

From Peter Barnes, *Capitalism 3.0* (Berrett-Koehler, 2006).

Chapter 5

Reinventing the Commons

Imagination is more important than knowledge.

—Albert Einstein, 1929

Thus far I've argued that Capitalism 2.0—or surplus capitalism—has three tragic flaws: it devours nature, widens inequality, and fails to make us happier in the end. It behaves this way because it's programmed to do so. It *must* make thneeds, reward property owners disproportionately, and distract us from truer paths to happiness because its algorithms direct it to do so. Neither enlightened managers nor the occasional zealous regulator can make it behave much differently.

In this part of the book I advance a solution. The essence of it is to fix capitalism's operating system by adding a commons sector to balance the corporate sector. The new sector would supply virtuous feedback loops and proxies for unrepresented stakeholders: future generations, pollutees, and nonhuman species. And would offset the corporate sector's *negative* externalities with *positive* externalities of comparable magnitude. If the corporate sector devours nature, the commons sector would protect it. If the corporate sector widens inequality, the commons sector would reduce it. If the corporate

sector turns us into self-obsessed consumers, the commons sector would reconnect us to nature, community, and culture. All this would happen automatically once the commons sector is set up. The result would be a balanced economy that gives us the best of both sectors and the worst of neither.

To be sure, building an economic sector from scratch is a formidable task. Fortunately, the commons sector *needn't* be built from scratch; it has an enormous potential asset base just waiting to be claimed. That asset base is the commons itself, the gifts of nature and society we inherit and create together. As we'll see, these gifts are worth more than all private assets combined. It's the job of the commons sector to organize and protect these gifts, and by so doing, to save capitalism from itself.

Our Common Wealth

Everyone knows what *private* wealth is, even if they don't have much of it. It's the property we inherit or accumulate individually, including fractional claims on corporations and mutual funds. In the United States in 2005, this private wealth (minus mortgages and other liabilities) totaled \$48.5 trillion. As previously noted, the top 5 percent of Americans owns more of this treasure than the bottom 95 percent.

But there's another trove of wealth that's not so well-known: our *common* wealth. Each of us is the joint recipient of a vast inheritance. This shared inheritance includes air and water, habitats and ecosystems, languages and cultures, science and technologies, social and political systems, and quite a bit more.

Common wealth is like the dark matter of the economic universe—it's everywhere, but we don't see it. One reason we don't see it is that much of it is, literally, invisible. Who can spot the air, an

aquifer, or the social trust that underlies financial markets? The more relevant reason is our own blindness: the only economic matter we notice is the kind that glistens with dollar signs. We ignore common wealth because it lacks price tags and property rights.

I first began to appreciate common wealth when Working Assets launched its socially screened money market fund. My job was to write advertisements that spurred people to send us large sums of money. Our promise was that we'd make this money grow, without investing in really bad companies, and send it back—including the growth, but minus our management fee—any time the investor requested. It struck me as quite remarkable that people who didn't know us from a hole in the wall would send us substantial portions of their savings. Why, I wondered, did they trust us?

The answer, of course, was that they didn't trust *us*, they trusted *the system* in which we operated. They trusted that we'd prudently manage their savings not because we'd *personally* earned their confidence, but because they knew that if we didn't, the Securities and Exchange Commission or some district attorney would bust us. Beyond that, they trusted that the corporations we invested in were honest in computing their incomes and reliable in meeting their obligations. That trust, and the larger system it's based on, were built over generations, and we had nothing to do with it. In short, although Working Assets provided a service people willingly paid for, we also profited from a larger system we'd simply inherited.

I got another whiff of common wealth when Working Assets considered going public—that is, selling stock to strangers through an initial public offering. Our investment banker informed us that, simply by going public, we'd increase the value of our stock by 30 percent. He called this magic a *liquidity premium*. What he meant was that stock that can be sold in a market of millions is worth more

than stock that has almost no market at all. This extra value would come not from anything *we* did, but from the socially created bonus of liquidity. We'd be reaping what others sowed. (In the end, we didn't go public because we didn't want to be subjected to Wall Street's calculus.)

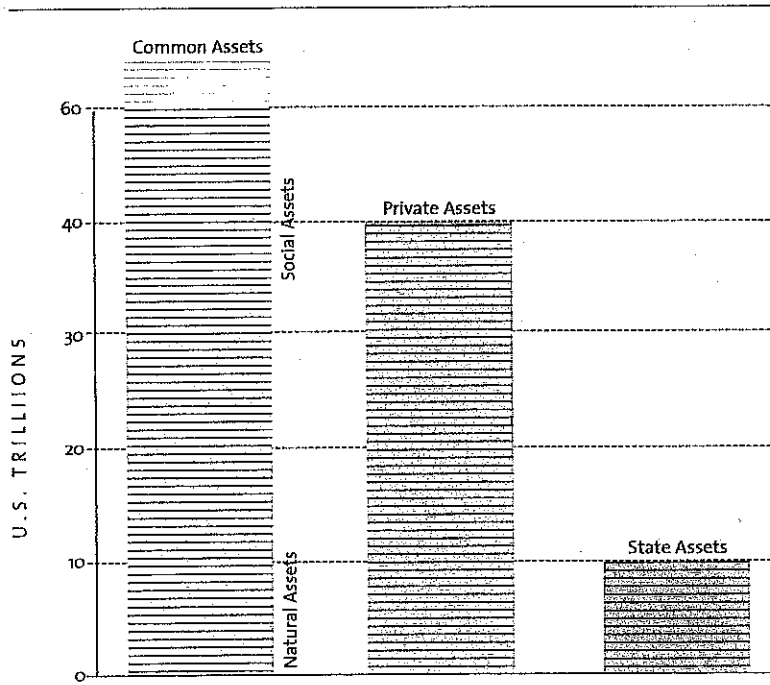
Trust and liquidity, I eventually realized, are just two small rivulets in an enormous river of common wealth that encompasses nature, community, and culture. Nature's gifts are all those wondrous things, living and nonliving, that we inherit from the creation. Community includes the myriad threads, tangible and intangible, that connect us to other humans efficiently. Culture embodies our vast store of science, inventions, and art.

Despite its invisibility, the value of our common wealth is immense. How much, roughly, is it worth? It's easy to put a dollar value on private assets; they're traded regularly, so their exchange value—if not their intrinsic value—is readily knowable. This isn't the case with common wealth. Many shared inheritances are valuable beyond measure. Others are potentially quantifiable, but there's no current market for them.

Fortunately, economists are a clever lot, and they've developed methodologies to estimate the value of things that aren't traded. Using such methodologies, it's possible to get an order of magnitude for the value of common wealth. The conclusion that emerges from numerous studies is that even though much common wealth can't be valued monetarily, the parts that can be valued are worth more than all private assets combined (see figure 5.1).

It's worth noting that figure 5.1 understates the gap between common and private wealth. That's partly because it omits much common wealth that can't be quantified, and partly because a portion of the value attributed to private wealth is in fact an

Figure 5.1
 APPROXIMATE VALUE OF COMMON, PRIVATE, AND
 STATE ASSETS, 2001 (\$ TRILLIONS)



Reflects only quantifiable assets.
 Source: Friends of the Commons, *State of the Commons 2003-04*.
<http://friendsofthecommons.org/understanding/worth.html>. Reprinted with permission.

appropriation of common wealth. If this mislabeled portion is subtracted from private wealth and added to common wealth, the gap between the two widens further.

An example may help explain this. Suppose you buy a house for \$300,000, and without improving it, sell it a few years later for \$400,000. You pay off the mortgage and walk away with a pile of cash. Your private wealth increases. But think about what *caused* the house to rise in value. It wasn't anything you did. Rather, it was the fact that your neighborhood became more popular. That, in turn,

HOW MUCH DO WE OWN?

Natural Assets

In 2002, economists Robert Costanza and Paul Sutton estimated the contribution of ecosystem services to the U.S. economy at \$2 trillion. Ecosystem services represent the benefits humans derive from natural ecosystems, including food from wild plants and animals, climate regulation, waste assimilation, fresh water replenishment, soil formation, nutrient cycling, flood control, pollination, raw materials, and more. Using data from many previous studies, as well as satellite photography, Costanza and Sutton estimated values for ecosystems per unit of *biome* (an acre of rain forest, or grasslands, or desert, for example). They then multiplied by the total area of each biome and summed over all services and biomes.

If \$2 trillion represents the yearly contribution of nature to the U.S. economy, what's the underlying value of America's natural assets? One way to answer this is to treat yearly ecosystem services as "earnings" produced by "stocks" of natural assets. These earnings can then be multiplied by the average price/earnings ratio of publicly traded stocks over the last fifty years (16.5/1) to arrive at an estimated natural asset value of \$33 trillion.

This figure is, if anything, an underestimate, because it ignores a singular aspect of nature: its irreplaceability. If Corporation X were to go out of business, its useful contributions to society would quickly be supplied by another corporation. If a natural ecosystem were to disappear, however, it could not so easily be replaced. Thus, an *irreplaceability premium* of indeterminate magnitude should be added to the \$33 trillion.

Social Assets

The value of community and cultural assets has been less studied than that of natural assets. However, we can get an order of magnitude by considering a few examples.

The Internet has contributed significantly to the U.S. economy since the 1990s. It has spawned many new companies (America Online, Amazon.com, Ebay, to name a few), boosted sales and efficiency of existing companies, and stimulated educational, cultural, and informational exchange. How much is all that worth?

There's no right answer to this question. However, a study by Cisco Systems and the University of Texas found that the Internet generated \$830 billion in revenue in 2000. Assuming the asset value of the Internet is 16.5 times the yearly revenue it generates, we arrive at an estimated value of \$13 trillion.

Another valuable social asset is the complex system of stock exchanges, laws, and communications media that makes it possible for Americans to sell stock easily. Assuming that this socially created "liquidity premium" accounts for 30 percent of stock market capitalization, its value in 2006 was roughly \$5 trillion. If that much equity were put in a mutual fund whose shares belonged to all Americans, the average household would be \$45,000 richer.

Not-for-profit cultural activities also pump billions of dollars into the U.S. economy. A 2002 study by Americans for the Arts found that nonprofit art and cultural activities generate \$134 billion in economic value every year, including \$89 billion in household income and \$24 billion in tax revenues. Using the 16.5 multiplier suggests that America's cultural assets are worth in excess of \$2 trillion.

These three examples alone add up to about \$20 trillion. The long list of other social assets—including scientific and technical knowledge, our legal and political systems, our universities, libraries, accounting procedures, and transportation infrastructure—suggest that the total value of our social assets is comparable in magnitude to that of our natural assets.

resulted from population shifts, a new highway perhaps, an improved school, or the beautification efforts of neighbors. In other words, your increased wealth is a capture of socially created value. It shows up as private wealth but is really a gift of society.

These numbers, crude as they are, tell us something important. Despite our obsession with private wealth, most of what we cherish, we share. To believe otherwise is to imagine a flower's beauty owes nothing to nutrients in the soil, energy from the sun, or the activity of bees.

It's time to notice our shared gifts. Not only that, it's time to name them, protect them, and organize them. The practical question is *how*?

Common Property Is Property Too

In Dr. Seuss's *The Lorax*, the eponymous character speaks for the trees, while his antagonist, the Once-ler, speaks for industry, jobs, and growth. Though both characters use clever language, it's not an even match. The Once-ler has property rights, while the Lorax has only words. By the end of the story, the Once-ler has cut down all the truffula trees; the Lorax's protests are eloquent but futile. The obvious moral is: trees need property rights too.

And why not? Property rights are useful human inventions. They're legally enforceable agreements through which society grants specific privileges to owners. Among these are rights to use, exclude, sell, rent, lend, trade, or bequeath a particular asset. These assorted privileges can be bundled or unbundled almost any which way.

It's largely through property rights that economies are shaped. Feudal economies were based on estates passed from lords to their eldest sons, alongside commons that sustained the commoners. Commoners were required, in one way or another, to labor for the lords, while the lords lived off that labor and the bounty of the land. The whole edifice was anchored by the so-called divine right of kings.

Similarly, capitalism is shaped by the property rights we create and honor today. Its greatest invention has been the web of property rights we call the *joint stock corporation*. This fictitious entity enjoys perpetual life, limited liability, and—like the feudal estate of yesteryear—almost total sovereignty. Its beneficial ownership has been fractionalized into tradeable shares, which themselves are a species of property.

There's nothing about property rights, however, that requires them to be concentrated in profit-maximizing hands. You could, for example, set up a trust to own a forest, or certain forest rights, on behalf of future generations. These property rights would talk as

loudly as shares of Pacific Lumber stock, but their purpose would be very different: to preserve the forest rather than to exploit it. If the Lorax had owned some of these rights, Dr. Seuss's tale (and Pacific Lumber's) would have ended more happily.

Imagine a whole set of property rights like this. Let's call them, generically, *common property rights*. If such property rights didn't exist, there'd be a strong case for inventing them. Fortunately, they do exist in a variety of forms—for example, land or easements held in perpetual trust, as by the Nature Conservancy, and corporate assets managed on behalf of a broad community, as by the Alaska Permanent Fund.

Some forms of common property include individual shares—again, the Alaska Permanent Fund is an example. These individual shares, however, differ from shares in private corporations. They're not securities you can trade in a market; rather, they depend on your membership in the community. If you emigrate or die, you lose your share. Conversely, when you're born into the community, your share is a birthright.

I recognize that, for some, turning common wealth into *any* kind of property is a sacrilege. As Chief Seattle of the Suquamish tribe put it, "How can you buy or sell the sky, the warmth of the land?" I empathize deeply with this sentiment. However, I've come to believe that it's *more* disrespectful of the sky to pollute it without limit or payment than to turn it into common property held in trust for future generations. Hence, I favor *propertization*, but not privatization.

Organizing Principles of the Commons Sector

Property rights, especially the common kind, require competent institutions to manage them. What we need today, then, along with more common property, is a set of institutions, distinct from

corporations and government, whose unique and explicit mission is to manage common property.

I say *set* of institutions because there will and should be variety. The commons sector should not be a monoculture like the corporate sector. Each institution should be appropriate to its particular asset and locale.

Some of the variety will depend on whether the underlying asset is limited or inexhaustible. Typically, gifts of nature have limited capacities; the air can safely absorb only so much carbon dioxide, the oceans only so many drift nets. Institutions that manage natural assets must therefore be capable of limiting use. By contrast, ideas and cultural creations have endless potential for elaboration and reuse. In these commons, managing institutions should maximize public access and minimize private tollbooths.

Despite their variations, commons sector institutions would share a set of organizing principles. Here are the main ones.

LEAVE ENOUGH AND AS GOOD IN COMMON

As Locke argued, it's okay to privatize *parts* of the commons as long as "enough and as good" is left for everyone forever. *Enough* in the case of an ecosystem means enough to keep it alive and healthy. That much, or more, should be part of the commons, even if parts of the ecosystem are private. In the case of culture and science, *enough* means enough to assure a vibrant public domain. Exclusive licenses, such as patents and copyrights, should be kept to a minimum.

PUT FUTURE GENERATIONS FIRST

Corporations put the interests of stockholders first, while government puts the interests of campaign donors and living voters first. No one at the moment puts future generations first. That's Job Number One for the commons sector.

In practice, this means trustees of common property should be legally accountable to future generations. (We'll see how this might work in chapter 6.) They should also be bound by the *precautionary principle*: when in doubt, err on the side of safety. And when faced with a conflict between short-term gain and long-term preservation, they should be required to choose the latter.

THE MORE THE MERRIER

Whereas private property is inherently *exclusive*, common property strives to be *inclusive*. It always wants *more* co-owners or participants, consistent with preservation of the asset.

This organizing principle applies most clearly to commons like culture and the Internet, where physical limits are absent and increasing use unleashes synergies galore. It also applies to social compacts like Social Security and Medicare, which require universal participation. In these compacts, financial mechanisms express our solidarity with other members of our national community. They're efficient and fair because they include everybody. Were they to operate under profit-maximizing principles, they'd inevitably exclude the poor (who couldn't afford to participate) and anyone deemed by private insurers to be too risky.

ONE PERSON, ONE SHARE

Modern democratic government is grounded on the principle of one person, one vote. In the same way, the modern commons sector would be grounded on the principle of one person, one share.

In the case of scarce natural assets, it will be necessary to distinguish between usage rights and income rights. It's impossible for everyone to *use* a limited commons equally, but everyone should receive equal shares of the *income* derived from selling limited usage rights.

INCLUDE SOME LIQUIDITY

Currently, private property owners enjoy a near-monopoly on the privilege of receiving property income. But as the Alaska Permanent Fund shows, it's possible for common property co-owners to receive income too.

Income sharing would end private property's monopoly not only on liquidity, but also on attention. People would *notice* common property if they got income from it. They'd care about it, think about it, and talk about it. Concern for invisible commons would soar.

Common property liquidity has to be designed carefully, though. Since common property rights are birthrights, they shouldn't be tradeable the way corporate shares are. This means commons owners wouldn't reap capital gains. Instead, they'd retain their shared income stakes throughout their lives, and through such stakes, share in rent, royalties, interest, and dividends.

A Glimpse Ahead

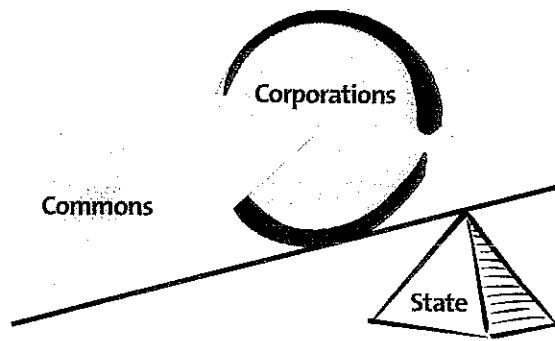
Unlike a computer operating system, Capitalism 3.0 won't come on a disk. It can't be downloaded, either. It must be built in the real world, asset by asset and commons by commons. The process is summed up in figure 5.2 and described more fully in chapter 9.

Under Capitalism 2.0, private corporations devour unorganized commons with help from the state. The playing field is heavily tilted. During the transition phase, the state assigns rights to commons institutions, just as it does to corporations. The playing field begins to level off. Finally, under Capitalism 3.0, private corporations and organized commons enhance and constrain each other. The state maintains a level playing field.

Figure 5.2
FROM HERE TO CAPITALISM 3.0

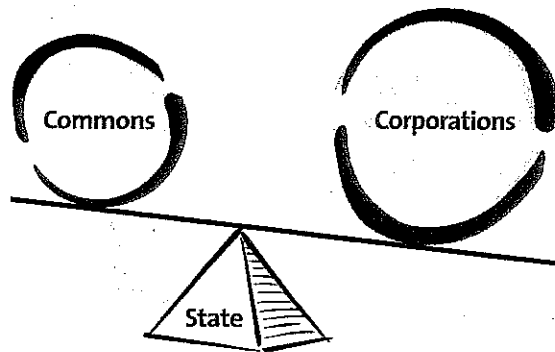
I: Capitalism 2.0

Private corporations devour unorganized commons with help from the state. The playing field is heavily tilted.



II: Reinventing the Commons

The state assigns rights to commons institutions, just as it has to corporations.



III: Capitalism 3.0

Private corporations and organized commons enhance and constrain each other. The state maintains a level playing field.

