

ENOUGH BY DESIGN · CHAPTER FIVE

The Balance Sheet Cannot See

Chapter Five of Enough by Design

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Chapter Five of Enough by Design. The whole book, with every chapter, is at business.hautelumiere.life/library/enough-by-design (DOI https://doi.org/10.5281/zenodo.23989348).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

The studio in this chapter is a composite, built for teaching from the shape of many small professional firms. It is not a real company, and every figure in it was set by the writer to make the arithmetic clear. It is a landscape architecture practice of twenty-eight people in a mid-sized city. It designs public parks, school grounds and the gardens of a few large private houses. It has been profitable for eleven years. Ask its accountant what the studio owns, and the answer takes under a minute. Twenty-eight workstations and their screens, a large-format printer, a model-making room, a modest vehicle, the fit-out of a leased floor. On the balance sheet, after depreciation, the tangible assets come to a little over $310,000. The studio's revenue last year was $4,200,000.

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The studio with nothing on its books

The studio in this chapter is a composite, built for teaching from the shape of many small professional firms. It is not a real company, and every figure in it was set by the writer to make the arithmetic clear. It is a landscape architecture practice of twenty-eight people in a mid-sized city. It designs public parks, school grounds and the gardens of a few large private houses. It has been profitable for eleven years.

Ask its accountant what the studio owns, and the answer takes under a minute. Twenty-eight workstations and their screens, a large-format printer, a model-making room, a modest vehicle, the fit-out of a leased floor. On the balance sheet, after depreciation, the tangible assets come to a little over $310,000. The studio's revenue last year was $4,200,000.

Ask one of its two founding partners what the studio owns, and the answer takes an afternoon. A planting library of some four thousand species records, built over eleven years, noting which plants survived which soils and which winters on which of its sites. A set of detailing standards for paths, drainage and play equipment that its junior designers can use without starting from nothing. Relationships with three municipal parks departments that call the studio first. A reputation, in the region, for schoolyards that children use. A way of running a design review that takes a scheme from sketch to permit in about two thirds of the time it used to. Six designers who can each lead a project.

None of that is on the balance sheet. Almost all of it is why the studio exists.

Chapters 2 to 4 argued that a large share of the scarcity a well-resourced household or firm lives inside is designed rather than material, and that the useful measure of wealth is what resources can be converted into. This chapter works that argument where it is most concrete: in the intangible economy, where knowledge, relationships and method are most of the capital, where they can be copied without being used up, and where they are nonetheless very often made scarce.

What the research counts

For most of the twentieth century, national accounts and company accounts treated spending on knowledge as a cost of the year in which it was spent. A machine was an investment; the training that taught someone to run it was an expense. In 2009 Carol Corrado, Charles Hulten and Daniel Sichel published, in the *Review of Income and Wealth*, the study that did most to change that habit.[42] They proposed treating business spending on intangibles as investment, and grouped it into three broad classes:

- Computerised information: software and databases.
- Innovative property: scientific research and development, but also design, new product development in services, artistic originals and mineral exploration.
- Economic competencies: brand, the firm-specific training of its people, and organisational capital — the investment in how the firm is run.

The figures are large, and they are theirs. Drawing on their own earlier work, the authors write that business investment in intangibles in the United States was "approximately one trillion dollars in 1999, an amount that is roughly the same as investment in tangible capital at that time".[49] Their abstract estimates that, as of 2003, "as much as $800 billion is still excluded from U.S. published data", and that more than $3 trillion of business intangible capital stock was missing from the official accounts.[49] And when intangibles are counted, the story of American growth changes shape. Capital deepening — more capital behind each hour of work — becomes the dominant source of growth in labour productivity, and the share left over for multifactor productivity, the residual economists once read as the measure of pure progress, shrinks.[49]

That last finding matters for this book. A great deal of what used to look like unexplained abundance, growth arriving from nowhere, turns out to have been investment that nobody was writing down. The abundance was being built on purpose. It simply did not appear on any ledger.

The estimates rest on assumptions about what share of each kind of spending creates lasting value and how fast that value wears out, and they describe a national economy, not a firm. A reader can take the direction and rough scale as secure. The study cannot say what any single firm owns.

Jonathan Haskel and Stian Westlake built on this work in *Capitalism without Capital* (2018), and gave the economy it described a vocabulary that has stuck.[50] Intangible investments, they argued, tend to share four properties:

- Scalability. A design standard, once written, can be used on one project or a thousand.
- Sunkenness. If the firm fails, its intangibles are hard to sell. Nobody buys a training programme out of a bankruptcy.
- Spillovers. Others can benefit from them: a competitor hires a designer, a client copies a detail.
- Synergies. Intangibles are worth more in combination: a planting library is worth more beside a detailing standard and a design review that uses both.

These four properties are the economic form of the distinction chapter 3 drew between copying and creating. An intangible is costly to create, cheap to copy, hard to sell, easy to leak and most valuable when joined to others. That combination makes it the place where the question of designed scarcity is sharpest. A firm can make its knowledge abundant inside its own walls, or it can keep it scarce — and it is often the second that happens, by accident.

Ammanuel Santa Anna's *Ecstatic Economics* names the blind spot in the accounts plainly. In standard economic accounting, he writes, "a forest has value only when it's cut down."[51] The studio's planting library is a small forest of the same kind. It has a value on the day it is sold, if anybody would buy it, and none on the days it is quietly doing the work.

And in a short book on Elinor Ostrom, Santa Anna states the general principle in a sentence the studio's partners might pin above the model room:

> *Scarcity is a policy choice. So is abundance.*[52]

In a firm, the policies are mostly unwritten. They live in where files are kept, who may change a standard, how a junior learns, and what happens to a lesson when the person who learned it leaves.

Counting the studio's intangible investment

The finer point of applying the research is that a firm's intangible investment is hidden inside its costs. It has to be found line by line. The studio's partners did this over two afternoons with last year's accounts and timesheets. The figures below are the composite's, set by the writer, and each says where it came from inside the story.

Computerised information. Software licences for design, mapping and rendering, $84,000. The species database's hosting and a part-time contractor who maintains it, $36,000. Total, $120,000. *Source in the composite: the accounts' software and contractor lines.*

Innovative property. The studio has no research department, but its timesheets show designers spending time on work that is not billed to a client and creates something lasting: updating the planting library after site visits, testing new details, writing up a finished project's lessons. Across the year that came to about 4,100 hours. At the studio's average fully loaded cost of $68 an hour, that is $278,800. *Source in the composite: timesheet codes for non-billable library, standards and review work, multiplied by the average cost per hour from payroll.*

Economic competencies. External training and conference fees, $41,000. The senior designers' mentoring time, coded on timesheets, about 1,250 hours, at a senior fully loaded cost of $92 an hour: $115,000. Work on the studio's website, award submissions and published case studies, $22,000. Total, $178,000. *Source in the composite: training and marketing lines in the accounts, mentoring code on timesheets.*

The studio's total intangible investment for the year, on this count, is $120,000 + $278,800 + $178,000 = $576,800. Its tangible investment that year — a printer replacement and three new workstations — was $46,000.

On this reckoning the studio invests more than twelve times as much in what it cannot see as in what it can. Its profit and loss account treats all $576,800 as a cost of last year. Its balance sheet will never show it. This is not an accounting error; the standards for small firms are what they are, and there are good reasons for caution in capitalising spending whose value is uncertain. But it means the studio's own documents describe a firm that owns $310,000 of things and spends a great deal of money on nothing. The truer description is a firm that has spent eleven years building a stock of knowledge, method and trust, and spends $576,800 a year maintaining and adding to it.

The studio is, in miniature, the economy Corrado, Hulten and Sichel measured: roughly as much investment going into the invisible as into the visible, or, in this composite, a good deal more.



Where the scarcity was designed in

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Where the scarcity was designed in

Once the investment was counted, the partners asked where its value was getting stuck. They found four places, one for each of Haskel and Westlake's properties, and in each the scarcity turned out to be a design.

Scalability, blocked. The planting library could serve every project. In practice it served about half, because it was kept in a format only four people knew how to search, and the other designers asked one of the four. Each question cost a senior designer a few minutes and a junior designer an afternoon of waiting. The library was abundant. Access to it had been made scarce by a format chosen eleven years earlier.

Sunkenness, unprotected. About a third of the studio's detailing standards existed only in the habits of its longest-serving project leader. If she left, they would leave with her and could not be bought back. The investment was real and entirely sunk, and it was concentrated in one person.

Spillovers, mostly outward. The studio's best lessons from finished parks were written up for award submissions, which competitors read, but not for its own juniors, who did not. Knowledge leaked out more readily than it circulated in.

Synergies, unused. The design review, the planting library and the detailing standards were each strong. They were not connected. A review would recommend a planting change without checking the library's survival records for that soil.

Scarcity Is a Design Choice has a sentence for the studio's position:

> *Value does not live in inventory. It blooms in relation.*[53]

The studio's value was in inventory — four thousand records, a third of its standards in one head — and it had not yet been allowed to bloom in relation. The knowledge was abundant. The meetings between knowledge and the people who needed it were scarce, and somebody had designed them that way, without meaning to.



Designing it out

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Designing it out

The changes the partners made were small, and the smallness is the point. Santa Anna's book closes one of its practical chapters with an instruction that suits a firm as well as a person: the first step is "Not a grand transformation, but a seed — something small enough to start this week."[54]

For scalability: a junior designer and the database contractor spent three weeks rebuilding the library's search, so that anyone could query it by soil, exposure and site. Cost, in the composite, about $9,000 of time. The senior designers' "can you look this up" interruptions, which the timesheets suggested had cost

around 300 senior hours a year, were the expected saving. The partners wrote that expectation down before the change, as a prediction to test, not as a result. Chapter 9 sets out how to keep such predictions honest.

For sunkenness: the longest-serving project leader was given a protected half-day a week for a year to write the standards she carried into the shared set, with a junior designer as her second. The cost is real, about $24,000 of her time. It turns a sunk, single-person investment into a shared one, and it was offered to her not as succession planning but as authorship.

For spillovers: every award submission now has an internal version, written first, for the studio's own people, with the lessons the external version leaves out.

For synergies: the design review's checklist gained one line: check the planting library for the site's soil before recommending a planting change.

None of this required new capital. All of it required noticing that the scarcity lay in the policies, not in the knowledge. The *Complete Field Guide* to *Ecstatic Economics* offers the measure the partners should now keep: "Measure how fast knowledge composts into practice."[55] The same passage gives the reason: "When your metrics reward circulation over capture, the algorithm flips."[55]

The house's instruments for the same work at larger scale are *Alpha Value Chain*, which shows where in a firm's activities value is created and lost, and *Alpha VRIO*, which asks which of a firm's resources are valuable, rare, hard to imitate and organised to capture value. The studio's planting library passed the first three of those tests and failed the fourth until the search was rebuilt. Chapter 6 follows two large firms that made the opposite choice in public, opening a library of patents to anyone who wanted to use it.

What this case cannot show should be said plainly. It is a composite. Its figures illustrate a method of counting, not a finding about landscape practices or about whether such changes pay. The research it draws on measures intangible investment across a national economy, not the result of opening up one firm's library. A real firm doing this exercise should write its predictions down first and check them after a year.



The household's intangibles

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The household's intangibles

The same counting works at home, and it is often more revealing there, because a household has no accountant to ask.

A household's tangible assets are its home, if owned, its car, its savings, its furniture. Its intangible stock is larger and harder to see: the skills of each adult and how current they are, the health habits that keep a body working, the relationships that would carry the family through a hard month, the knowledge of how

to cook from what is in season, a shared rhythm that makes the week run. Each is costly to create, often cheap to share, impossible to sell, and subject to its own designed scarcities.

The finer points are the studio's, made smaller.

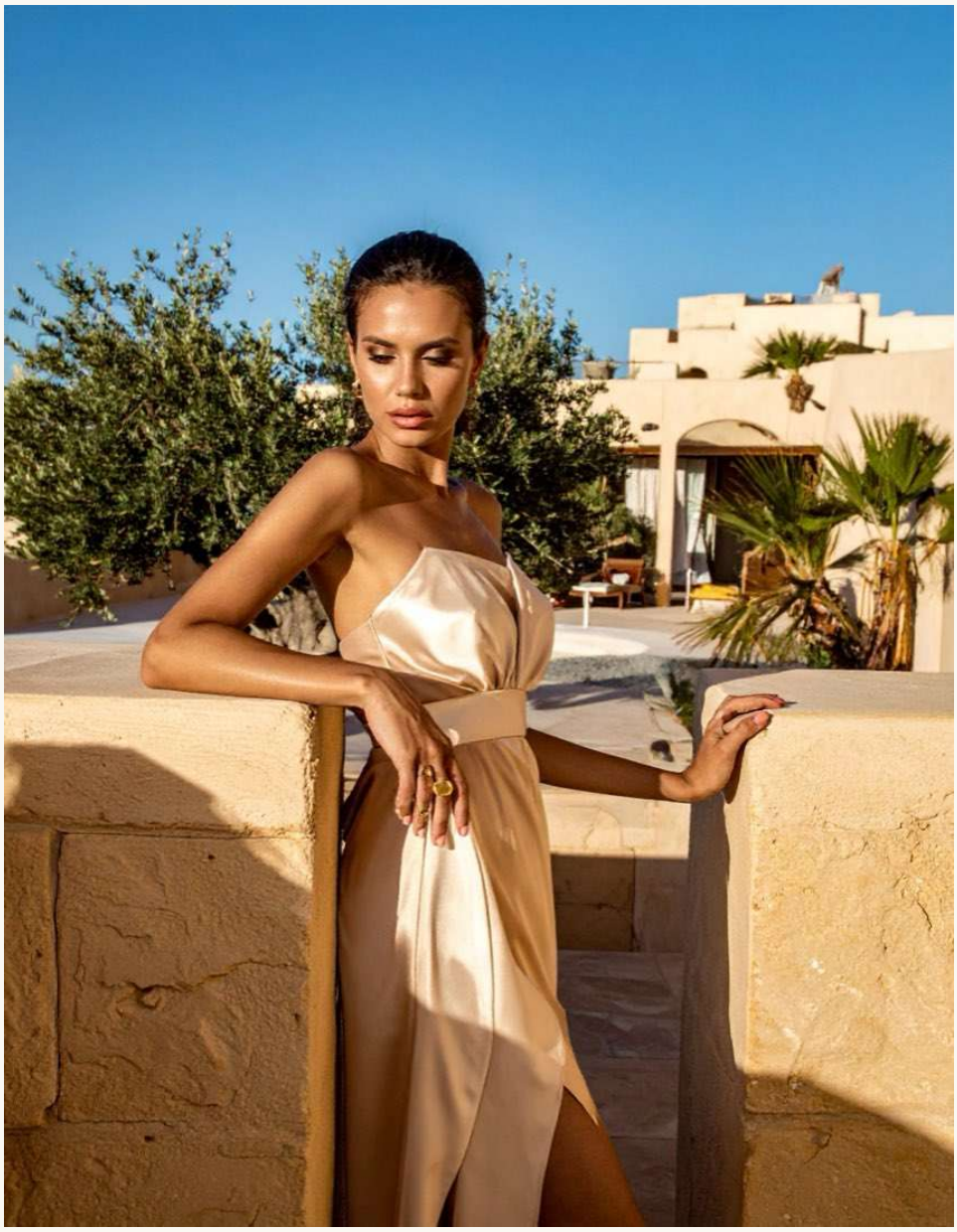
Find the hidden investment. The evening course, the hour spent teaching a child to cook, the call to an old friend: these are recorded, if at all, as costs or lost time. Name them as investment in the household's capability, which is what chapter 4 argued they are.

Find where it is locked in one person. In many households one adult holds all the knowledge of the money, or the medical history, or the family's arrangements. That is the studio's sunk standard in domestic form, and the weekly money hour of chapter 11 is the household's version of the protected half-day. The *High Frequency Workbook* puts the right question for that hour plainly: "What does my money need from me this week?"[56]

Let it circulate. Skills shared with neighbours, tools lent along a street, a meal cooked for two households: these are the intangible economy's spillovers turned inward on purpose. , the series book on gift and reciprocity, reads why such exchanges build a trust that a purely priced exchange does not, and reads Brian Arthur's account of why knowledge, once it begins to accumulate, tends to compound.

A library, open

A year after the search was rebuilt, a second-year designer at the studio stands at the model-room table at seven in the evening, a soil report from a new schoolyard in one hand. She types three words into the library and reads, in a note written by a partner nine winters ago, which shrubs died on the clay two streets away and which came back in spring. She does not have to ask anyone. The knowledge was always there. What changed is that the door to it was redrawn to open from her side.



The Tool: The Intangible Inventory

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The Tool: The Intangible Inventory

For a firm of any size, or a household. Two sittings of two hours, with last year's accounts and, for a firm, timesheets or a fair estimate of time.

1 · Count the tangible investment. Last year's spending on things you can touch that will last more than a year. One figure: $

2 · Count the intangible investment, by class. For each line, write the figure and where it came from.

CLASS	WHAT TO LOOK FOR	FIGURE	SOURCE
Computerised information	Software, data, the time spent maintaining them		
Innovative property	Unbilled time spent creating something lasting: designs, methods, libraries, tested improvements. For a household: learning a craft, building a repertoire		
Economic competencies	Training, mentoring time, reputation work, time spent improving how things are run. For a household: courses, teaching children, maintaining relationships		
Total			

Time is costed at a fair hourly figure: for a firm, the fully loaded cost from payroll; for a household, whatever hourly figure you choose, written down.

3 · Write the ratio. Intangible investment ÷ tangible investment = . Note it; do not judge it yet. For orientation only: Corrado, Hulten and Sichel found the two roughly equal across U.S. business at the end of the 1990s. Your own ratio is a fact about you, not a score against them.

4 · Run the four questions on your three most valuable intangibles.

INTANGIBLE	SCALABLE: WHO COULD USE IT WHO DOES NOT?	SUNK: IS IT HELD BY ONE PERSON?	SPILLOVERS: DOES IT LEAK OUT FASTER THAN IT CIRCULATES IN?	SYNERGIES: WHICH OTHER INTANGIBLE SHOULD IT BE JOINED TO?

5 · For each named gap, write the policy that creates the scarcity. A file format, a habit, a rule about who may change something, a missing hour. One phrase each.

6 · Choose one change, the seed. Small enough to start this week. Write the change, who owns it, the cost in money or hours, and the prediction of what it will save or make possible within a year. Enter the prediction in chapter 9's Prediction Register.

7 · In a year, re-count steps 2 and 4 and check the prediction. Keep both sheets.

A note on method

The studio in this chapter is a composite built for teaching. It is not a real firm; all its figures were set by the writer, and their sources are named inside the story only to show how a real firm would find them.

A NOTE FROM THE HOUSE

An intangible held by one person, or one that leaks out faster than it circulates in, is scarcity a firm has drawn for itself. Redrawing it is the work of a gainshare: the gain counted from records already kept, and shared. Luminous Prosperity Inc. does this inside organisations, for a share of what is found.

REQUEST A CONVERSATION

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