

# Book Review

*Why Most Things Fail: Evolution, Extinction and Economics*  
by Paul Ormerod  
London: Faber and Faber Ltd, 2005



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Given the pervasive nature of failure currently undermining economies, this book presents itself as a one-stop shop to dissecting the disposition of economic and societal collapse. In reality it is more a high concept book which offers little in the way of practical advice for managers of ailing firms in today's tumultuous climate. However, what the book successfully offers is a thought-provoking, fresh perspective on failure in markets, governments and societies. *Why Most Things Fail* is a fusion of ideas that draws from economics to biology, history to mathematics and psychology to physics. The author is keenly inspired by Hayek, the 1974 co-Nobel Laureate in Economics, whom he cites within the text as saying, 'An economist who is only an economist cannot be a good economist' (p. 226); it is clear from the beginning of the book that this is a mantra Ormerod strongly believes in. The text commences by introducing the reader to the Iron Law of Failure, which highlights the permeating nature of failure; according to Ormerod extinction eventually strikes, in fact, '99.99% of all biological species which have ever existed are now extinct' (p. ix). This statistic becomes increasingly daunting when the author presents a link between the extinction of biological species and the failure of companies. The juxtaposed relationship between biological species and economic organisations is the most intriguing argument presented in the book. The author puts forth his model, that the mathematical relationship which illustrates the link 'between the frequency and size of the extinction of companies ... is virtually identical to that which describes the extinction of biological species in the fossil record' (p. x). While this statement sounds rather outlandish it provides a great backdrop to illustrate the grave differences between the cold, logical agents that underpin most economic theories and the complex, evolving, instinctive firms that are indicative of real life and exemplified within the text. It is also noted that a fundamental difference between biological evolution and the evolution of the firm is that companies are run by individuals

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acting in a strategic manner with the intent of becoming increasingly fit for survival, whereas 'the process of evolution of biological species cannot be planned' (p. xi).

The next section of the book (Chapters 2, 3 and 4) examines issues such as inequality, social segregation and poor social mobility in the context of both the economy and broader society as failure is inherent yet highly undesirable in these areas. Some thought-provoking concepts are raised in this section, such as the 'diamond back', where the minority elite live in the confines of a diamond-shaped enclosure and pass on privileges to their children, while the less fortunate majority live in their own diamond and the two diamonds are connected by a narrow isthmus which a rare few will ever cross, and although education can be and is being used as an instrument to increase the level of social mobility across the classes the rate of social mobility has been consistently falling from the late 1960s up to the present day (p. 41). Social segregation is examined using Manchester's disparate social classes and territories as an example because they remain distinctly separate to such a degree that it is very similar in 2004 to what it was in 1844, despite generations of social reformers working towards social cohesion and integration (p. 60). According to the author, the failure of policy makers to overcome these societal injustices could be explained to a degree by Schelling's geographical segregation model. Schelling's model involves a massive chessboard-style layout with an equal number of two types of agents, which populate across the board in a random, scattered fashion. The game progresses by each agent being allowed to move individually and choosing to move if there is less than a specified percentage of its neighbours of the same type as itself. The end result of this model portrays the desire for agents to be surrounded by their peers and counterparts rather than the unfamiliar and thus goes some way to explaining the undercurrent that tacitly conflicts with the policies of government to overcome these social issues (p. 73).

The core arguments of the book are put forward in Chapters 5 and 6, where a systematic attack on the core models of classical economics is launched with great vigour, clarity and a surprising amount of justification. The author, an academic economist, brands classical economics as over-simplistic. Economic theory expects market actors to behave as rational agents in an effort to obtain equilibrium; however, realistically market decisions are based on complex interactions that evolve and change over time and cannot be reduced to a simple set of rules as portrayed by many textbooks. In fact, it is argued that the formulaic recipes for success found in economics textbooks are in the real world 'a prescription for failure' (p. 16).

The next five chapters of the book (Chapters 7 to 11) appear to be less developed than the earlier ones; they draw on examples to illustrate arguments which at times resemble an attempt to fit a round peg into a square hole and the entire flow of the book becomes more stagnated. This rainbow book of subjects also begins to come full circle by drawing on the work of modern economist Schumpeter, who pioneered the idea of creative destruction and evolutionary economics, and Darwin, the biological evolutionist. To this end, knowledge acquisition, innovative thinking and an ability to adapt to changing environments are all heralded as the best way forward to avoid failure. To governments restraint is

advocated, as most interference in the operations of the market is likely to add to problems due to the complexity of our environment.

The remaining three chapters (Chapters 12 to 14) explore these complexities in more detail and the author concludes that an understanding of these networks and their evolution is key to overcoming extinction. Dense networks and strong connections facilitate knowledge exchange and reduce the curse of dimensionality. Dimensionality contributes to failure due to a vast chasm of disparity between the proprietors of valuable information and the governors of power. It is advocated that power should be channelled down into the hands of communities and people so they can see that failure is pervasive and contribute their knowledge and experiences to overcome it. This notion is similar to Britain's latest public policy move, the 'Big Society', which aims to devolve power away from central government and back into local communities, so perhaps in the future a working example of Ormerod's vision of societal evolution will manifest.

To truly understand success we must first obtain a strong grasp on the concept of failure; this is the author's premise for writing this book as much of the market is transfixed by business 'gurus' who 'eulogize contemporary success' (p. ix). While this book does a fascinating job of exploring economic and social failure through an unusual host of illustrations from the evolution of a sunflower to the temperament of a hawk and right back to the poor foresight of Bill Gates and the misplaced actions of Friedrich Engels, it certainly fails to live up to its title as an explanative text on the failure of 'most things'. This book also does not contain any groundbreaking new theories that will change the landscape of economics; however, what it does exceptionally well is present the reader with familiar theories from a new, thought-provoking perspective. As such, this book would be beneficial for persons wishing to reacquaint themselves with economic literature or individuals looking for a fresh take on familiar theories as the reader is escorted through the main components of economic theory; however, the author's multidisciplinary background takes us on a journey that affords us the ability to visualise the familiar theories through an array of lenses.

Ultimately, Ormerod presents himself as a free-market capitalist whose disdain for the over-simplicity of economic theories also shines through; however, the arguments made while criticising the theories are valid, articulate and persuasive. While many people who have studied economics are aware of its limitations already it is refreshing to see such an impassioned critique of its underpinning theories. These thoughts are already a pervasive theme in the present business literature; however, while the core conclusions of the book are not new, the author's methods of deducing them are certainly intriguing, unique and well worth a read.

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