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Notable Books

CAPITALISM 3.0: A Guide to Reclaiming the Commons
By Peter Barnes
Reviewed by David Vogel

STRATEGIC GIVING: The Art and Science of Philanthropy
By Peter Frumkin
Reviewed by Pablo Eisenberg

THE NEW CAPITALISTS: How Citizen Investors Are Reshaping the Corporate Agenda
By Stephen Davis, Jon Lukomnik, & David Pitt-Watson
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CAPITALISM 3.0: A Guide to Reclaiming the Commons

Peter Barnes

216 pages

(San Francisco: Berrett-Koehler, 2006)

Reviewed by David Vogel

Peter Barnes is calling for a fundamental change in the way our economy is structured. Our current version of capitalism (2.0) is failing to generate the environmental, social, and economic returns that are vital to our society. With a new approach, Barnes writes in *Capitalism 3.0*, we could simultaneously protect natural resources, reduce poverty, and make virtually everyone substantially richer. Like all utopian schemes, Barnes' is both thought-provoking and impractical.

As co-founder of the highly successful social venture Working Assets, Barnes appreciates the importance of property rights, but as an idealist, he proposes to redefine our notion of property. Historically, capitalism has progressively increased private property rights by reducing the size of the commons. Instead, Barnes wants to increase property rights by allocating the commons to the collective, a process he awkwardly labels "propertization."

Consider the problem of climate change. Corporations do not voluntarily limit their emissions of carbon into the atmosphere because the air is essentially free. Now suppose the government established a trust that held all property rights to the air. This trust would charge fees to polluting firms, and carbon emissions would gradually decline. The bulk of the money would be distributed as dividends to the fund's beneficiaries – U.S. citizens – and the remainder would be spent on various public goods. With this one policy change, we could save the planet and redistribute wealth from polluters to the rest of us.

Barnes extends this model to solve other social and economic problems. Young people who weren't born to rich parents often can't afford to buy a home or pay for college. Why not redefine the nation's stock exchanges as part of our commons? In exchange for the right to issue publicly traded shares and the privilege of limited liability, all publicly traded corporations would be required to deposit 1 percent of their shares in an American Permanent Fund (APF) every year for 10 years. This fund also would distribute annual dividends to all individuals, creating a universal birthright and a true ownership society.

But why not simply impose a carbon tax or increase corporate income taxes? Barnes argues that if we left fund management to elected officials, companies would lean on the government to reduce taxes. By placing the atmosphere and the stock exchanges in the hands of independent trustees – a sort of social Federal Reserve – the trust would be more immune to political pressure. At the same time, by allocating dividends to citizens, we would create a powerful political constituency to protect the APF's revenues.

Barnes' capitalism 3.0 is not a wholly radical innovation. Similar notions exist in various policies, not all of which he acknowledges. For example, Franklin D. Roosevelt's Social Security system is politically untouchable thanks to the vested interest of every future retiree in the nation. And the Alaska Permanent Fund receives 24 percent of the revenues collected from the use of the state's natural resources – principally oil – creating a $30 billion fund that pays yearly dividends to all Alaskans.

Curiously, Barnes also neglects to discuss what is arguably one of the most successful examples of the use of market incentives to reduce pollution – the emissions trading schemes established by the Clean Air Act of 1990. These schemes differ from Barnes' plan in one important way: The property rights to the air were initially given to existing polluters. Under Barnes' plan, the APF would sell the rights to the air. This would ensure a continual revenue stream from polluters, but it would also substantially increase the costs of pollution controls, which may or may not be economically practical.

The Federal Communications Commission provides a good model for the concept Barnes has in mind. Since 1974, it has auctioned off various parts of the electromagnetic spectrum for tens of billions of dollars. The key difference between the FCC and Barnes' proposal is that the money from the sale of spectrum goes directly into the federal government's general revenue fund, not to a specific purpose or to individual citizens.

Another comparable system is the leasing of public lands to energy and

I want to see a carbon tax, whereby firms can trade pollution reductions, and revenues fund a cut in Social Security taxes, as well as alternative-energy research.

mining firms and ranchers. The flaw in this arrangement is that the fees appear to be set much too low. Barnes' plan would fix that. If usage fees were distributed to citizens, they would presumably put pressure on the government to increase them.

These examples suggest that capitalism 3.0 is essentially an extension of economic principles already in place. Why, then, is it a utopian formula? Consider, for example, the carbon trust. Barnes falls prey to the common misconception that only corporations pollute. In fact, a significant portion of carbon emissions is generated by individuals driving their vehicles and heating their homes. Therefore, individuals would owe fees to the APF as well. And shouldn't the fund also charge people who ride on mass transit, in taxis, and on airplanes – all of which pollute? What about people who build campfires and use fireplaces? Nearly everyone who received a dividend check would also get a bill, and at the end of the day, they might not be any better off. Moreover, as Barnes acknowledges, corporations would shift many of their additional costs to consumers and employees. At present, we are all benefiting financially from the current lack of controls on carbon emissions.

The APF's other revenue source, corporate shares, is also questionable. Public corporations, after all, don't own their stock. Barnes is actually proposing that we expropriate the property of 9 percent of a firm's shareholders. (Presumably, the first 1 percent will come from the firm's initial public offering.) How will these investors be chosen? And just as carbon fees would reduce the amount of pollution, would not imposing fees on publicly traded stock reduce the amount of the stock that is issued? Many businesses would likely remain private, or issue bonds instead of stock. And if that reduced the rate of economic growth, we would all be poorer, despite dividends from the APF. Unfortunately, there are few win-win solutions in the real world.

Nonetheless, Barnes prompts us to think more creatively about how to achieve public purposes, and that is a useful contribution. More modest policy alternatives might well be worth pursuing. Personally, I would like to see progressives like Barnes support a carbon tax, whereby firms can trade pollution reductions, and revenues fund a cut in Social Security taxes, as well as alternative-energy research. This may not be as exciting as capitalism 3.0, but it would do much to reduce carbon emissions without unduly burdening the working class. It would also help establish the principle that global commons are not really free: If you contribute to climate change, you should be held accountable.

David Vogel is a professor at the Haas School of Business and the department of political science at the University of California, Berkeley. His most recent book is The Market for Virtue: The Potential and Limits of Corporate Social Responsibility *(Brookings Institution Press, 2005).*

STRATEGIC GIVING: The Art and Science of Philanthropy

Peter Frumkin

448 pages

(Chicago: University of Chicago Press, 2006)

Reviewed by Pablo Eisenberg

Peter Frumkin, professor at the University of Texas at Austin's Lyndon B. Johnson School of Public Affairs, has written an important and provocative book that will be read and debated for years to come. *Strategic Giving* is both a comprehensive, critical analysis of modern philanthropy (particularly foundations) and a useful guide for wealthy donors who want to distribute their money to meet public needs as effectively as possible. Frumkin has created a thoughtful theoretical framework for understanding the giving process.

The author discusses many of the current problems and tensions surrounding philanthropy, but he is not value-free in his assessments of philanthropic performance and developments among foundations. His evaluation is one of the book's strengths, for it will provoke lively discussions and arguments – dialogue that should prove useful in a field noted for its intellectual torpor.

Several key themes reappear throughout the book, including Frumkin's contention that the values, passion, and energy of donors are critical in maintaining the pluralism and soul of philanthropy, an element that the author believes has been severely neglected in recent years. He claims that unless the vision and intent of donors receive greater attention, foundations are likely to become less animated, more bureaucratic, and less effective. Donor satisfaction, Frumkin asserts, is as important to philanthropy as the community and public benefits it produces. Though the author argues strongly for this proposition, it remains highly debatable.

Although many donors like Bill and Melinda Gates have infused their institutions with the vision and energy Frumkin touts, there are many who have been unimaginative and lackluster. And there have been numerous foundation professionals – Alan Pifer, William Bondurant, Kirke Wilson, and Michael Joyce come to mind – who possessed the vision and skills to steer their institu-

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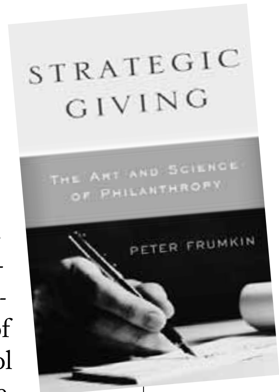
tions to great accomplishments. Values, energy, and imagination are not confined to donors. In fact, one could make the argument – as does Susan A. Ostrander, professor of sociology at Tufts University – that the growth of donor initiatives and control is actually eroding the independence and effectiveness of nonprofit organizations.



Another theme, which follows from the first, is that foundations are being taken over by professionals, thereby undermining the influence of donors and trustees and robbing the institutions of their vision, flexibility, and innovative spark. Frumkin labels it "creeping professionalism." Professionals may have contributed to foundation sclerosis and bureaucracy, but it is also true that the enormous growth of foundation assets over the past 20 years has made professionalization inevitable, a point Frumkin downplays. Instead of carping about this development, he might have focused more productively on the quality and skills of the professionals who staff our foundations, especially the CEOs of mid- and large-sized institutions. The problems Frumkin outlines can be found among these executives, rather than in professionalism itself.

The first three chapters of the book focus on several of the major problems and challenges of philanthropy, among them effectiveness, accountability, and legitimacy. The author explores the relationship between government and philanthropy, the dimensions of international funding, the mechanics of giving, the role of trustees, the relationship between donors and donees, and the nature and limitations of evaluation as a tool to assess effectiveness. Throughout his discussion, Frumkin weaves the purposes and history of philanthropy. It is a compact and informative analysis for both donors and nonprofits.

The book tends to gloss over some of the unseemly acts of donors and foundations, however. For example, he states that there have been only isolated cases of fraud, abuse, and waste, when in fact there have been numerous instances of such inappropriate behavior, many of them exposed by the media in the past five years, prompting an ongoing investigation by the Senate Finance Committee. He also claims that only a few foundations have paid inflated trustee fees. In 1998 trustees probably received in excess of $300 million, money that should have been allocated to needy nonprofits. Nor does he mention the enormous amount of self-dealing, excessive compensation, and high travel expenses incurred.

Frumkin's evaluation will provoke lively discussions and arguments – dialogue that should prove useful in a field noted for its intellectual torpor.

He calls the Tax Reform Act of 1969, which imposed some federal regulations and oversight on foundations, an "unfortunate precedent." The act, by eliminating abuses and demanding accountability, actually preserved American foundations by forcing them to abolish inappropriate behavior that would have ensured their demise. He also fails to give due credit to the Filer Commission and the National Committee for Responsive Philanthropy for pushing foundations to issue annual reports and become more publicly accountable.

The second half of the book provides an instructive guide to help donors become more strategic in giving away their money. Strategy, according to the author, is the missing ingredient in many donors' philanthropic process. He cites five essential elements for a giving strategy: deciding which vehicle to use for giving away the donor's money; clarifying the purpose of the gift; setting a time frame for giving; choosing the level of donor engagement with grant recipients; and assessing the impact the contributions will have.

Because *Strategic Giving* is a donor-oriented book, Frumkin gives relatively short shrift to the impact of philanthropy on nonprofit organizations and our democracy. The reluctance of foundations to provide general support, for example, is only briefly mentioned, although it is perhaps the most contentious issue in donors' relationships with their grantees.

Neither the elite governance structures of foundations nor the growth of huge foundations run by a few family members seem to concern the author. He dismisses the impact of large foundations on our democratic process by saying that aggregate foundation assets are so enormous that a single foundation won't have a great influence. That assertion is hard to defend when the Gates Foundation, with the addition of Warren Buffett's money, will be donating about 10 percent of all foundation money distributed annually. And there will be more megafoundations in the next decade. Isn't it troubling that such gigantic sums of tax-deductible money will be granted each year at the whim of a few family board members and without the benefit of public debate? The issue deserves a much more serious discussion.

Although some of the author's views are questionable, the book as a whole is a praiseworthy addition to the literature about donors and giving. Well written, unlike so many other academic texts, it will increase our knowledge of philanthropy while simultaneously stimulating our critical assessment of the field. It is a must-read.

Pablo Eisenberg is a senior fellow at the Georgetown Public Policy Institute. He was previously the executive director of the Center for Community Change, a national technical assistance and advocacy organization working with low-income and minority organizations and constituencies throughout the country.

THE NEW CAPITALISTS: How Citizen Investors Are Reshaping the Corporate Agenda

Stephen Davis, Jon Lukomnik, and David Pitt-Watson

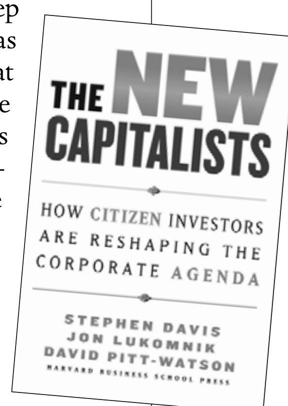
320 pages

(Boston: Harvard Business School Press, 2006)

Reviewed by Jarrett Spiro

Authors Stephen Davis, Jon Lukomnik, and David Pitt-Watson explain how shareholders have become – as they put it – share-owners. Working people, with their life savings stored in mutual funds and retirement plans, are the new owners of the corporate world, and unlike business tycoons and Wall Street traders, they are in it for the long haul. Citizen investors take an active interest in company management and work to solve problems as they arise rather than simply seek short-term profits. They also bring a new set of social values to the table, and they are exerting their power over enterprises from GE to Disney in unprecedented ways to ensure that their broad interests are protected and advanced.

This book is a coherent and well-researched account of grassroots ownership and how it works. The authors analyze the "circle of accountability" – in which citizen investors, executives, and company directors keep each other in check – as well as the "ecosystem" that enables the circle to operate efficiently through various monitoring and information-gathering activities. The ecosystem comprises four basic components: more robust disclosure as SEC and accounting standards are improved; independent analysts and bloggers who ferret out critical information; civil society groups, such as grassroots environmental and faith-based organizations, which identify the issues to be fought over; and governmental entities that through law or regulation can facilitate the ability of such groups to change a company's policies even when management resists.



My studies with Brian Uzzi and others on the phenomenon of socially constructed information networks support the authors' ecosystem theory. The information reporters, or as the authors call them, "information moguls," provide citizen investors with a short pathway to data. This is an essential link because shareholders would otherwise have to rely on corporate management or oft-conflicted institutional investors for news. Because information networks provided by smaller, conflict-free credit-rating agencies and blogs involve relatively low barriers to entry, these information moguls can create vast decentralized systems with redundant pathways to accurate information. Empirical research demonstrates that this type of organizational structure is extremely strong, suggesting that the citizen investor will not be a temporary phenomenon, and that the various revolutions discussed in the book will spread and endure.

This appears to be good news for social change. The new breed of investor is not only considerably more socially aware than past generations, but it also has holdings that are far more diverse, reaching into more areas of the economy, here and abroad.

The authors argue that empirical research indicating that socially responsible businesses provide better financial returns will convince management to heed the concerns of their grassroots shareholders. But will this research be enough to win over skeptical management? If not, management will always be a weak link in the circle of accountability. The authors do not explain the finding in enough detail to instill confidence otherwise. This reservation aside, *The New Capitalists* describes a valuable engine for promoting socially conscious economic growth.

Jarrett Spiro is a Ph.D. candidate at the Stanford University Graduate School of Business in the organizational behavior department. His work on social networks, team assembly and innovation, and complexity theory has appeared in Science *and the* American Journal of Sociology.