hunger, 98 percent live in developing countries.²⁴

Poverty. Over 2.47 billion people live on less than US\$2.50 a day; 1.3 billion people live in extreme poverty, meaning that they live on less than US\$1.25 a day (in 2008 dollars).²⁵ Their most basic needs go unmet.

Inequality. Recent research points to issues related to income inequality, including civil unrest, immigration and refugee crises, recession, and slow economic growth.²⁶ In 2008, the International Labour Organization (ILO) conducted a global study of income inequality in more than seventy developed and developing countries.²⁷ Key findings include that, in 70 percent of countries surveyed, the income gap between the top and bottom 10 percent of the population increased over the preceding twenty years.²⁸

THE SPIRITUAL-CULTURAL DIVIDE

While ecological and social divides concern the split between self and nature and between self and other, the spiritual-cultural divide concerns the split between self and Self. One symptom of this split is our level of happiness and well-being, and related issues of burnout, depression, and suicide. Burnout and depression have increased over the past fifty years, even in countries where material standards of living have been rising rapidly.²⁹

In the past forty-five years, suicide rates have increased by 60 percent worldwide.³⁰ Suicide is the second leading cause of death (after accidents) among American high school and college students.³¹ On a global scale, suicide is among the three leading causes of death in the fifteen to forty-four age group.³² This shocking number is the tip of the iceberg of humans' violence against themselves.

In a 2011 lecture in Vienna, I (Otto) asked the audience members to turn to their neighbors and talk about where in their life and work they were experiencing something that was dying and where they saw something beginning or wanting to be born. One executive of a large international company put his experience like this: "I notice an incipient gap between what my organization makes me do, such as running cost-cutting and downsizing programs, and what I *really* want to do with my work and life going forward." He described his situation, saying that his organization required him to do things even when his personal feelings and thoughts would point in an opposite direction. But because those feelings and thoughts were not strong enough to convince him to change course, he kept going.

That incipient crack or gap is an important symptom of our current collective situation. Is this executive from Vienna a single case, or does he represent a much larger group? From our experience, we think it is the latter. For example, when I teach my class at MIT, roughly half the room is filled with midcareer executives from around the world. Early on in the class, I ask each participant to say what has brought him or her there. The comment I hear most often is something like this: “I am so *underinspired* by what my company asks me to do. The higher I climb on the corporate career ladder, the less inspired I get. I am here to learn how to reconnect with the sources of my energy and best work.”

These cracks between exterior demands and interior aspirations and needs matter because, if not attended to, they can quickly morph into something larger, including burnout, depression, or worse. Think about the functional elites of the socialist regimes in Eastern Europe during the early 1980s. They knew that there was something deeply broken in the system. And yet almost no one dared to look carefully at the cracks on the surface and investigate their deeper systemic causes. What the business executives in Vienna and at MIT described is a subtle, early-stage crack that, if ignored, will only grow over time. It is no less serious than the cracks in the broken socialist regimes before their collapse. If you start paying attention to these initial cracks—the fault lines—you will begin to recognize them as voices telling you that *you need to change your life*; and, yes, that *all of us* need to change *our* lives!

Three Divides, One Stream

The three divides that compose the surface of symptoms are highly intertwined. For example, the loss of meaning in life and work (the inner void) is often filled with additional material consumption (consumerism), which deepens the ecological divide by further depleting resources. The intensification of the natural resource stream flowing from the developing to the developed countries, and the waste streams flowing the opposite way, leads in turn to a deepening of the social divide.³³ In short: inner void → consumerism → ecological divide → social divide.

While we spent most of the twentieth century addressing these problems one issue at a time, today we see that people are moving away from

this approach. In particular, young people consider it common sense that these problems are not separate; they are three different aspects of one deeper issue. And they recognize that addressing the underlying issue will take a profound systems shift.

The process of becoming aware of this necessary system shift began in the last third of the twentieth century. During the late 1960s, '70s, and '80s, a new breed of civil society movements began to rise up. Vietnam War protests. Civil rights. Women's rights. Social justice. Fair trade. Environmental action. Antinuke. Antiwar. Antiapartheid. Anti-authoritarian regimes. These were followed by more recent movements: climate action. Arab Spring. Occupy. Local living economies. Slow food. Slow money. All these movements were harbingers and catalysts of a broadening and deepening of global awareness.

But the problem with the *first wave* of civil society movements was that they tended to focus on only one or two of the three divides. Environmental activists largely ignored the social and consciousness dimensions of change. The social justice movement paid little attention to the environment or to consciousness. And New Age consciousness movements got lost in personal liberation instead of using awareness as a gateway to social transformation.

Our colleague at MIT, Professor Phil Thompson, provides a vivid example of this from his experience as deputy general manager at the New York City Housing Authority (NYCHA) in the early 1990s. Years before he began working at NYCHA, the housing authority had been required by the federal Clean Air Act to stop incinerating garbage and to bag garbage in low-income housing projects for weekly pickup. This move was celebrated by many in the environmental movement. But in order to free up the resources necessary to bag garbage for more than five hundred thousand people, NYCHA had to cut a host of programs, including youth programs, maintenance, and other needed services. At the same time, NYCHA staff received little support from environmentalists to address the problems facing residents of public housing and therefore did little to promote recycling or other environmental initiatives there. The unintended result was a host of angry and disenfranchised citizens with no motivation to participate in the environmental program.

We will not see any significant progress unless *all three* of the deep

divides are approached in an integrated way. This combined approach is what we believe we see in the currently emerging *second wave* of civic and social-entrepreneurial initiatives all over the world. The rise of this movement, in which people spontaneously act from an awareness of contributing to the well-being of the whole, is an enormous source of hope for the future of this planet.

Conclusion and Practices

This chapter described the symptoms of our current landscape. We believe that we have entered an age of disruption in which individuals, institutions, and societies face new types of challenges that require them to let go of habitual ways of responding. These moments of opportunity invite us to sense and actualize emerging future possibilities. But if we fail to lean into this deeper process of presencing, we will become stuck in the patterns of the past, frozen in a reaction that throws us into the cycle of absencing (denying, de-sensing, deluding, and destroying).

JOURNALING QUESTIONS

Take a journal (or blank piece of paper) and write your responses to the questions below. Spend no more than one to two minutes answering each question. Number your responses.

1. Where do you experience a world that is dying (in society, in your organization, in yourself)?
2. Where do you experience a world that is waiting to be born (in society, in your organization, in yourself)?
3. Where have you experienced moments of disruption? And what did you notice about your own process of presencing or absencing?
4. How do the ecological, socioeconomic, and spiritual-cultural divides show up in your personal experience of work and life?

CIRCLE CONVERSATION

Assemble a circle of five to seven individuals and hold a first meeting to share the context that each person brings to the circle. Respond to the following:

1. Introduce your personal story with one or two formative experiences that shaped the person you are.
2. Where do you experience a world that is ending/dying, and where do you experience a world that is beginning/wanting to be born?
3. What do you consider to be the root causes and issues of our current crisis and the three divides?
4. What do you personally feel is going to happen over the next ten to twenty years?
5. What would you like to do right now in order to make a difference going forward?

Otto Scharmer and Katrin Kaufer

LEADING FROM THE EMERGING FUTURE

**From Ego-System
to Eco-System Economies**



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Structure: Systemic Disconnects

This chapter investigates the first level below the waterline of the “current reality iceberg.” What are the structural issues that lead us to reenact patterns of the past and not connect to what is emerging? What is the underlying blind spot that, if illuminated, could help us to see the hidden structures below the waterline?

The Blind Spot I

The current system produces results that nobody wants. Below the surface of what we call the landscape of social pathology lies a structure that supports existing patterns. For example, in an organization, a departmental structure defines the division of labor and people’s professional identities. In a modern society, the governmental, business, and non-governmental sectors all develop their own ways of coordinating and self-organizing in a rapidly changing and highly intertwined world. A structure is a pattern of relationships. If we want to transform how our society responds to challenges, we need to understand the deeper structures that we continue to collectively reenact.

Eight Structural Disconnects

Here we lay out eight issue areas or visible symptoms of problems in the underlying structure. Table 1 lists each issue as follows. Column 1 describes the symptom broadly; column 2 explains the structural disconnect that gives rise to the issue in row 1; and column 3 spells out the limits that the whole system is hitting.

Addressing the root causes of these structural disconnects is like

TABLE 1 Structural Disconnects and System Limits

	Ecological issue	Income issue	Financial issue	Technology issue	Leadership issue	Consumerism issue	Governance issue	Ownership issue
Surface Symptom	1.5 planet footprint	Top 1 percent own more than bottom 90 percent	US\$1.5 quadrillion speculation bubble	Quick technological fix syndrome	Collectively creating results that nobody wants	Burnout, depression, consumerism without well-being	Inability to face challenges at scale of whole system	Overuse of scarce resources; tragedy of the commons
Structural Disconnect	Decoupling of unlimited growth and finite resources	Decoupling of Haves and Have Nots, of wealth and basic need	Decoupling of financial economy and real economy	Decoupling of technological solutions and societal needs	Decoupling of old leadership tools and new challenges	Decoupling of GDP and well-being	Decoupling of parts and whole	Decoupling of current ownership forms and best societal use
Systemic Limit	Limits to growth → cultivating finite resources	Limits to inequality → embodying human rights	Limits to speculation → organizing around the real economy	Limits to symptom fixes → focusing on sustainable solutions	Limits to leadership → direct, distributed, dialogic self-governance	Limits to consumerism → attending to inner and relational sources of happiness and well-being	Limits to competition → redrawing boundaries of competition and cooperation	Limits to state and private property → property rights for the commons

touching eight acupuncture points of economic and social transformation. If addressed as a set, these acupuncture points hold the possibility for evolving our institutions in ways that bridge the three divides. Let's take a closer look at each one.

1. *The ecological disconnect.* We consume resources at 1.5 times the regeneration capacity of Planet Earth because of a mismatch between the unlimited growth imperative and the finite resources of the planet. As a consequence, we are hitting the limits to growth, as the title of the Club of Rome study famously put the matter, which calls for a better way to preserve increasingly scarce resources.
2. *The income and wealth disconnect.* The top 1 percent of the world's population own more than the bottom 90 percent, resulting in wealth concentration in one part of society and unmet basic needs in another. As a consequence, we are reaching dangerous levels of inequality, as we discuss in more detail below. This calls for a better realization of basic human rights through a rebalancing of the economic playing field.
3. *The financial disconnect.* Foreign exchange transactions of US\$1.5 quadrillion (US\$1,500 trillion) dwarf international trade of US\$20 trillion (less than 1.4 percent of all foreign exchange transactions).¹ This disconnect is manifest in the decoupling of the financial economy from the real economy. As a consequence, we are increasingly hitting the limits to speculation.
4. *The technology disconnect.* We respond to societal issues with quick technical fixes that address symptoms rather than with systemic solutions. As a consequence, we are hitting the limits to symptom-focused fixes—that is, limits to solutions that respond to problems with more technological gadgets rather than by addressing the problems' root causes.²
5. *The leadership disconnect.* We collectively create results that nobody wants because decision-makers are increasingly disconnected from the people affected by their decisions. As a consequence, we are hitting the limits to leadership—that is, the limits to traditional top-down leadership that works through the mechanisms of institutional silos.

6. *The consumerism disconnect.* Greater material consumption does not lead to increased health and well-being. As a consequence, we are increasingly hitting the limits to consumerism, a problem that calls for reconnecting the economic process with the deep sources of happiness and well-being.
7. *The governance disconnect.* As a global community, we are unable to address the most pressing problems of our time because our coordination mechanisms are decoupled from the crisis of common goods. Markets are good for private goods, but are unable to fix the current tragedy of the commons. As a consequence, we are increasingly hitting the limits to competition. We need to redraw the boundary between cooperation and competition by introducing, for example, premarket areas of collaboration that enable innovation at the scale of the whole system.
8. *The ownership disconnect.* We face massive overuse of scarce resources, manifested in the decoupling of current ownership forms from the best societal use of scarce assets, such as our ecological commons. As a consequence, we are increasingly hitting the limits to traditional property rights. This calls for a possible third category of commons-based property rights that would better protect the interest of future generations and the planet.

As discussed in the introduction, these issue areas share common characteristics. Among them are that they (1) embody systemic structures that are designed *not* to learn; (2) are unaware of externalities; (3) facilitate money flowing the wrong way; and (4) allow special-interest groups to rig the system to the disadvantage of the whole.

These eight issues are symptoms of a disease that afflicts the collective social body. But what drives this pattern of organized irresponsibility? These symptoms are driven by structural disconnects that cause the system to hit a set of real-world limits. Each disconnect could be the topic of a book on its own—and in fact many books have been written about each one, such as *Limits to Growth*, which sparked a wave of global awareness in the 1970s. But that book, despite its significant impact, did not address other dimensions, such as financial bubbles, which are one of the key drivers of the unlimited growth imperative.

This book is an invitation to look at the entire set of disconnects as a *whole system*. What do we see when we contemplate them as a system? We see ourselves. The problem is *us*. It is we who burn resources beyond the capacity of our planet to regenerate them. It is we who participate in economic arrangements that replicate the income divide and the consumerism and burnout bubble that come with it. And it is we who use mostly traditional banks for our financial transactions in spite of our knowledge that these banks are a big part of the problem.

Each area is a part of the system that has lost its connection to the whole. Before we continue with our journey below the tip of the iceberg, let's take a moment to look at three interesting data points that tell us something about the current health of our society.

The Economic Condition of Society Today

Let us first consider the link between GDP and health or well-being. The relationship between GDP and average life expectancy is often used as an indicator of the quality of health in a country. There is in fact a close link between GDP and health up to a level of US\$5,000 to US\$8,000 annual income per capita (see figure 6). This link weakens significantly as GDP rises above that level. In other words, an increase in material output as measured by GDP in developed countries does *not* translate into better health or increased life expectancy.

If a GDP increase in developed countries does little to increase the well-being of its citizens, what does improve their welfare? Surprisingly, the leverage to increase well-being seems to be connected to reducing the size of one of the above-mentioned issue bubbles: *inequality*.³

Figure 7 shows that health and social problems are more common in countries with wider income inequalities, such as the United States. On the other end of the spectrum are countries with fewer health and social problems, such as Japan, Sweden, and Norway. These countries have the lowest income inequalities among the developed countries.

These two data points raise a question: To increase the health of citizens in developed countries, would we be better off focusing on reducing the income and inequality bubble instead of focusing on improving health-care delivery?

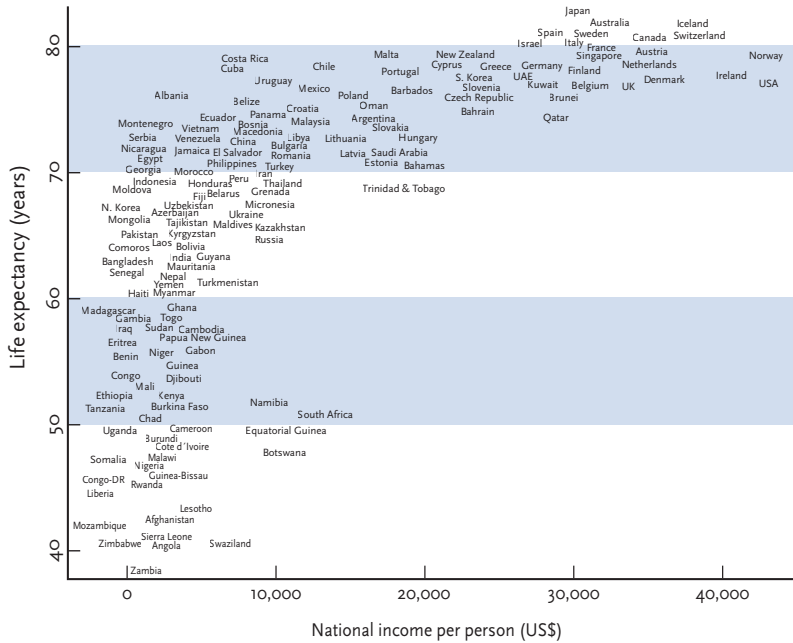


FIGURE 6. Only in its early stages does economic growth boost life expectancy. Source: United Nations Development Program, *Human Development Report* (New York: Oxford University Press, 2006).

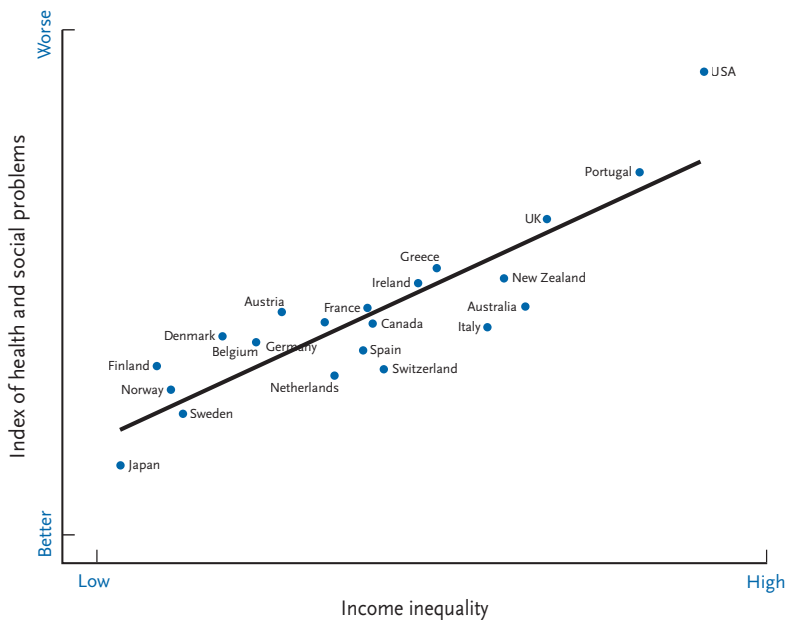


FIGURE 7. Health and social problems are closely related to inequality among rich countries. Source: Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Equality Is Better for Everyone* (New York: Penguin, 2009), 20.

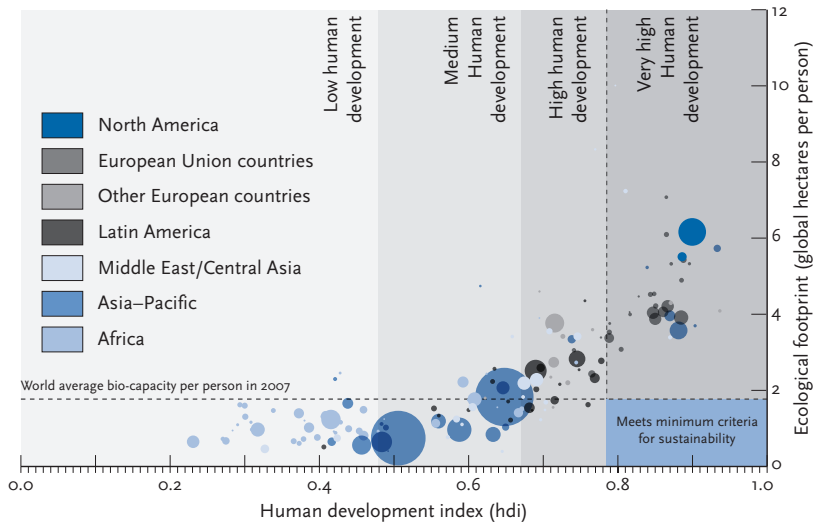


FIGURE 8. Ecological footprint versus human development index, 2008.

Source: Global Footprint Network and WWF, *Living Planet Report 2012* (Gland, Switzerland: WWF, 2012), 60.

Nobel Laureate Joseph Stiglitz argues in *The Price of Inequality* that even after the 2007–08 financial crisis, “the wealthiest 1 percent of households had 220 times the wealth of the typical American, almost double the ratio in 1962 or 1983.”⁴ Stiglitz emphasizes that inequality results from political failure and argues that inequality contributes not only to the social pathologies pointed out above, but also to economic instability in the form of a “vicious downward spiral.” The results are daunting: almost a quarter of all children in the United States live in poverty.⁵

The third data point connects this conversation to the ecological disconnect. Figure 8 depicts the sustainable development challenge to our current economy. This challenge is visualized through two thresholds. The first is the average available biocapacity per person. The second is the threshold of high human development. What would sustainable development look like? All countries would need to be in the sustainable development quadrant at the bottom right of the figure. The distance between most countries and that quadrant shows the magnitude of our challenge.

The Evolution of Capitalism as an Evolution of Consciousness

The disconnects discussed above, and the distance of most countries from the sustainable development quadrant in figure 8, are not the only daunting challenges that our societies face. According to the British historian Arnold Toynbee, societal progress happens as an interplay of challenge and response: Structural change happens when a society's elite can no longer respond creatively to major social challenges, and old social formations are therefore replaced by new ones. Applying Toynbee's framework of challenge and response to the socioeconomic development of our societal structures today, we briefly review capitalism's evolution (see also table 2).⁶

SOCIETY 1.0: ORGANIZING AROUND HIERARCHY

Think of Europe at the end of the Thirty Years' War in 1648, of Russia after the October Revolution in 1918, of China after the Chinese Civil War in 1949, or of Indonesia at about the time when Sukarno became its first president. Recent turmoil had created the felt need for stability—that is, for a strong visible hand, sometimes in the form of an iron fist—to provide security along with the vital allocation of scarce resources in line with much-needed public infrastructure investment. In that regard, we can view twentieth-century socialism in the Soviet Union not as (according to Marxist theory) a postcapitalist stage of economic development, but as a precapitalist (quasi-mercantilist) stage.⁷ The core characteristic of this stage of societal development is a strong central actor that holds the decision-making power of the whole. This could be an emperor, a czar, a dictator, or a party. Examples are manifold and include eighteenth-century European monarchs, as well as Stalin, Mao, Mubarak, and Sukarno, all of whom led coercive states whose appetite for lengthy democratic processes and discussions was, shall we say, limited. In a recent visit to the *favelas* of São Paulo, I (Otto) learned about the “pacification” strategy of the Brazilian police, who went into the *favelas* and drove out the drug lords. The young people in the *favelas* argued that the police presence was a good thing for two reasons. It reduced

TABLE 2 The Challenge-Response Model of Economic Evolution

	Primary societal challenge	Response: coordination mechanism	Primary sector/ players	Primary source of power	Dominant ideology	Primary state of consciousness
Society 1.o: <i>State-Driven, Mercantilism, Socialism</i>	Stability	Commanding: hierarchy	State/ government	Coercive (sticks)	Mercantilism; socialism (state-centric thought)	Traditional awareness
Society 2.o: <i>Free-Market-Driven, Laissez-Faire</i>	Growth	Competing: markets	Capital/business; state/government	Remunerative (carrots)	Neoliberal and neoclassic (market-centric) thought	Ego-system awareness
Society 3.o: <i>Stakeholder-Driven, Social-Market Economy</i>	Negative domestic externalities	Negotiating: stakeholder dialogue	Civil society/ NGOs; capital/ business; state/ government	Normative (values)	Social democratic or progressive thought	Stakeholder awareness
Society 4.o: <i>Eco-System Driven, Co-Creative Economy</i>	Global disruptive externalities, resilience	Presencing: awareness-based collective action (ABC)	Cross-sector co-creation: civil society/NGOs; capital/business; state/government	Awareness: actions that arise from seeing the emerging whole	Eco-system-centric thought	Eco-system awareness

the level of random violence and allowed the community to get access to vital social services. So, in their eyes, the so-called 1.0 police structure was actually a step in the right direction.

The positive accomplishment of a state-driven society, which we call Society 1.0, is its stability. The central power creates structure and order and calms the random violence that preceded it. The downsides of Society 1.0 are its lack of dynamism and, in most cases, its lack of nurturing individual initiative and freedom.

SOCIETY 2.0: ORGANIZING AROUND COMPETITION

Historically, the more successfully a society meets the stability challenge, the more likely it is that this stage will be followed by a shift of focus from stability to growth and greater individual initiative and freedom. This shift gives rise to markets and a dynamic entrepreneurial sector that fuels economic growth.

At this juncture, we see a whole set of institutional innovations, including the introduction of markets, property rights, and a banking system that provides access to capital. These changes facilitated the unprecedented explosion of economic growth and massive industrialization that we saw in Europe in the nineteenth century, and that we are seeing in China, India, and other emerging economies today. *New York Times* journalist and bestselling author Thomas Friedman links the rise of the emerging economies with the rise of a global virtual middle class that includes not only today's actual middle class, but also the global community of Web and cellphone users who physically still live in poverty but who mentally already share an aspirational space with the current global middle class. Says Khalid Malik, the director of the UN's Human Development Report Office: "This is a tectonic shift. The Industrial Revolution was a 10-million-person story. This is a couple-of-billion-person story."⁸

Awareness during this stage of development—Society 2.0—can be described as an awakening ego-system awareness in which the self-interest of economic players acts as the animating or driving force. The bright side of this stage is the burst in entrepreneurial initiative. The dark side of this stage includes negative externalities such as unbounded commodification and its unintended side effects, including child labor,

human trafficking, environmental destruction, and increased socioeconomic inequality.

The two main sources of power at this stage are state-based coercive legal and military power (sticks) and market-based remunerative power (carrots). The great positive accomplishments of the laissez-faire free-market 2.0 economy and society are rapid growth and dynamism; the downside is that it has no means of dealing with the negative externalities that it produces. Examples include poor working conditions, prices of farm products that fall below the threshold of sustainability, and highly volatile currency exchange rates and stock market bubbles that destroy precious production capital.⁹

SOCIETY 3.0: ORGANIZING AROUND INTEREST GROUPS

Measures to correct the problems of Society 2.0 include the introduction of labor rights, social security legislation, environmental protection, protectionist measures for farmers, and federal reserve banks that protect the national currency, all of which are designed to do the same thing: limit the unfettered market mechanism in areas where the negative externalities are dysfunctional and unacceptable. The resulting regulations, products of negotiated agreements among organized interest groups, serve to complement the existing market mechanism.

As society evolves, sectors become differentiated: first the public or governmental sector, then the private or entrepreneurial sector, and finally the civic or NGO sector. Each sector is differentiated by its own set of enabling institutions. Each sector also evolves its own forms of power (sticks, carrots, and norms) and expresses a different stage in the evolution of human consciousness, from traditional (1.0) and ego-system awareness (2.0) to an extended stakeholder awareness that facilitates partnerships with other key stakeholders (3.0). (See table 2.)

Stakeholder capitalism, or Society 3.0, as practiced in many countries, deals relatively well with the classical externalities through wealth redistribution, social security, environmental regulation, farm subsidies, and development aid. However, it fails to react in a timely manner to global challenges such as peak oil, climate change, resource scarcity, and changing demographics. Over time, response mechanisms such as farm subsidies or subsidies for ethanol-based biofuel become part of the

problem rather than the solution.¹⁰ There are three essential limitations of Society 3.0: It is biased in favor of special-interest groups, it reacts mostly to negative externalities, and it has only a limited capacity for intentionally creating positive externalities. Table 2 summarizes these stages of societal evolution.

Moreover, global externalities such as climate change, environmental destruction, and extreme poverty are not being addressed effectively by domestic mechanisms, as the breakdown of international climate talks has put on display. Since the governance mechanisms of a 3.0 society give power to organized interest groups, they systematically disadvantage all groups that cannot organize as easily because they are too large (e.g., consumers, taxpayers, citizens) or because they do not yet have a voice (future generations).

Summing up, twenty-first-century problems cannot be addressed with the twentieth-century vocabulary of welfare-state problem solving. The challenge that most societies face is how to respond to externalities in a way that strengthens individual and communal entrepreneurship, self-reliance, and cross-sector creativity rather than subsidizing their absence.

SOCIETY 4.0: ORGANIZING AROUND THE EMERGING WHOLE

As we move to deal with the complexity of the twenty-first century's landscape of challenges, we face some contradictory trends: (1) a further differentiation of societal subsystems that have their own ways of self-organizing; (2) a business subsystem that in many countries dominates and interferes with other sectors (government, civil society, media); and (3) a lack of effective platforms that engage all stakeholders in a focused effort to innovate at the scale of the whole system.

The most significant change at the beginning of this century has been the creation of platforms for *cross-sector cooperation* that enable change-makers to gather, become aware of, and understand the evolution of the whole system, and consequently to act from impulses that originate from that shared awareness.

Each stage discussed above is defined by a primary *challenge*. Society 1.0 deals with the challenge of stability. The next challenge is growth

(2.0), followed by externalities (3.0). Each challenge requires society to respond by creating a new *coordination mechanism*. The response to the lack of stability was the creation of a centralized set of institutions around state power. Markets were the response to the growth challenge, and NGO-led stakeholder negotiations attempted to address negative externalities. Each phase led to the rise of a new societal *sector*: The stability challenge created a central power or government; the growth challenge created the rise of businesses; and the attempt to address the negative externalities created different NGOs that supported stakeholder groups such as labor activists, environmentalists, and human rights activists. And again, each area has its own source of *power*: sticks, carrots, and norms.

Each configuration also comes with a specific set of core beliefs, which we discuss in more detail in chapter 3. Society 1.0 has an ideology of state-centric core beliefs (state planning). Society 2.0 adopts a market-centered set of core beliefs (market competition). Society 3.0 operates according to a communication- or discourse-centric set of beliefs that typically integrates both markets and government (examples: twentieth-century Keynesianism or the European-style social-market economy). The last column in table 2 anticipates an emerging stage that we refer to as Society 4.0 or, to use another placeholder term, the co-creative eco-system economy, which innovates at the scale of the whole system. In this developmental framework, each system's players operate with a different state of awareness. The 1.0 economies operate according to the primacy of traditional awareness: complying with existing mind-sets and rules. The 2.0 economies awaken to the ego-system awareness that Adam Smith famously captured when he wrote: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."¹¹ In 3.0 economies, this self-interest is widened and mitigated by the self-interest of other stakeholders who organize collectively to bring their interests to the table through labor unions, government, NGOs, and other entities.

In the emerging 4.0 stage of our economy, the natural self-interest of the players extends to a shared awareness of the eco-system. Eco-system

awareness is an internalization of the views and concerns of other stakeholders in one's system. It requires people to develop the capacity to perceive problems from the perspective of others. The result is decisions and outcomes that benefit the whole system, not just a part of it.

A close look at today's economies and societies reveals an awakening of eco-system awareness in numerous arenas. For example, the movements for Slow Food, conscious consuming, fair trade, LOHAS (Lifestyles of Health and Sustainability), socially responsible investing, and collaborative consumption are all extending their reach to include the concerns of others in the economic process. They can be seen as forerunners of the 4.0 state of the economy.

One Map, Many Journeys

The previous section introduced the developmental map. But the map is not the journey or the territory. The journey differs according to the historical context for each country and civilization. A quick tour through some of the main regions of our global economy illustrates various journeys and their different territories from 1.0 to 4.0. At this point, we are looking at the evolution of society from 1.0 to its current, modern form—that is, a form that is characterized by the *division of labor* and the *differentiation* of multiple subsystems.

EUROPE

At the end of the devastating Thirty Years' War (1618–48), Europe was ready to move to Society 1.0. In 1648 the territory that today is referred to as Germany had eighteen hundred kingdoms. Over time, territorial integration increased, and the French Revolution greatly accelerated societal innovation across Europe, giving birth to Society 2.0. Starting in the early to mid-nineteenth century, negative externalities such as poverty, exploitation of low-income workers, and child labor led to a variety of societal responses and eventually to Society 3.0. Features of Society 3.0 include social security legislation, environmental laws, and consumer protection regulations. The postwar twentieth century was, from a European point of view, a significant success story for Society 3.0.

But toward the end of the century some of those achievements

began to crumble when unemployment, environmental issues, and financial bubbles created problems that European governments were unable to address with a 3.0 mindset, as the euro crisis after 2008 well demonstrates.

THE UNITED STATES

Society 2.0 was born with the American Revolution. The state-centered 1.0 version of society never had a strong home base in the United States. In fact, 1.0 institutions, seen from a US perspective, might resemble more what people did not like about Europe—what made them leave the Old World for the New World. Early Society 2.0 in America was not formed to limit an oppressive US state, but to limit the oppressive European colonial states. As a consequence, even today, mistrust of government or anything that looks like a 1.0 structure runs deep in many parts of US culture. The 2.0 version of a market economy, however, was firmly grounded at home.

Throughout the twentieth century, particularly during the Great Depression of the 1930s, negative externalities in the form of mass unemployment and poverty moved the United States toward Society 3.0. Major milestones on that journey were a series of financial bubbles that sparked the creation of the Federal Reserve System in 1913 and the New Deal, which President Franklin D. Roosevelt introduced in 1933–36 (and which included white industrial workers in the North but not black farmworkers in the South). A period of relative economic stability followed, until 1980.

In the 1980s the neoliberal Reagan-Thatcher revolution began to move the country backward from 3.0 to 2.5, so to speak, by reshaping the institutional design in favor of deregulation, privatization, and tax reduction, particularly for the rich and super-rich. The deregulation of the financial system continued through several Republican and Democratic administrations. The disastrous end of the Glass-Steagall Act in 1999 happened on the watch of Democrats (under President Clinton), not Republicans, permitting commercial banks to engage in securities activities and effectively setting the stage for the near-total collapse of the global financial system less than a decade later.

President Obama's health care reform legislation (the Affordable Care Act) completes the 3.0-related innovations that started in the early twentieth century. For the time being, as we write this in early 2013, the country remains politically paralyzed and deeply divided between 2.0 fundamentalists (on the far Right), 3.0 believers (on the traditional Left), and people who think that neither one nor the other will do the trick and that something entirely different is needed today.

AFRICA

Research suggests that the human species originated in Africa. When the nineteenth-century colonialist Europeans and other Westerners imposed a ruthless regime of exploiting the soil and the people of Africa, millions of slaves were sold to the Americas and elsewhere. Thus, the introduction of the modern state came with an iron (and malevolent) fist. The governments that were put in place by European colonial powers first and foremost served those powers' interests.

The Arab revolution of 2011 that was ignited in Tunisia and Egypt is directed against the last strongholds of those cynical and corrupt 1.0 regimes that have continued to exist in North Africa, where Western powers have repeatedly turned a blind eye to civil rights violations in exchange for cheap oil.

Throughout the late twentieth century, the World Bank (among others) facilitated a push toward Economy 2.0 institutional innovations. The so-called Washington consensus called for market-oriented changes (deregulation, privatization, less government, and less government spending) that guided World Bank policies from 1979 to 2009. As various countries within Africa now move from 1.0 and 2.0 to 3.0 on a variety of paths, questions remain: how to help fragile states whose core societal functions and institutions have been deeply disrupted? How can a 4.0 approach that incorporates all stakeholders and all sectors strengthen the resilience and innovation capacity of the whole system?

JAPAN

When European powers colonized Asia, only two or three countries escaped that fate. Japan was one of them, Thailand and Bhutan the

others. Having imported Buddhism, Confucianism, and elements of Chinese culture in the first centuries A.D., Japan developed its own version of Society 1.0 over many centuries, notably through the Tokugawa shogunate. The forced opening of Japan by Commodore Perry in 1854, followed by the Meiji Revolution in 1868, brought to Japan a second major wave of foreign culture and technology, this time from the West. It set the country on a path toward Society 2.0 and 3.0. Losing the Pacific War reimposed core elements of Society 2.0, though many cultural elements of Society 3.0 remained (e.g., *keiretsus*—informal sets of inter-related companies).

CHINA

With five thousand-plus years of history, China is one of the world's oldest civilizations and home to more than 1.3 billion people. It was among the most advanced societies and economies for much of its history, but missed the Industrial Revolution in the nineteenth century and saw its decline accelerate through invasions by colonial powers from Europe. After a period of civil war in the first part of the twentieth century, China moved into the 1.0 stage under the leadership of Mao (1949), and thirty years later into stages 2.0 and 3.0 under the leadership of Deng Xiaoping and his successors.

In the Organisation for Economic Co-operation and Development (OECD) countries, stages 1.0 to 3.0 tend to blend together as a single economic system ("many countries, one system"). In contrast, in China there are highly developed market economies in one part of the country and largely traditional state-led economies in other parts of the country, making China a new type of model that can best be described as "one country, many systems." China's success story of the past thirty years has no parallel anywhere in the world—not in the industrialization of the United Kingdom or the United States, not after the Meiji Revolution in Japan, and not in the German *Wirtschaftswunder* after World War II.

Yet, like everyone else, the Chinese today face massive challenges, including environmental issues, rising inequality, rising expectations from its emerging middle class, slowing growth, and increasingly disruptive and depressed global business environments. In its twelfth Five-Year Plan (2011–15), China focuses both on economic growth and on

innovations to make progress on its path toward a harmonious society. While the Western media focus on China's environmental issues and civil rights violations, Chinese industry has emerged as a leader in core technologies for renewable energy. What would a stage 4.0 Chinese economy and society look like? How can China prototype and scale an eco-system economy that has the capacity to navigate and innovate at the scale of the whole?

INDONESIA

With 17,000 islands, Indonesia is the world's largest archipelagic state and home to 240 million people, making it the fourth most populous country and the third most populous democracy. It is also home to the world's largest Muslim population. The nation is blessed with vast natural resources—it is the region with the second highest biodiversity on the planet. Located between China and India, Indonesia has always been a crossroads of international trade. Along with trade came the cultural influences of Hinduism and Buddhism (starting in the seventh century B.C.), Islam (starting in the thirteenth century), and Europe, with three and a half centuries of colonization by the Dutch (starting in the sixteenth century). The highly diverse Indonesian people united across all their divisions in a fight for independence from the Dutch and the Japanese, leading to a unified country and independent state in 1945–49.

During the era of founding president Sukarno, from 1945 to 1967, the country was run by an authoritarian, centralized government. During the following Suharto era, from 1968 to 1998, the country moved from an authoritarian 1.0 system to a 2.0 structure that blended authoritarian government with the market and foreign direct investment. After the revolution in 1998, the country moved into the 3.0 stage of its economic development, featuring its first direct presidential election (2004), the decentralization of government (2005), and the rise of civil society participation in multisector dialogue on the complex issues of economic, political, and social development. Indonesia is a founding member of the Association of Southeast Asian Nations (ASEAN) and has been one of the fastest-growing G20 members since the economic crisis in 2008.

INDIA

India's ancient history dates back to the Indus Valley civilization in South Asia around 2500–1900 B.C.E. Different kingdoms and sultanates stabilized the country from the Middle Ages until the eighteenth century, when European outposts began to create their own economic dominance. They brought technology and infrastructure into the country and began an alliance with the Indian elite class. The result was a shift in India's economy. It no longer exported goods, but raw materials. India was a British colony from 1858 until the end of World War II. After its independence, when Gandhi's notion of self-reliance was an important economic concept, India's economic system stayed closed to external economies or economic partners. In the late 1980s, India held only 0.5 percent of the global market. This changed after a financial crisis in 1989–91. The IMF pushed for a liberalization of India's economy and opened the door for international investors. As a result, the Indian economy exploded with a growth rate between 7 and 9 percent. The result of this development was a dual economy with a 2.0 economy dominated by large corporations that took over the role of the government and created an infrastructure in the areas where they needed it. And it left a 1.0 economy without an infrastructure outside of these corporate-regulated areas. As current growth rates start to slow down, the next steps will have to deal with the larger eco-system conditions. Current levels of corruption and the growing tensions in the overall system create new challenges for which 1.0, 2.0, and even 3.0 economies can offer no satisfying answers.

BRAZIL

With more than 200 million inhabitants, Brazil is the world's fifth most populous country. Recognized as having the greatest biodiversity on the planet, Brazil has an economy that has grown swiftly in the twenty-first century, and it has pioneered conditional cash transfer programs that have lifted millions of people out of poverty. After three centuries of Portuguese colonial rule, Brazil declared its independence in 1822, abolished slavery in 1888, and became a presidential republic in 1889. For much of the twentieth century, until 1985, it was shaped by authoritarian military regimes that guided the country through various more or

less 1.0 (state-centric) stages of economic development. With Fernando Henrique Cardoso as minister of finance (1992–94) and then as president (1994–2002), the country created a solid 2.0 economic foundation, which President Luiz Inácio Lula da Silva was able to leverage while taking the economy to 3.0—that is, to a social-market economy that creates growth by putting money into the hands of the most marginalized citizens (through conditional cash transfers). Today, under President Dilma Rousseff, Brazil is facing heightened expectations, slower growth, and a new set of infrastructure challenges that will require the country to go beyond “more of the same.”

RUSSIA

In 1917, two revolutions ended the reign of the Russian tsar and marked the beginning of the Russian Civil War. In 1921, at the end of this civil war, the Russian economy and living conditions were devastated. In 1922 the Russian Communist Party established the Soviet Union and a centralized economic system, a 1.0 economy. Collective agricultural production and restricted production of consumer goods were primary features of this centralization. In 1929, Stalin introduced the so-called Five-Year Plans that became the central planning tool for communist countries. The Soviet Union quickly increased its industrial production in the years prior to World War II and then again in the 1960s under Brezhnev, when it also became one of the world’s largest exporters of natural gas and oil. But the 1965 “economic reform” that aimed at introducing entrepreneurial management ideas reflected the limitation of the centralized 1.0 economy.

The war in Afghanistan, economic problems, and then the political changes that led to the revolutions in Eastern Europe ended the Soviet Union. In 1990, Mikhail Gorbachev introduced perestroika and glasnost, which marked the transition from a centralized 1.0 to a 2.0 society. After his removal from power and with guidance from Harvard advisers, this transition took full effect in the form of “shock therapy.”

The result was nothing short of catastrophic, with a rapid increase in poverty and even worse living conditions. At the same time, a small group of well-connected individuals managed to seize ownership of formerly state-owned enterprises. The poor and the less privileged suffered

under a system with little regulation. These negative externalities of the 2.0 market economy were accompanied by several political and economic crises, including hyperinflation and the financial crisis of 1998. A year later, the new president, Vladimir Putin, brought back some of the centralized power structure, better balancing the dynamics of 1.0 and 2.0. Fueled by high energy prices, Russia has seen much higher and more consistent growth rates since that time.

The often harsh criticism in the Western media of Russia usually misses two points. One, it took the West an awfully long time to move from 1.0 (during the Thirty Years' War) to 2.0 (with the Industrial Revolution). Why not give Russia at least a few years to sort these things out? And, two, in a world of ever-increasing resource scarcity, Russia is sitting on a gold mine of resources. As time goes on, the value of these resources will rise and turn Russia into a sought-after partner of both the EU and the emerging East Asian economic zone.

Globalization 1.0, 2.0, 3.0—and 4.0?

What this mini-tour demonstrates is that every country and world region takes its own developmental path. Still, the pathways of social and economic evolution across cultures do have some commonalities. We can track them as an evolution from low to high complexity, or, in terms of consciousness, from traditional and ego-system awareness to ecosystem awareness.

Yet there are also recent examples of countries that have moved backward, from 3.0 structures toward 2.0. The neoliberal Thatcher-Reagan revolution, for example, spurred many countries to scale back their domestic 3.0 accomplishments, such as social security, in order to be “competitive” in the global 2.0 competition and global capital markets.

So what is going on? One way to read the current flow of events is that waves of globalization replicate on an international level the same stages that we saw previously in individual countries:

a journey from globalization 1.0 (the United Nations system, founded in 1945 after World War II) to

- 2.0 (globalization of markets and capital markets, particularly after the end of the Cold War system and the collapse of the Berlin Wall in 1989), to
- 3.0 (globalization of civil society, particularly after the World Trade Organization–related “battle of Seattle” in 1999), and perhaps to
- 4.0, an emerging future state of global cross-sector co-creation for protecting the commons

Conclusion and Practices

This chapter investigated the first dimension of our blind spot: structural disconnects. As a set, these systemic disconnects could spur the next wave of institutional renewal, just as a hundred years ago the crisis of the 2.0 laissez-faire market economy catalyzed a whole new wave of institutional innovations that today we associate with the 3.0 social-market economy.

JOURNALING QUESTIONS

Take a journal (or blank piece of paper) and reflect on how the systemic disconnects show up in your world by writing your responses to the questions below.

- 1. Where does your food come from?
- 2. What roles does material consumption play in your life?
- 3. What makes you happy?
- 4. What is your relationship to money?
- 5. Given the four stages of economic development discussed in this chapter, how do you see the past, present, and future of your own community and country?

CIRCLE CONVERSATION

Form a circle of five to seven individuals and discuss the organizational or professional context that each person brings to the circle. Ask the following questions (or some variation):

1. Introduce your own organization by relating one or two formative experiences that shaped its culture as it is today.
2. Where does your organization experience a world that is ending/dying, and where does it experience a world that is beginning/wanting to be born?
3. What do you consider to be the root causes of the problems that you face in your institutional and professional work today?
4. What do you personally feel is going to happen in and to your organization over the next ten to twenty years?
5. What would you like to do right now in order to make a difference for your organization going forward?