

Journeys to the Generative Economy

By Marjorie Kelly

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I want to thank David Korten for that generous introduction; it's always a treat to share the stage with David. I also want to give a special thanks to Rich Lang and Jerry, for bringing me to Seattle 11. The last time they brought me here was in 2001, when my first book came out, *The Divine Right of Capital*. I love this city. Coming here always feels like coming home.

We've come a long way since 2001 – pretty much straight down. Looking back over that decade, we see Hurricane Katrina and the hurricane in financial markets of 2008 – spikes in food prices and gas prices, spikes in unemployment, glaciers melting down, the future of our young people melting down. But there's at least one good thing that has also changed, and that's the willingness to begin having more radical conversations about our economy.

That's what I want to do tonight. I want to talk about what a radically diff kind of economy might look like. I want to start with the story of my personal journey. Back in 1987 I co-founded *Business Ethics* magazine, where I charted the rise of corporate social responsibility, social investing, and business ethics in business schools. Over 20 years I saw these grow into industries – at same time that I saw business becoming more ruthless. Layoffs once done only when a company was at death's door became routine. Other corporate moves that became routine were outsourcing jobs, cutting pensions, moving employees to part-time work, demanding tax breaks from communities, doubling the number of lobbyists, and hiring union-busting consultants.

I began to ask myself, what's going on here? Where is there increasingly responsible rhetoric, and increasingly ruthless actions? I realized the root issue came down to one thing: the core purpose and structure of companies. In the dominant model we know today – with major corporations having ownership shares trading on Wall Street – there is a singular purpose of maximizing returns to shareholders, to owners. I think it's time we gave this model a name. I call it extractive design. Its aim is maximum extraction of wealth.

When we try to change this model from outside, it's like putting picket fences in front of a speeding locomotive. Regulations are just flattened, as we've seen in recent decades.

But there is another way to design an economy. In writing my new book, *Owning Our Future: The Emerging Ownership Revolution*, I've been journeying across the U.S. and Europe – visiting the places where an unseen economic revolution is rising up, all across the globe. It's not capitalism as we've known it; it's not socialism as we've known it. It's an economy grounded in a fundamentally different kind of social architecture – different kinds of ownership and financial design. It's an economy that tends to create beneficial rather than harmful outcomes. It's a living economy that has a built-in tendency to be socially fair and eco logically sustainable.

It's sometimes called the new economy. I think a more powerful name is the generative economy – a life-serving economy. It's not designed to extract financial wealth, but to generate the

conditions where all of us can flourish. The kind of economy that can keep this planet and all its inhabitants flourishing for generations to come.

There are many changes needed to get us to a new economy – political, cultural, technological. We'll need changes in regulation, changes in personal values system. But I would suggest there's a critical element we aren't talking about enough, and that is ownership design. As one colleague put it, "Ownership is the original system condition." Ownership is how wealth is created, and it determines who gets that wealth; it determines who controls the economy.

Wall Street ownership of a particularly rapacious sort is the foundation of capitalism. State ownership is the foundation of communism. But generative ownership is different than both. It's ownership for the common good. It can be private ownership, state ownership, community ownership, or alternative forms like cooperatives and social enterprise.

If capitalist ownership has a monoculture of design, generative ownership has diversity, with different models for different purpose. One example is community wind. I traveled to Denmark for this book, and I flew into Copenhagen, I saw standing there in the harbor a dozen offshore wind turbines. That's the Lynneten Wind Farm. It's half owned by a local municipal utility, half owned by a wind guild. These guilds were created by individual small investors, who joined together to invest in wind turbines, with no corporate middleman. Wind guilds are widely seen as deserving credit for jump-starting the wind industry in Denmark, a nation which now generates 20 percent of its electricity from wind – more than any other nation.

Housing is another area with promising new ownership models. Down in Boston I visited the Dudley Street Community Land Trust, which has helped revive an inner city neighborhood that once was filled with abandoned homes and empty lots. A young man who lived there told us he used to sit on the rooftop and watch fires burn in the neighborhood every night. As he said this, he gestured toward places now filled with green spaces and well-kept middle class homes, green spaces, and a community greenhouse. What revived this neighborhood is the Dudley Street Community Land Trust.

A community land trust is a design where the community owns the land through a nonprofit, while families own their houses privately. This is a model that makes homes more affordable and their prices more stable. Foreclosure rates on community land trust homes are one-tenth those of homes overall in the U.S. I attended a community land trust conference in late 2008, when the financial economy was imploding, and attorney David Abromowitz said, "It's like a bomb went off and all the houses have been flattened, but there is one well-built house still standing." The house left standing was the community land trust model. The reason is its ownership design.

Community ownership designs are also working well in banking. I visited Bill Howard, president of Beverly Cooperative Bank, in the midst of the banking crisis. He told me he had about 800 mortgages, and only five have gone bad in the last three years. The reason is that his bank is a cooperative bank, chartered to serve its community, not to maximize its short-term profits.

We see the same with credit unions, and with small, locally owned community banks – most did relatively well in the financial crisis. But they’re being crushed today by new capital requirements created because of the misdeeds of big banks.

The problem is that we don’t recognize generative ownership design as a category. We think a bank is a bank. We don’t see that some banks have a generative, life-serving purpose, while other banks have an extractive purpose.

Generative design is not just about being small and local. In northern Europe I discovered that large foundation-controlled corporations are quite common. These include Novo Nordisk in Denmark, which I visited in Kalundborg. It’s a multi-billion company that produces 40 percent of the world’s insulin. It produces for international distribution – but is accountable to place, because of its foundation ownership design. This is a company that takes the waste from making insulin, which is yeast, and treats it and gives it to farmers to spread on their fields as fertilizer, to feed to pigs. This kind of symbiotic arrangement has been in place in Kalundborg for decades – which is made possible because of the stable ownership and governance design of this company.

I call it a mission-controlled corporation. Other examples include the New York Times here in the U.S., and Newman’s Own, founded by Paul Newman.

Employee ownership, at its best, is another kind of generative ownership. In London I visited the John Lewis Partnership, the largest department store chain in UK – with revenues larger than Monsanto – which has 35 department stores and 272 grocery stores. It’s 100 percent owned by company employees. It has a stated purpose of serving employee happiness. To help it do so, it uses a bicameral governance design, where employees directly elect their own partnership council, which appoints about one-third of the board of directors.

Still another example of generative design is the cooperative, the oldest and most highly evolved form of generative ownership. I drove to rural Wisconsin to visit Organic Valley, and sat down with the ponytailed CEO of this company, George Siemon. Organic Valley is a \$700 million cooperative owned by the 1,700 organic family farms that produce its milk, cheese, and eggs. I call this company “nationally local.” When I buy Organic Valley milk in Boston, I know that I’m buying New England milk. When someone here in Seattle buys Organic Valley milk, they’re buying Pacific Northwest milk. The reason is that production and distribution are organized in regional pools. Yet farmers benefit from a national brand.

The mission of this company is to save the family farm. While most companies aim to pay their suppliers as little as possible, this company aims to pay suppliers as much as possible. George told me, “We don’t have any need for profits much over 2 percent. We’d rather give it to the farmers.” The reason is that farmers own this company.

What I’d like to suggest is that these various ownership alternatives form a single, coherent school of design. They’re a family of generative ownership designs.

There are five design elements they have in common. First is purpose. They all have a living purpose – to save the family farm, to create green energy, to make life-saving medicine. In their basic purpose, and in their living impact, these designs have an aim of generating the conditions for life to thrive. It's Living Purpose.

But purpose alone isn't enough. What turns it into a design is the presence of at least one other structural element that holds that purpose in place.

A second element is membership, or what we commonly call ownership. Who's part of the enterprise? Who has a right to a say in profits, and who takes the risk of ownership? Corporations today have Absentee Ownership. Generative ownership has Rooted Membership, with ownership held in human hands. It might be in the hands of a family as with the New York Times; it might be depositors in a bank, or employees as with John Lewis Partnership. Membership could be in the hands of suppliers, as with Organic Valley. It's not absentee ownership; it is engaged, caring ownership held in living hands.

Third is governance. Extractive ownership involves Governance by Markets, Generative ownership involves Mission-Controlled Governance, with control held in mission-oriented hands. We see this vividly as Novo Nordisk, where a foundation controls the board. We see it at the John Lewis Partnership, where employees have seat in governance.

Fourth is finance. Instead of the Casino Finance of traditional stock market ownership, generative design involves Stakeholder Finance, where capital becomes a long-term partner, not a master. The aim is fair returns for many parties, not maximum returns to capital.

Fifth, there are networks, because no firm stands alone. If traditional approaches use Commodity Networks, where goods trade based solely on price, a generative economy use Ethical Networks, which offer collective support for social and ecological norms. These include the network of organic standards, or the worldwide network of cooperatives. Not every model has every one of these design elements. But the more elements that are used, the more effective the design.

So what can we all do to help build a generative economy? Ultimately we will need large-scale approaches through government and regulation – rechartering corps, getting profit maximizing companies out of certain sectors like health care and education; creating incentives for employee ownership; creating funding sources for cooperatives. We may need to take a seven-wedges approach, similar to the various wedges suggested for transitioning to a post-carbon world.

Right now, I want to suggest four things you can do.

First, we need to move our money. We should all bank with a community bank, credit union, or cooperative bank.

Second, we can invest with our values. Put some of your investments with a community loan fund. Find a socially responsible investment adviser.

Third, read and encourage others to read. Form a reading group. Suggest books to friends.

Fourth, be aware of where you're buying. Buy local. Look for cooperatives, employee-owned companies, and mutual insurance firms.

What we're creating together is the mold into which the future can flow. If the generative economy may seem small and marginal, the same could have been said 40 years ago of the conservative economic thinking that today dominates the globe. The difference is that we are building something that will endure not for a few decades, but for many generations to come – because it a more resilient, more effective way of organizing an economy.

I want to close by paraphrasing something Milton Friedman said in his early, marginal days – something that reminds us that our day will come. In the meanwhile, our job is to develop alternatives, to keep them alive and available until the economically impossible becomes the economically inevitable.

Talk by Marjorie Kelly, fellow at Tellus Institute in Boston, and author of *Owing Our Future: The Emerging Ownership Revolution*, San Francisco: Berrett-Koehler, 2012. See www.OwningOurFuture.com.