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Commons Capitalism Entities as a Market Institution: Surplus Stewardship Without Shareholders

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Abstract

This discussion draft introduces the Commons Capitalism Entity (CCE) as an institutional form designed to operate in ordinary competitive markets while preventing private capture of residual surplus. A CCE consists of a nonprofit “commons corporation” parent and one or more wholly owned, market-facing subsidiaries. Subsidiaries pursue profit and compete conventionally, but net surplus is retained and stewarded by the commons corporation for defined internal purposes rather than distributed to shareholders, investors, or managers. The core economic claim is that eliminating private residual claimants changes the intertemporal allocation problem: retained surplus can be committed to a structured set of internal funds that support (i) reinvestment and acquisition, (ii) higher compensation and Nordic-like social benefits, (iii) education and skill formation, and (iv) reserves, while preserving competitiveness and operational discipline at the subsidiary level. The draft frames the CCE as a governance and commitment technology, outlines a set of testable implications, and identifies failure modes and open research questions suitable for economists working in industrial organization, corporate finance, labor economics, institutional economics, and organizational economics.

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1. Introduction

The modern corporation is often analyzed as a nexus of contracts with residual control rights and residual cash-flow rights tied, in the standard case, to shareholders. This pairing is frequently defended as an incentive alignment mechanism, but it also concentrates wealth by directing residual surplus to capital owners. The Commons Capitalism Entity (CCE) is proposed as a market institution that separates profit-seeking operations from private residual claims, while preserving competitive discipline and reinvestment capacity.

A CCE is not a worker cooperative and is not a cooperative variant. It does not allocate residual surplus to workers as capital-wealth accumulation, and it does not create member ownership. Instead, workers receive higher wages and Nordic-like social benefits as compensation, with net surplus retained for internal stewardship and growth. The CCE is also not a charitable or public-benefit vehicle. Its surplus is not earmarked for public goods or charitable services. The design is narrowly internal: the surplus is managed as a commons for the benefit of past, present, and future workers within the CCE system, primarily through compensation, benefits, reinvestment, and acquisition.

This draft has three objectives. First, to present the CCE as a coherent object of economic analysis. Second, to identify the mechanisms by which such a structure might remain competitive while avoiding private capture of surplus. Third, to propose a research agenda with falsifiable hypotheses and measurable outcomes.

2. The Institutional Form in One Page

A CCE consists of two layers.

First, a nonprofit commons corporation (the “Commons Corporation”). It has no shareholders and no investors. It does not pursue a charitable or public purpose. Its function is stewardship: it governs and allocates consolidated net surplus produced by operating subsidiaries.

Second, one or more wholly owned Subsidiaries. Each Subsidiary is a separate legal entity wholly owned by the Commons Corporation and conducts market-facing operations.

Subsidiaries compete in ordinary markets, use conventional pricing, and are managed to pursue lawful business objectives, including profitability and growth.

The Commons Corporation retains net surplus and allocates it across exactly four internal funds: the Reinvestment Fund, the Social Benefits Fund, the Education Fund, and the Reserve Fund. No other funds are used for this design.

The core economic move is that retained surplus is not distributable to private owners, managers, or investors. It is instead allocated through structured internal governance to support premium wages, Nordic-like benefits, training, resilience, and acquisition and conversion of additional businesses into new Subsidiaries.

3. Economic Intuition: A Commitment Device for Intertemporal Allocation

In many firms, internal stakeholders negotiate an implicit division of cash flows among wages, reinvestment, payouts, and balance-sheet protection. Because shareholders are residual claimants, payout pressure can become the default outlet for surplus, particularly when governance favors short-term returns. A CCE removes that outlet.

Removing private residual claimants is not, by itself, sufficient to produce disciplined reinvestment or higher compensation. The economic question becomes whether the governance system can credibly commit surplus to productive uses rather than dissipating it through agency costs, soft-budget constraints, or internal capture.

The four-fund architecture is intended to serve as a commitment mechanism. It forces surplus allocation into transparent buckets with constrained purposes, and it makes explicit the intertemporal tradeoff among reinvestment and acquisition, compensation and benefits, human capital, and reserves.

4. Incentives and Agency: Who Wants What

A CCE's incentive environment differs from both shareholder firms and cooperatives. Workers do not receive residual capital payouts. Their economic upside is primarily in wages and benefits and in reduced downside risk through enhanced termination standards and social-benefit architecture. Managers likewise do not receive private residual returns from ownership; incentives must be structured through compensation, performance evaluation, and governance oversight.

Each Subsidiary has its own board and management structure. The operating level remains legible to standard performance metrics, and subsidiary leadership can be held accountable for profitability, cash flow, market share, quality, and compliance.

A key design constraint is that worker governance cannot become so strong that it blocks acquisitions or converts the system into a de facto worker cooperative. Worker voice is present, including veto protections over certain alienations of personnel or property, but it is separated from control over the parent's acquisition capital allocation.

5. The Four Funds as an Internal Capital Market

Economists may view the four funds as a structured internal capital market, with constraints on fungibility. The Reinvestment Fund finances growth, modernization, and acquisition. The Social Benefits Fund finances premium wages and Nordic-like social benefits as compensation. The Education Fund finances training and skill formation. The Reserve Fund serves resilience.

The research question is whether this architecture produces a stable and efficient intertemporal allocation rule. One can model the system as an allocator that solves a constrained dynamic problem, with governance constraints that reduce leakage to private extraction.

6. Financing and the Scaling Path Without Investors

A CCE has no investors and no shareholder returns. Growth therefore relies on retained surplus and conventional credit, including asset-based lending and other institutional credit facilities when feasible.

This creates an empirical agenda in corporate finance. Does the absence of equity investors change leverage, covenant structures, or the cost of capital? Do lenders demand different covenants when the borrower has no equity residual claimants?

The design treats acquisition and reinvestment as central. The institutional form is intended to grow by conversion of additional businesses into new wholly owned Subsidiaries.

7. Comparative Institutional Analysis

The CCE is not a conventional shareholder firm because there are no shareholders and no private residual payouts. It is not an ESOP because workers are not accumulating capital ownership stakes. It is not a worker cooperative because workers are not the residual owners and cannot convert the entity into a cooperative through governance control. It is not a charity or public-benefit nonprofit because it lacks a public or charitable purpose and does not allocate surplus to public goods as a primary function. It resembles, in a limited sense, nonprofit-controlled operating groups, but with an explicit internal surplus architecture and an acquisition-centered scaling logic.

8. Testable Implications and Empirical Agenda

A discussion draft should be falsifiable. Potential hypotheses include: (i) compensation stability and lower volatility across cycles; (ii) reduced turnover and potential productivity gains; (iii) higher reinvestment as a share of surplus; (iv) improved resilience and lower distress frequency; (v) measurable acquisition cadence relative to retained surplus; (vi) bounded parent-level administrative overhead; and (vii) predictable allocation responses to shocks.

9. Failure Modes and Design Constraints Economists Will Care About

Key risks include soft-budget constraints, managerial entrenchment, internal capture, underinvestment, over-centralization at the parent allocator, and credit-market constraints. Each is an empirical question as much as a theoretical one, and the design claims are only as strong as performance under stress.

10. Open Questions for Economists

1. What is the best formal model class for a CCE: a constrained dynamic allocator, a multi-principal agency model, or an internal capital market with governance frictions?
2. Under what conditions does removing private residual claimants improve or worsen total factor productivity?
3. How should optimal allocation across the four funds be characterized in steady state and under shocks?
4. Does creditor monitoring become more important, and if so, how do covenant structures evolve in a CCE?
5. What are the equilibrium labor-market effects of premium wages and benefits without ownership upside?
6. Can the structure remain stable against internal political economy, including coalitions that seek to redirect surplus away from reinvestment and acquisition?

11. Conclusion

The CCE is proposed as a market institution that preserves profit-seeking operations while eliminating private extraction of residual surplus. Its distinguishing mechanism is a nonprofit parent that retains net surplus and allocates it across four constrained funds dedicated to reinvestment and acquisition, worker compensation and social benefits, education, and reserves. The design shifts the economic problem from dividend policy and shareholder monitoring to governance of a structured internal surplus allocator. Whether this produces superior outcomes is an empirical question.

Appendix A: Definitions (Short Form)

Commons Capitalism Entity (CCE). The Commons Corporation together with one or more wholly owned Subsidiaries that conduct market-facing operations.

Commons Corporation. A nonprofit parent entity with no shareholders and no investors, responsible for stewardship of net surplus across the four internal funds.

Subsidiary. Any legal entity wholly owned by the Commons Corporation that conducts market-facing operations. Controlled but not wholly owned entities are not Subsidiaries.

Four Funds. Reinvestment Fund, Social Benefits Fund, Education Fund, Reserve Fund.

Questions for Economists (Requested Comments)

These questions correspond to this discussion draft. Comments are welcome by email; short bullet replies keyed to question numbers are ideal.

Institutional Form and Classification

1. What is the most analytically useful way to classify a CCE in the economics literature: a constrained internal capital market, a business group with a non-distributable residual, or something else?
2. Is the core innovation best treated as removal of private residual claimants, formalized surplus allocation across four constrained funds, or polycentric governance across the parent board and subsidiary boards? Which is the load-bearing feature economically?
3. What is the closest credible comparator set for analysis and critique: conventional firms, nonprofit-controlled operating subsidiaries, ESOP firms, cooperatives, or business groups? Why?

Incentives, Agency, and Operating Discipline

4. In the absence of shareholders and investors, what mechanism would you expect to be the primary discipline device: product-market competition, creditor monitoring, board oversight, managerial labor markets, or something else?
5. Where is the most likely agency-cost failure point: parent-level allocator capture, subsidiary managerial slack/entrenchment, or internal coalition politics over allocation of surplus among the four funds?
6. What governance features would you regard as essential to prevent a soft-budget constraint in which weak subsidiaries expect cross-subsidization or bailouts from the parent?
7. The model assumes workers receive premium wages and Nordic-like social benefits but do not receive capital-wealth accumulation and cannot control the parent's acquisition capital allocation. Does that compensation structure plausibly improve productivity and retention enough to offset higher labor cost in competitive markets, and under what conditions would it not?

Finance, Growth, and the No Investors Constraint

8. With no equity investors and no shareholder payouts, how do you expect the long-run capital structure to evolve: higher leverage, lower leverage, or a distinct covenant-intensive debt structure? What would drive your answer?
9. Does acquisition-driven scaling without investor equity look feasible as an equilibrium growth path, and where is the binding constraint likely to be: collateral, cash flow, seller willingness, governance capacity, or creditor risk appetite?

Four Funds as a Commitment Technology

10. If you model the four funds as constrained buckets, do you view that as a credible commitment device or as a potential rigidity that could reduce allocative efficiency? What is the most likely misallocation risk?
11. What allocation rule or decision architecture would you expect to perform best over the cycle: a fixed percentage rule, a target-ratio rule (e.g., reserve adequacy thresholds first), or an adaptive rule tied to measurable operating metrics?
12. What is the best way to define success economically for a CCE: reinvestment rate, wage/benefit stability, productivity, resilience, acquisition cadence, or some composite? If composite, what weights would be defensible?

Testable Implications and Research Design

13. What would count as a clean falsification of the claim that a CCE can remain competitive while structurally preventing private capture of surplus?
14. If only a small number of CCEs exist, what research strategies would still be credible: matched case studies, synthetic control, acquisition event studies, structural modeling, or something else?
15. What data should a CCE collect from day one to make later empirical work feasible (financial, HR, productivity, retention, training, benefit utilization, covenant terms, etc.)?

How to Respond

Email comments to: jdcope@commonscapitalism.com

Preferred format: bullets keyed to question numbers. Short replies are welcome; longer memos are encouraged.

If you are willing to discuss any of the questions in a brief Zoom call, please say so and suggest times.