



## The Great Reset: New Economics Rules for a Better Normal

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Economics is a science of context, the nexus of social conventions framing and directing the behavior of economic agents, while the economy is an aggregation of different forms of such behavior. The economy is a man-made system, highly nonlinear, with frequent paradigm shifts, with a set of rules explaining the behavior of economic agents.

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The model of growth endorsed by conventional economic theory has largely ignored the operating principles of physical systems and biosphere, continually neglecting negative externalities, the depletion of resources, and inequalities. Anthropogenic climate crisis and recent microbe mutations have sublimated the negative consequences of these fault lines.

The orthodox model of growth is based on a linear model of production. The related policy platform stems from two assumptions, the linearity of economic system and pattern matching behavior of economic players. Therefore, unconventional policies and their unintended consequences have provoked some critics to say that Economics is a “dismal science”, a toy in the hands of politicians.

In neoliberal capitalism, as the last version of free market capitalism, the economic policy platform has largely ignored the government’s coordination role. Macroeconomic stability has been maintained through inflation targeting, as a major policy tool. This platform proposes one set of policies for the “good times” coming from the market fundamentalism mantra and another set of policies for the “bad times” relying on Keynesian deficit spending.

There is no exit strategy from unconventional policy measures. Money printing and fiscal stimulus inhibit creative destruction and force dependent sectors to act inadequately. When the number of start-ups is going down and the number of value-subtracting incumbents (Zombie companies) is going up, the economy enters free fall.

The economy in free fall cannot recover by itself and make the planet sustainable again. Not only to thrive, but to also survive, the economic system needs multiple and radical changes, the Great Reset.

Coincidentally, over the last four decades four leading trends have had a major impact on the paradigm shift in Economics: rise of Behavioral Economics, fall of market fundamentalism, intensification of technological change inspired by two industrial revolutions (3IR and 4IR), and growing awareness of the global commons.

The breakthroughs in Behavioral Economics have undoubtedly shown that people are not necessarily rational and consistent, not selfish by definition, and without a symmetric risk-reward relationship. Moreover, well-being is not the first derivative of egoism. Economics is not a natural science, such as Physics. So, the explanatory power of heuristics, trials-and-errors and feedback loops is greater than targeting based on optimization modelling. These days, nonlinear systems dominate in natural sciences and engineering. When universal connectivity is a new free good, the prevailing strategy of business leaders is “big and disruptive”. The amalgams of different innovations and platforms make the emerging level playing field of competitive dynamics nonlinear, too. The first in line for undergoing changes is the economic system that has to be oriented toward the global commons.

Stakeholder capitalism, circular (and regenerative) model of growth, heterodox economic policy platform with industrial policies and automatic stabilizers from monetary and fiscal spheres, “net-zero” vision, and impact investments financed by “green” instruments, could be considered as the seeds of the Great Reset.

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