

CAPITALISM 2.0

Don Tapscott, author of 'Wikinomics', argues with the internet as a platform the Net Generation will change capitalism as we know it, but not without resistance



'This is not a crisis of capitalism,' says one Occupy Wall Street Sign. 'Capitalism is the crisis.' The continuing global economic mess is causing many to question 'the system'. From student protests in Europe to the Occupy movement globally, many are asking what are the fundamental problems with capitalism and how do we fix them.

Recently the capitalists themselves are energising the discussion. The Financial Times presented a multi-part series on the topic. The Economist – a sophisticated defender and reformer of capitalism – has discussed capitalism's strengths and weaknesses at length. Business schools around the world are also debating the topic. And dozens of books written by business leaders from 'The Crisis of Capitalist Democracy' to 'The Road from Ruin' discuss everything from how to save capitalism to whether it is even savable.

But perhaps the problem is not that capitalism per se is ailing – but rather its first iteration: Industrial capitalism. Around us we see industries in crisis and governments that can't get things done. Media

“

WE'RE IN THE EARLY STAGES OF A MASSIVE TRANSFORMATION. SOCIETY HAS AT ITS DISPOSAL THE MOST POWERFUL PLATFORM EVER FOR BRINGING TOGETHER THE PEOPLE, SKILLS AND KNOWLEDGE WE NEED TO ENSURE GROWTH, SOCIAL DEVELOPMENT AND A JUST AND SUSTAINABLE WORLD.

”

companies are failing and the financial services sector is increasingly reckless. Our energy grid and transportation systems need urgent renewal. Institutions for global cooperation and problem solving seem incapable of progress.

But at the same time it's clear that we're in the early stages of a massive transformation. Society has at its disposal the most powerful platform ever for bringing together the people, skills and knowledge we need to ensure growth, social development and a just and sustainable world.

The Internet slashes collaboration costs and enables deep changes to the way we orchestrate society's capability to innovate, make goods and services, and to create wealth and public value.

Companies and communities are working together in new ways on shared concerns, endeavors and challenges. People around the world are collaborating as never before. From education and science, to new approaches to citizen engagement and democracy, sparkling new initiatives are underway, embracing a new set of principles for the 21st



century: collaboration, openness, sharing, interdependence and integrity.

While the contours of new institutions and industries are becoming clear, it's less clear what this means for the fundamental nature of the economy itself. And what should we call the new economic system that appears to be rising from the ashes of the latter day silk-hatted tycoons?

Clearly it is a social economy. In a year or so there will be a billion people on this planet using social media every day. About 80 percent of the world's population uses cell phones. The social world is transforming the way we create wealth, work, learn, play, raise our children,

and probably the way we think. We're all collaborating as never before and in business the hottest concepts are social – collective intelligence, mass collaboration, crowd sourcing and collaborative innovation.

'Social' is penetrating every aspect of the economy and society. Social media, social networking, social business, social government, social entertainment, and social everything. One might suppose that the logical term to describe the synthesis of all things social would be 'socialism'.

Unfortunately that term has already been taken, as it were, so let's opt instead for the term Capitalism 2.0.

During the first era of capitalism, machinery was the means of production and the most important assets were physical and financial. Work was organized in hierarchies and capitalists had a single objective: maximizing their personal wealth. The Internet is becoming a new mode of production that changes the way we orchestrate capability in society to innovate, create goods, services and even public value. The most important assets are contained in the crania of knowledge workers, the most effective work systems are social and collaborative, and increasingly thoughtful people everywhere understand that an economy based on greed is not only unworkable, but threatens the planet.

If Capitalism 2.0 were the most natural umbrella term to describe the impact of social media on our economy and society, what would be its guiding principles? If you look at social technology, business models and thinking today, you'd be in for some surprises.

To begin, rather than social (state) ownership of everything it would be a society where innovation is driven by companies and market forces. There is a broad agreement that markets



have historically provided the best incentives for innovation and wealth creation. But sophisticated companies understand that traditional industrial age approaches can be radically improved by social business.

Today, as Linux dominates large computers and mobile devices around the world, smart companies like IBM have embraced the open-source operating system, saving themselves hundreds of millions of dollars a year and generating billions of dollars in hardware and services revenue. Biotech companies cooperated to place their intellectual property – the human genome – in a commons. Nike gave away 400 patents to the GreenXchange on the principle that a rising tide lifts all boats. And in industries ranging from pharmaceuticals to auto manufacturing, competitors are beginning to share some of their intellectual property as a step towards improving their industry and their own chances of survival.

Companies are learning that all intellectual property is not the same. Some intellectual property should be protected while it's wiser to place other intellectual property in a commons. Like IBM, they save

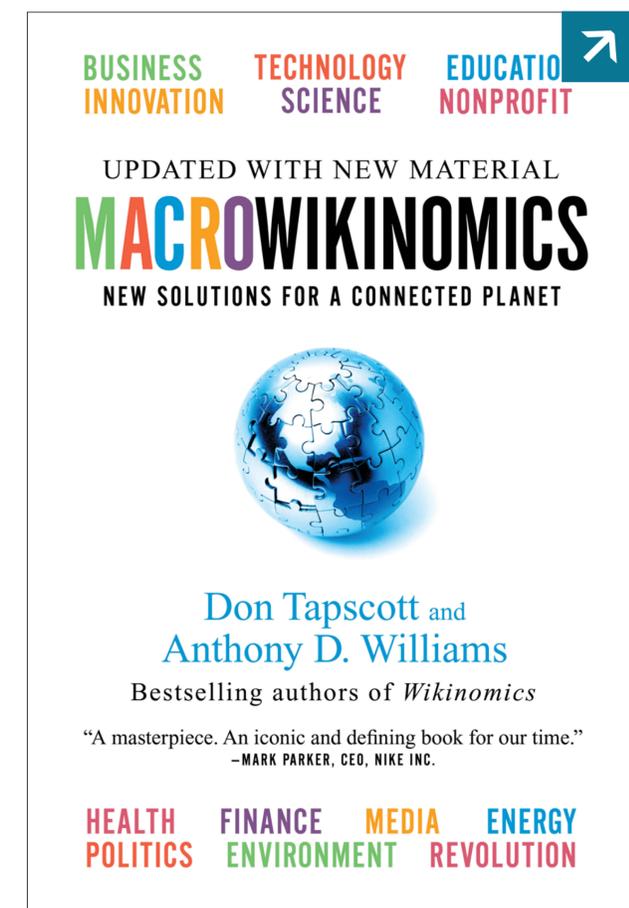
money, enhance their capability by sharing and then compete on a higher level, all to the benefit of shareholders. I estimate that if IBM had fought Linux rather than embracing it, the company's revenues and likely market value today would be a third less than it is.

Customers love the new collaboration. They purchase goods and services collectively on Groupon. They find the best hotels by sharing knowledge on Trip Advisor and the best restaurants through Restaurant.com. They lend money to each other through peer-to-peer banks like Community Lend. And they collaborate with companies, helping co-innovate everything from Threadless tee shirts to Doritos Superbowl ads.

Under Capitalism 2.0, governments are still important. The notion that the best government is no government is foolhardy. However government bureaucracies could be smaller in many areas. The concept of 'Reinventing Government' for better, cheaper government, has been around for two decades. Today, due to the social revolution it is an idea whose time has come. The sovereign debt crisis in Europe and the spiraling debt in America and other

Western countries calls for more than tinkering. Social media not only changes the way we innovate and create goods and services – it can change the way societies create public value.

Governments can become a stronger part of the social ecosystem that binds individuals, communities, and businesses—not by absorbing new responsibilities or building additional layers of bureaucracy, but through a willingness to open-up formerly closed processes and data to



“

WITH CAPITALISM 2.0, MUCH GREATER TRANSPARENCY FOR EVERY INSTITUTION COULD CHANGE THE REGULATORY PARADIGM, ADDING 'CITIZEN REGULATORS' AS A KEY ELEMENT OF THE NEW ECONOMY.

”

broader input and innovation. In other words, government becomes a platform for the creation of services and for social innovation. It provides resources, sets rules and mediates disputes, but allows citizens, non-profits and the private sector to share in the heavy lifting. This is leading to a change in the division of labor in society, and in how public value is created, and holds the promise of solving the debt crisis.

But while private wealth and market forces are necessary, they are proving to be woefully insufficient to move the economy and society forward. The Occupy movement is correct in saying completely unfettered market forces would result in disaster. Loosely regulated bankers driven by greed almost brought down the global

economy. The class divisions in society are growing, and governments have cosy relationships with corporations that often seem to prevent them from acting in the public interest.

The 2008 economic meltdown underscored how interconnected our world has become. We need to encourage and enforce mutual cooperation through a new division of labor among the four key pillars of society: business, government, the civic sector and the new pillar enabled by the Internet – the individual citizen. There is no longer room for unilateralism, and part of the 'social' philosophy is that business can't succeed in a world that's failing.

Warren Buffett was called a socialist when he suggested closing tax loopholes

for corporations and the rich. Bill Gates is marshaling his vast personal wealth and influence to make a better world – a new style 'Socialist' if ever there was one. Smart business leaders understand that the purpose of corporations goes beyond making money for shareholders. Let's all just wear the socialist label proudly.

Some political leaders are starting to shift from the industrial model of democracy too. The 'You vote, I rule' approach is stalled and citizens are increasingly cynical. But experiments with digital age democracy are growing. From electronic town hall meetings, challenges, digital brainstorming and open data initiatives, governments at all levels are reaching out to engage citizens in developing new ideas and solving problems.

Capitalism 2.0 would have a different approach to regulation. To begin, business leaders would embrace good regulation, understanding that markets work best with strong foundations and sound regulations. For example, Canadian banks avoided the entire sub-prime mortgage crisis and its aftermath because the regulatory environment kept the banks from getting into trouble. The upshot is that today four of the largest banks in North America are now Canadian, and of the largest 20 banks the top six low-risk banks are Canadian.

With Capitalism 2.0, much greater transparency for every institution could change the regulatory paradigm, adding 'citizen regulators' as a key element of the new economy. Governments would make everything transparent on the Web and let citizens and other parties contribute their data and observations. They could also let citizens help enforce regulations, perhaps by changing their buying behavior or by organizing public campaigns that name and shame offenders. This is not to say that transparency is a substitute for better regulation by national governments and international institutions. Rather, more disclosure and increased civic participation would add significant muscle to traditional regulatory systems.

“
GOVERNMENTS CAN
BECOME A STRONGER
PART OF THE SOCIAL
ECOSYSTEM THAT BINDS
INDIVIDUALS, COMMUNITIES,
AND BUSINESSES—
NOT BY ABSORBING
NEW RESPONSIBILITIES
OR BUILDING
ADDITIONAL LAYERS
OF BUREAUCRACY, BUT
THROUGH A WILLINGNESS
TO OPEN-UP FORMERLY
CLOSED PROCESSES AND
DATA TO BROADER INPUT
AND INNOVATION.

”

Under Capitalism 2.0 there could actually be a chicken in every pot as the Marxists of last century sloganeered. The principles of collaboration, sharing, openness and self-organization outside the boundaries of traditional corporations, governments and other institutions are already starting to drive unprecedented economic, political and societal activity.

But we need to move further. We need to reinvent every institution in society around the social model for innovation, interdependence, sustainability and integrity. In manufacturing, companies need to join initiatives like the GreenXchange, sharing know-how about creating sustainable companies. In pharmaceuticals, companies need to start collaborating on pre-competitive research and compete on a higher level. University professors need to join MIT's open courseware movement and collaborate on the creation of learning for higher education. Car companies should be joining forces to advance fuel cell science. Banks aren't lending money to small businesses because they are saddled with a trillion dollars of toxic assets left over from the sub-prime mortgage mess. The details of these assets should be placed into a commons so that they can be valued



by independent modelers, helping banks clear their balance sheets and kick-start job creation.

Capitalism 2.0 needs a global system with mechanisms for problem solving and governance that transcend nation states. Today's institutions were created in a much different time, designed to govern a new world of nations after WWII. Institutions such as the United Nations, World Bank, International Monetary Fund, G20, and G8, while necessary, are no longer sufficient. More often than not, national self-interests take priority when today's challenges demand solutions that transcend the traditional boundaries of the nation-state. They make little room for the inclusion of authentic citizen voices such as the self-organized civic networks we have seen coalescing around important issues at city and regional levels.

There is growing urgency to rethink our aging global institutions of the industrial age. And today, there are myriad new collaborative models that are self-organising to address twenty-first century realities. These models have names such as global action networks, multi-stakeholder networks, global alliances and stakeholder webs. In fact the entire

concept of social innovation – new thinking and action for the public good – is being extended beyond communities and nations to the global stage. The new collaborations and networks include some combination of the four 'pillars' of society – the state, the private sector, civil society and now empowered individuals.

There is at least one big problem with this vision though. Such a model of capitalism can only be achieved in a smooth and managed way if today's capitalists get on board. Unfortunately leaders of old paradigms are the last to embrace the new. The transition from agrarian, feudal economies and societies to industrial capitalism was punctuated by revolutions – such as the French, American and National Independence revolutions across Latin America.

Many of the leaders of the old model of capitalism are tenaciously clinging to the past and hoping that things will get back to normal. The upshot is that the forces of change – especially today's young people – may have to find more extreme methods to achieve a new future. When extreme conflict, discord, rebellion and even revolution occur it's anybody's guess what the outcome could be.

