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The Architecture of Enterprise: Redesigning Ownership for a Great Transition

MARJORIE KELLY

The dominant institutional designs of modernity have relied upon an uneasy balance, built around a structural compromise. The institutions of government are seen as serving the public good, while the institutions of the economy—most prominently corporations and capital markets—are seen as serving the private good. The definition of private good, moreover, has been captured by a financial elite, which has managed to equate it with serving their interests. Today this social order is reaching its viable limits. In the multiplying crises we face, ecological and financial, we can read signals that the old system design is breaking down. As Alperovitz and Dubb emphasize, leaving the existing corporate economic system essentially intact, and hedging it around with further regulations, seems less and less to represent a successful path to a vibrant and sustainable future. The critique and remedy must become more radical. While this seems to suggest a path of revolution, that too is unlikely to occur, and even less likely to succeed. We may well, as Alperovitz and Dubb write, confront a “potentially decades-long period” in which the system “neither ‘reforms’ nor collapses in ‘crisis.’” This does indeed represent an opening for previously unprecedented strategic options—most promisingly, as they suggest, a step-by-step, evolutionary reconstruction of the fundamental social architecture of the economy.¹ In short, it means redesigning the architecture of ownership. As progressives begin contemplating such a strategy, we can be guided by the accumulating experiences of the alternative ownership designs that already exist—such as cooperatives, employee-owned firms, social enterprises, and

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commons ownership designs—for with wordless wisdom, these structures point to a fundamentally different kind of economic system. They help us imagine, in practical detail, how a profoundly different kind of economy might be designed. At their best, these institutions are self-organized not around maximizing returns to capital, but around serving the needs of life. They are designed to support life, not to extract from it.

The Systemic Crisis and Conventional Capitalist Ownership

If the root social construct of government is *sovereignty* (the question of who legitimately controls the state), the root social construct of an economy is *property* (the question of who legitimately controls the infrastructure of wealth creation). Another word for property is ownership. Since the dawn of the industrial age, the global economy has increasingly come to be dominated by a single form of ownership: the publicly traded corporation, in which ownership shares trade in public stock markets. These companies

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produce 25 percent of the world's gross product. And the thousand largest of them account for 80 percent of global industrial output.² The systemic crisis we face today is entwined at the root with this design of ownership.

While it is easy to think of ownership as a fact, it is more accurately a historically constituted design. The dominant form of ownership of our age serves the needs of capital markets by generating endlessly growing financial wealth. Yet because financial wealth is a claim against real wealth—a claim on

future wages, housing values, or company profits—capital-centered ownership works by extraction. In my book *Owning Our Future*, I call it extractive ownership.

If today we are encountering the hidden dangers of unchecked industrial growth, we are similarly witnessing the dangers of limitless capital growth. We're hitting twin limits of ecological overshoot and financial overshoot. If ecological limits are something many of us understand, we are just beginning to find language to talk about financial limits. These limits are hit when normally benign financial activity—such as making loans and managing investments—goes beyond the bounds of the reasonable to become extractive. Activity veers into the extractive at those points where debt

loads become too large, where credit card interest rates are onerously high, where the demands of venture capital are too great, and in general where gains for the wealthy start to come out of the wages, checkbooks, and taxes that sustain the rest of us.³

When deregulation let loose the institutionalized drive for financial extraction at a global scale, the result was financialization. In author Kevin Phillips' terms, this is a social order where finance comes to dominate the economy, the culture, and government.⁴ In its extreme form, financialization creates a society where the claims of financial extraction begin to sap the strength of the social and natural order. The global superstructure of financial claims can ultimately exceed the load-bearing capacity of the real economy. In recent years, financial overshoot set the stage for financial collapse and the subsequent economic malaise.⁵

But here is the deeper problem: the aim of maximum financial extraction (which we more typically call "wealth creation" or "profit maximization") is built into the foundational social architecture of our economy. It is built into the ownership design of the capitalist system.

Systems thinking tells us that when management of a system is intent on a single variable, success can create exponential growth followed by collapse. This is known as the threshold effect: a point when a system flips from one state into another state, which is often degraded. A relatively small disturbance, like the failure of a small number of subprime mortgages, triggers an outsized system response. The same result is seen in natural systems when, for example, bovine growth hormone given to cows increases milk production, but makes the cows less healthy and shortens their lives. Managing for a steady increase of one variable causes instabilities to develop elsewhere.⁶ In economic terms, the constancy of seeking maximum gains for the few has caused stresses to build—excess debt, overburdened government budgets, unemployment, and so on—making the whole system brittle and vulnerable to crisis. Yet the aim of maximizing profits remains built in to the design of extractive ownership.

A New Ownership Archetype Emerges

Systems do what they are designed to do. External regulation can constrain corporations and capital markets to some extent, but without *internal redesign*, their essential aim of profit maximizing remains unchanged, seeking every opportunity to break free. Under the principle of subsidiarity, where

decisions devolve to the lowest practical level, internal design of systems for a desired outcome is preferable to seeking that outcome by regulating those systems after the fact. In systems terms, this is self-organization. It is about locating responsibility not in a layer wrapped around the system, but within the system itself.⁷

Redesigning institutions as pervasive and deep-rooted as corporations and capital markets is no simple task. It is a task that inherently relies upon a broader cultural shift, for the existing designs of our economy reflect our culture. Ownership design, in and of itself, will not work a great transformation. Yet history shows us that public debates about institutional change regarding institutions such as Jim Crow laws, votes for women, or gay marriage, often provide the vehicle through which deep cultural attitudes can surface and begin to shift. That is to say, institutional change and cultural shifts tend to go hand in hand.

A nascent shift to alternative economic designs is already underway in our day, which is indicative of growing cultural change. A broad family of alternative ownership models, which includes longstanding alternatives like cooperatives, employee-owned firms, and municipally owned enterprises, is seeing the emergence of new models, such as social enterprises. At work in these alternatives is a genuinely different ownership archetype. Instead of being about maximizing financial gains, these ownership designs are about serving the community, often being financially self-sustaining in the process. By and large, these institutions are profit making. But they are not profit maximizing. Alongside the more familiar models of nonprofit and government ownership, they add a category of private ownership for the common good.⁸ These models have yet to be recognized as a single phenomenon, in part, because they have yet to be joined under a single name.⁹ We might call them generative, for their fundamental aim is to generate the conditions for our common life to flourish.¹⁰

Although the field of alternative ownership has been widely studied, a clear, commonly accepted typology of designs has yet to emerge. The sheer abundance of designs makes it hard to see that a unified phenomenon is at work. It can help to think in terms of a single *family* of generative design. Within it we can separate out different broad *categories*, within which there are various particular *models*. We can think of four broad categories of generative ownership design, outlined in Table 1 below. Rather than a definitive categorization, consider this a loose grouping, possibly a starting point for further work by others.

TABLE 1
The Family of Generative Ownership Designs

Commons ownership	Assets like the ocean, a forest, land, a park, or a municipal power plant are held or governed indivisibly by a community. This category includes but is not limited to government ownership. ¹¹
Stakeholder ownership	Ownership by people with a human stake in a private enterprise – including cooperatives, partnerships, credit unions, mutual insurance companies, employee-owned firms, and family-owned companies – where the central purpose is a life-serving one. ¹²
Nonprofit and social enterprise ownership	Organizations with a primary social or environmental mission, which rely either on charity (nonprofits) or use business methods (social enterprise). This category, which includes hospitals, universities and non-governmental organizations, embraces nonprofits, subsidiaries of nonprofits, and certain private businesses. ¹³
Mission-controlled corporations	Corporations with a strong social purpose that are owned in conventional ways (often with publicly traded shares), yet keep governing control in mission-oriented hands. These can include family-controlled firms, and the large foundation-controlled companies common across northern Europe. ¹⁴

Among the newer designs is the social enterprise, which serves a primary social mission while also functioning as businesses. Also rapidly advancing in the United States are benefit corporations, which embed in their governing documents a commitment to serving many stakeholders, not just stockholders. These new models are entrants into a family of older generative designs, which includes little-known designs like the large foundation-owned corporations common across northern Europe. Employee-owned firms are gaining ground today in Spain, Poland, France, Denmark, Sweden, and elsewhere, and the European Union has a new program to create a center for employee ownership in each member state. Even Cuba is indicating an interest in promoting employee ownership.¹⁵ Oldest and most pervasive of all generative designs are cooperatives, enterprises owned and governed by the people they serve, which are found in virtually every nation of the globe.

If there are more kinds of generative ownership design than many people realize, then the scale of activity is also larger than we might suppose, particularly among cooperatives. In the U.S., more than 130 million Americans are members of a co-op or credit union. More Americans hold memberships in

co-ops than hold stock in the stock market.¹⁶ Worldwide, cooperatives have close to a billion members. They employ more people than all multinational corporations combined.¹⁷ Among the 300 largest cooperative and mutually owned companies worldwide, total revenues amount to nearly \$2 trillion. If these enterprises were a single nation, it would rank ninth on the list of the world's largest economies.¹⁸

The growth and multiplication of these many models represent a largely unseen ownership sea change rising across the globe. Taken as a whole, these ownership designs could create the foundation of a new kind of economy, a generative economy, where economic activity again serves its original purpose of meeting human needs. Generative ownership designs

Generative enterprise behavior is governed by feedback loops. However, they do not function with reinforcing feedback loops. . . . Instead, generative designs have stabilizing feedback loops that tend to moderate their behavior.

are about what the butcher, the baker, and the candlestick maker have always been about. That is, they are about serving the community as a way to make a living. The profit-maximizing corporation has been a detour in the evolution of ownership design, and a relatively recent one, historically.

If the publicly traded corporation represents a monoculture of design, generative design involves a diversity of models. What they share in common are the living purposes at their core, and the beneficial outcomes they tend to generate. While more systematic research remains to be done, there is anecdotal evidence that these models are less likely than Wall Street-owned firms to engage in destructive behaviors, are more likely to create broad benefits, and are more likely to remain resilient in crisis. This can be seen, for example, in the success of the state-owned Bank of North Dakota, which because of its success in the 2008 crisis, has inspired activists in more than

a dozen states to pursue similar models.¹⁹ It can be seen in the resilience and responsible behavior of credit unions, which generally did not create toxic mortgages, and needed few bailouts.²⁰ It can be seen in the fact that workers at employee-owned firms on average amass more in retirement assets than workers at traditionally owned firms. And it can be seen in the fact that in recent times the Basque region of Spain, home to the massive Mondragón cooperative, has seen substantially lower unemployment than the country as a whole.²¹

These relatively beneficial outcomes seem to correlate with the fundamental structure, the ownership design, of enterprise. As systems thinker Donella Meadows observed, system structure is the source of system behavior.²²

Just as cows eat grass because their stomachs are structured to digest grass, and earthworms burrow in the dirt because their bodies are designed for burrowing, a cooperative bank tends to make good loans because it is structured to serve its community.

If generative enterprises maintain aspects of traditional property (they have owners and investors; they can often be sold), they are also living systems.²³ Like all living systems, their behavior is governed by feedback loops. However, they do not function with the reinforcing feedback loops characteristic of extractive design, which lead those systems to race out of control, pursuing more and more profit, quarter after quarter. Instead, generative designs have stabilizing feedback loops that tend to moderate their behavior. Stabilizing feedback, like the thermostat on a furnace, maintains the equilibrium that living systems require.²⁴

In the reinforcing feedback loops of publicly traded corporations, success is defined as a rising stock price, which leads CEOs to direct the enterprise toward that end, and to be paid handsomely when they succeed (and fired when they fail). Because stock price relies on increasing profits, this often means cutting costs, such as wages, benefits, and taxes. It also means pursuing aggressive expansion, which sets the stage for growing GDP and ecological overshoot. Extractive ownership design is a central force in keeping the growth machine in overdrive.

In enterprises with generative ownership, leaders have less ability and fewer incentives for maximizing their own income. They tend to define success as their organizations define it—as being about serving the community and keeping the organization financially healthy over the long term. The purpose, ownership, and governance of these institutions, as well as good leadership and the socially responsible networks of which they are a part, combine to create balancing feedback loops that keep these enterprises rooted in the real world, serving the aims of living communities. Because they are less addicted to growth than the extractive model, generative models may have a key role to play in a post-growth economy.

Enterprise ownership has five primary design elements: purpose, membership, governance, capital and networks. Each of these can be used in an extractive or generative way.²⁵ Extractive design has a *financial purpose*: maximizing profits. Generative design has a *living purpose*: creating human well-being. While publicly traded corporations have *absentee membership*, generative ownership has *rooted membership*, with ownership held in human hands. While extractive ownership involves *governance by markets*—with control by capital markets on autopilot—generative designs have

mission-controlled governance, with control by those focused on social mission. Instead of investments that involve *casino finance*, alternative approaches involve *stakeholder finance*, where capital becomes a friend rather than a master. Instead of *commodity networks*, where goods are traded based solely on price, generative enterprises are supported by *ethical networks*—which offer collective support for social and ecological norms. Not every ownership model has every one of these five design elements. But the more generative elements are employed, the more effective the design.

Making the Ownership Shift

Generative ownership designs represent a critical piece too often missing from our view of the process of global transformation. They add a vital tool to our toolkit, as we strive to answer the challenge of making a transition from an economy organized around growth and maximum income for the few, toward a new economy organized around keeping this planet and all its inhabitants thriving.

Emphasizing the critical role of ownership design is not the same as suggesting that ownership design is a silver bullet that will solve all social problems. Changes of many different kinds—technological, political, cultural—will be needed, if we are to make a successful transition from one social order to another. Yet if ownership design is a central element of what shapes the workings of our economy, it is also largely invisible.

Government regulation will remain vital in any future economy. Yet government has an additional role to play as system designer. Making the shift, over time, from the dominant extractive designs of today to generative designs will take a combination of private innovation and government guidance.

Expanding the range of policy options rests on an expanded vision. In the many generative ownership designs already functioning, we can glimpse a new kind of economy: one that at its core, is designed to create fair and just outcomes, benefit the many rather than the few, and enable an enduring human presence on a flourishing earth. This is likely the only kind of economy that, in the long run, can enable the planet and all its inhabitants to thrive.

Getting there will not be easy. But in broad strokes, what might a long process of evolutionary reconstruction look like? We might envision a global movement of citizens, investors, and businesses, both profit and

nonprofit, working together to create a kind of pincer strategy. One arm would be aimed at reforming existing large companies, another at promoting generative alternatives. We may need different designs in different sectors; generative private ownership may be appropriate for producing goods and services, for example, while the stewardship model of commons ownership is better suited for natural resources. In different sectors, government might incentivize and ultimately require a phase-in of generative ownership. At some point society will need to tackle the redesign of the operating system of major corporations. If we do not do so, alternative designs may remain forever marginal, or face absorption. Yet trying to force all major corporations to change their core purpose may be the wrong place to begin. Starting with advancing generative alternatives could be a more likely route to success and could lay the ground work for bigger wins in the future.²⁶

In the same way that tackling climate change calls for a variety of approaches—different “wedges” in the conception of Princeton’s Stephen Pacala and Robert H. Socolow—an ownership shift can also be conceptualized as involving various wedges.²⁷ In developing nations, where traditional cultures still embrace norms of cooperation, there is potential for leapfrogging, if development takes a generative form at an early stage of modernization. Developed economies could advance employee ownership, and devise ways to enable investments in cooperatives. The next time a major corporation needs a government bailout, it could be required to re-charter in some generative form. If and when the next financial crisis hits, we might use it as an opportunity to shift assets from big banks to cooperative banks and credit unions. Yet another approach might be to draw a bright line prohibiting extractive ownership from operating in certain sectors, such as education, or hospitals. Still another wedge might lie in helping the progressive, emerging companies of today, in sectors such as organic food and solar or wind power, sustain their founding values over time, rather than selling to multinationals. All these approaches together may make incremental advances until the day a cultural shift, perhaps a citizen uprising, makes generative design the new norm.

In the view of history, we can see that the broad family of generative ownership design is helping reawaken an ancient wisdom about living together in community, which was lost in the spread of capitalism. Historian Karl Polanyi, in his 1944 work, *The Great Transformation*, traced the crises of capitalism to the fact that it “disembedded” economic activity from community. He noted that throughout history, economic activity had been

imbedded in society, part of a larger social order that included religion, government, families, and the natural world. The Industrial Revolution upended this. It turned labor and land into market commodities and inputs into the great machine of industry. They were to be “bought and sold, used and destroyed, as if they were simply merchandise,” Polanyi wrote. But these were fictitious commodities, for they were none other than human beings and the earth.²⁸

Generative design runs this process in reverse. It decommodifies land and labor and the commons, putting them again under the control of the community. It re-embeds economic activity in cultural and ecological context. It re-embeds ownership in community.

Generative design teaches us that capitalism is not only a mindset, not only a long historical moment (perhaps now reaching its end-game), but also a system engineered by particular mechanisms of ownership, which tend to encourage behavior of certain kinds. New types of social architecture are possible, and their nascent success tells us that a new kind of economy remains possible.

In trying to imagine a large-scale shift in the social architecture of the economy, it may help to recall a prediction made a half-century ago by Robert Heilbroner: “Capitalism will inevitably change and in the longer run will gradually give way to a very different kind of social order.”²⁹ If we advance alternative models now, we may see in the long lens of time that the deep transformation of ownership design was not an idle dream, but something closer to a historical imperative.

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NOTES

1. To my knowledge, the phrase “social architecture” was first used by Mike Thomas and colleagues at the Monterey Institute for Social Architecture; <http://www.misa.ws/Welcome.html>.

2. Medard Gabel and Henry Bruner, *Global Inc.: An Atlas of the Multinational Corporation* (New York: New Press, 2003), 2–8, 31. The overwhelming majority of multinationals are publicly traded.

3. For the concept of “ecological overshoot,” see Donella Meadows, Jørgen Randers, and Dennis Meadows, *Limits to Growth: The 30-Year Update* (White River Junction, VT: Chelsea Green Publishing Company, 2004). Financial overshoot is described in Marjorie Kelly, *Owning Our Future: The Emerging Ownership Revolution* (San Francisco: 2012), chapter. “Overload,” describes the process by which “The global superstructure of assets had come to exceed the load-bearing capacity of its foundation in the real economy,” 67–70.

4. Kevin Phillips, *American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century*, (New York: Viking Penguin, 2006), 268.

5. Charles R. Morris, *The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash*, (New York: Public Affairs/Perseus Books Group, 2008), 134.

6. C.S. Holling, Lance H. Gunderson, and Donald Ludwig, “In Quest of a Theory of Adaptive Change,” in *Panarchy: Understanding Transformations in Human and Natural Systems*, eds. Lance H. Gunderson and C. S. Holling, (Washington, DC: Island Press, 2002), 3–22. Fikret Berkes, “Understanding Uncertainty and Reducing Vulnerability: Lessons from Resilience Thinking,” *Natural Hazards* 41 (2007): 283–95.

7. Self-organization is a key principle of systems thinking. See for example Fritjof Capra, *The Hidden Connections: A Science for Sustainable Living* (New York: Anchor Books/Random House, 2002), 14.

8. State-owned companies also have a positive role to play, particularly with models like the government-owned Bank of India and the state-owned Bank of North Dakota, both of which remained resilient during the 2008 financial crisis. Other state-owned companies can represent business as usual, as with many large oil companies owned by governments.

9. There are many existing frameworks that attempt to bring together the notion of an emerging economy: the New Economy, Community Wealth, local living economies, the social economy, and others. These overlap in various ways. The notion of generative ownership design—and of a generative economy—emphasizes the fact that an economy is given its fundamental shape, its foundational design, from the structures of ownership. Creating a new kind of economy requires new kinds of ownership. The concept of generative ownership attempts to unify a variety of alternatives within a substantive frame. It builds on the work of many others.

10. The term “generative”—as in generative enterprise and generative economy—was first used in Marjorie Kelly, *Owning Our Future*.

11. The idea of the “commons”—originally, holding land in common for the community—is an ancient tradition found in many societies, including British, Chinese, and African cultures. A new commons movement has arisen in recent years; see for example <http://onthecommons.org/>.

12. Stakeholder theory was originally detailed by R. Edward Freeman in the book *Strategic Management: A Stakeholder Approach* (Boston: Pitman, 1984), and identifies and models the groups which are stakeholders of a corporation. The term is used here to connote all those who have a “stake” in an enterprise, such as employees, suppliers, policyholders in an insurance company, depositors in a bank, and so forth.

13. A social enterprise is an organization that applies commercial strategies to achieve social and environmental ends; they can be structured as for-profits or non-profits. It is not clear who devised the term. Social enterprise initiatives are found at an increasing number of business schools, such as Harvard, Stanford, and Princeton. A leading trade group is the Social Enterprise Alliance, <https://www.se-alliance.org/>.

14. The term “mission-centered corporations” was devised by Marjorie Kelly to denote corporations—often publicly traded—where legal control of the board is vested in mission-oriented hands, such as a family, foundation, or trust, often by using super-voting shares. The term first appeared in Kelly’s article “Not Just for Profit,” *Strategy & Business*, Spring 2009, <http://www.strategy-business.com/article/09105?pg=all>.

15. European Federation of Share Ownership, *Economic Survey of Employee Ownership in European Countries in 2010*, May 4, 2011, www.efesonline.org/annual%20Economic%20Survey/2010/Presentation.htm. In 2012, the European Federation of Employee Share Ownership announced that the European Parliament had approved a pilot project to create a center for employee ownership in each EU member state. In December 2012, the Cuban government announced new rules for cooperatives designed to increase the number of worker-owned businesses, in a move expected to be part of a shift toward free markets. <http://www.nceo.org/employee-ownership-update/2012-12-17>.

16. Community Wealth, Democracy Collaborative, <http://www.community-wealth.org/strategies/panel/coops/index.html>.

17. John Restakis, *Humanizing the Economy: Co-operatives in the Age of Capital* (Gabriola Island, BC, Canada: New Society Publishers, 2010).

18. “Socio-economic impact of cooperatives and mutuals,” www.usherbrooke.ca/irecus.

19. Josh Harkinson, “How the Nation’s Only State-Owned Bank Became the Envy of Wall Street,” *Mother Jones*, May 27, 2009, <http://www.motherjones.com/mojo/2009/03/how-nation%E2%80%99s-only-state-owned-bank-became-envy-wall-street>.

20. Ralph Nader, “How Credit Unions Survived the Crash,” *Counterpunch*, Feb. 23, 2009.

21. These and other examples are explored more fully in Marjorie Kelly, *Owning Our Future: The Emerging Ownership Revolution*.

22. Donella Meadows, *Thinking in Systems: A Primer*, ed. Diana Wright (White River Junction, VT: Chelsea Green Publishing, 2008), 42.

23. The notion that human social systems share the characteristics of natural systems has been developed by Fritjof Capra in *The Hidden Connections: A Science for Sustainable Living* (New York: Anchor Books/Random House, 2002).

24. Meadows, *Thinking in Systems*, 25–34.

25. The five elements of generative ownership are explored at length in Part III of Kelly, *Owning Our Future*, with one chapter devoted to each element. The work of the research project Corporation 20/20 led in large part to these design elements being derived. Corporation 20/20 is a multi-stakeholder initiative co-founded by Marjorie Kelly and Allen White of Tellus Institute in Boston; it involved hundreds of leaders from business, finance, law, government, labor, and civil society who were brought together for dialogues over five years to explore the question: how could corporations be redesigned to integrate social and ecological concerns as deeply as financial concerns? The initiative involved a variety of papers and two national conferences. See www.Corporation2020.org.

26. Erik Olin Wright suggests the idea of “interstitial strategies” in *Envisioning Real Utopias* (Verso, 2010).

27. The Stabilization Wedge Game was produced by Princeton University’s Carbon Mitigation Initiative. The goal of the game creators, Stephen Pacala and Robert H. Socolow, is to demonstrate that global warming can be tackled using seven approaches, each of

which reduces carbon emissions by a proportion of the total needed. Seven wedges from a variety of strategies fit into a stabilization triangle. S. Pacala, "Stabilization Wedges: Solving the Climate Problem for the Next Century," *Science* 305 (Aug. 12, 2004), <http://www.princeton.edu/mae/people/faculty/socolow/Science-2004-SW-1100103-PAPER-AND-SOM.pdf>.

28. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Times* (Boston: Beacon Press, 1960; 1944).

29. Robert Heilbroner, *The Limits of American Capitalism* (New York: Harper & Row, 1965).