

August 5, 2015



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The End of the Capitalist Era, and What Comes Next

Posted: 04/01/2014 9:05 am EDT | Updated: 06/01/2014 5:59 am EDT

This post is excerpted from Jeremy Rifkin's new book, The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism, published today by Palgrave Macmillan.

The capitalist era is passing... not quickly, but inevitably. A new economic paradigm -- the Collaborative Commons -- is rising in its wake that will transform our way of life. We are already witnessing the emergence of a hybrid economy, part capitalist market and part Collaborative Commons. The two economic systems often work in tandem and sometimes compete. They are finding synergies along each other's perimeters, where they can add value to one another, while benefiting themselves. At other times, they are deeply adversarial, each attempting to absorb or replace the other.

Although the indicators of the great transformation to a new economic system are still soft and largely anecdotal, the Collaborative Commons is ascendant and, by 2050, it will likely settle in as the primary arbiter of economic life in most of the world. An increasingly streamlined and savvy capitalist system will continue to soldier on at the edges of the new economy, finding sufficient vulnerabilities to exploit, primarily as an aggregator of network services and solutions, allowing it to flourish as a powerful niche player in the new economic era, but it will no longer reign.

What's undermining the capitalist system is the dramatic success of the very operating assumptions that govern it. At the heart of capitalism there lies a contradiction in the driving mechanism that has propelled it ever upward to commanding heights, but now is speeding it to its death: the inherent dynamism of competitive markets that drives productivity up and marginal costs down, enabling businesses to reduce the price of their goods and services in order to win over consumers and market share. (Marginal cost is the cost of producing additional units of a good or service, if fixed costs are not counted.) While economists have always welcomed a reduction in marginal cost, they never anticipated the possibility of a technological revolution that might bring marginal costs to near zero, making goods and services priceless, nearly free, and abundant, and no longer subject to market forces.

The near zero marginal cost phenomenon has already wreaked havoc on the entertainment, communications, and publishing industries, as more and more information is being made available nearly free to billions of people. Today, more than forty percent of the human race is producing its own music, videos, news, and knowledge on relatively cheap cellphones and computers and sharing it at near zero marginal cost in a collaborative networked world. And now the zero marginal cost revolution is beginning to affect other commercial sectors, including renewable energy, 3D printing in manufacturing, and online higher education. There are already millions of "prosumers" -- consumers who have become their own producers -- generating their own green electricity at near zero marginal cost around the world. It's estimated that around 100,000 hobbyists are using open source software and recycled plastic feedstock to manufacture their own 3D printed goods at nearly zero marginal cost. Meanwhile, six million students are currently enrolled in free Massive Open Online Courses (MOOCs) that operate at near zero marginal cost and are taught by some of the most distinguished professors in the world, and receiving college credits.

The reluctance to come to grips with near zero marginal cost is understandable.

Many, though not all, of the old guard in the commercial arena can't imagine how economic life would proceed in a world where most goods and services are nearly free, profit is defunct, property is meaningless, and the market is superfluous. What then?

A powerful new technology platform is emerging with the potential of reducing marginal costs across large sectors of the capitalist economy, with far reaching implications for society in the first half of the 21st Century. The Communications Internet is converging with the fledgling Energy Internet and Logistics Internet in a seamless twenty-first-century intelligent infrastructure -- the Internet of Things (IoT). The IoT will connect every thing with everyone in an integrated global network. People, machines, natural resources, production lines, logistics networks, the electricity grid, consumption habits, recycling flows, and virtually every other aspect of economic and social life will be linked via sensors and software to the IoT platform, continually feeding Big Data to every node -- businesses, homes, vehicles -- moment to moment, in real time. Anyone will be able to access the IoT and use Big Data and analytics to develop predictive algorithms that can dramatically increase productivity and reduce the marginal cost of producing and delivering a full range of physical goods and services to near zero just like we now do with information goods.

Lost in all of the excitement over the prospect of the Internet of Things is that connecting everyone and everything in a global network

driven by extreme productivity moves us ever faster toward an era of nearly free goods and services and, with it, the shrinking of capitalism in the next half century. The question is what kind of economic system would we need to organize economic activity that is nearly free and shareable?

We are so used to thinking of the capitalist market and government as the only two means of organizing economic life that we overlook the other organizing model in our midst that we depend on daily to deliver a range of goods and services that neither market nor government provides. The Commons predates both the capitalist market and representative government and is the oldest form of institutionalized, self-managed activity in the world.

The contemporary Commons is where billions of people engage in the deeply social aspects of life. It is made up of literally millions of self-managed, mostly democratically run organizations, including educational institutions, healthcare organizations, charities, religious bodies, arts and cultural groups, amateur sports clubs, producer and consumer cooperatives, credit unions, advocacy groups, and a near endless list of other formal and informal institutions that generate the social capital of society.

Currently, the social Commons is growing faster than the market economy in many countries around the world. Still, because what the social Commons creates is largely of social value, not pecuniary value, it is often dismissed by economists. Nonetheless, the social economy is an impressive force. According to a survey of 40 nations, the nonprofit Commons accounts for \$2.2 trillion in operating expenditures. In eight countries surveyed—including the United States, Canada, Japan, and France—the nonprofit sector makes up, on average, 5 percent of the GDP. In the US, Canada, and the UK, the nonprofit sector already exceeds 10% of the workforce.

While the capitalist market is based on self-interest and driven by material gain, the social Commons is motivated by collaborative interests and driven by a deep desire to connect with others and share. If the former defends property rights, caveat emptor, and the search for autonomy, the latter promotes open-source innovation, transparency, and the search for community.

What makes the Commons more relevant today than at any other time in its long history is that we are now erecting a high-tech global technology platform whose defining characteristics potentially optimize the very values and operational principles that animate this age-old institution. The IoT is the technological "soul mate" of an emerging Collaborative Commons. The new infrastructure is configured to be distributed in nature in order to facilitate collaboration and the search for synergies, making it an ideal technological framework for advancing the social economy. The operating logic of the IoT is to optimize lateral peer production, universal access, and inclusion, the same sensibilities that are critical to the nurturing and creation of social capital in the civil society. The very purpose of the new technology platform is to encourage a sharing culture, which is what the Commons is all about. It is these design features of the IoT that bring the social Commons out of the shadows, giving it a high-tech platform to become the dominant economic paradigm of the twenty-first century.

The Collaborative Commons is already profoundly impacting economic life. Markets are beginning to give way to networks, ownership is becoming less important than access, and the traditional dream of rags to riches is being supplanted by a new dream of a sustainable quality of life.

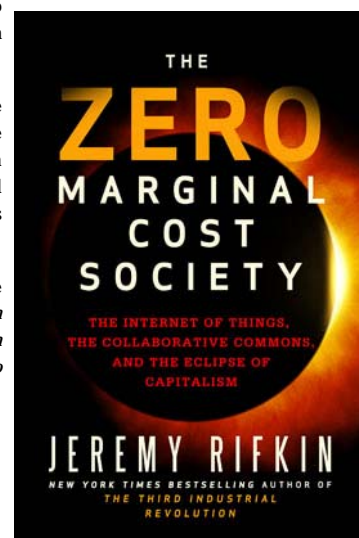
Hundreds of millions of people are transferring bits and pieces of their economic life from capitalist markets to the global Collaborative Commons. Prosumers are not only producing and sharing their own information, entertainment, green energy and 3D-printed goods at near zero marginal cost and enrolling in massive open online college courses for nearly free, on the Collaborative Commons. They are also sharing cars, homes, clothes, tools, toys, and countless other items with one another via social media sites, rentals, redistribution clubs, and cooperatives, at low or near zero marginal cost. An increasing number of people are collaborating in "patient-driven" health-care networks to improve diagnoses and find new treatments and cures for diseases, again at near zero marginal cost. And young social entrepreneurs are establishing socially responsible businesses, crowdfunding new enterprises, and even creating alternative social currencies in the new economy. The result is that "exchange value" in the marketplace is increasingly being replaced by "shareable value" on the Collaborative Commons.

In the unfolding struggle between the exchange economy and the sharing economy, most economists argue that if everything were nearly free, there would be no incentive to innovate and bring new goods and services to the fore because inventors and entrepreneurs would have no way to recoup their up-front costs. Yet millions of prosumers are freely collaborating in social Commons, creating new IT and software, new forms of entertainment, new learning tools, new media outlets, new green energies, new 3D-printed manufactured products, new peer-to-peer health-research initiatives, and new nonprofit social entrepreneurial business ventures, using open-source legal agreements freed up from intellectual property restraints. The upshot is a surge in creativity that is at least equal to the great innovative thrusts experienced by the capitalist market economy in the twentieth century.

While the capitalist market is not likely to disappear, it will no longer exclusively define the economic agenda for civilization. There will still be goods and services whose marginal costs are high enough to warrant their exchange in markets and sufficient profit to ensure a return on investment. But in a world in which more things are potentially nearly free and shareable, social capital is going to play a far more significant role than financial capital, and economic life is increasingly going to take place on a Collaborative Commons.

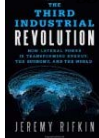
Jeremy Rifkin is the author of The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism. Rifkin is an advisor to the European Union and to heads of state around the world, and is the president of the Foundation on Economic Trends in Washington, DC. For more information, please go to www.thezeromarginalcostsociety.com.

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