

# PENTOUTOPIA

Free individuals in a democratic, equal, just and sustainable society

Thomas Diefenbach



# PENTOUTOPIA

Free individuals in a democratic, equal, just and sustainable society

This book is about *Pentoutopia* – the model of a good society. It shows how a society *could* be, how a society *should* be – a society where everyone is as *free* as possible, where all institutions are as *democratic* as possible, where all people have (relatively) *equal* conditions, where life is *just*, and where systems and processes are *sustainable*. The book illustrates comprehensively and in detail how institutions, organisations, the economy and society can be based on, and function according to, the principles of *freedom, democracy, equality, justice* and *sustainability*. Moreover, it demonstrates how Pentoutopia works, how its people and institutions establish and maintain a society that is not just a distant utopia but a *realistic*, achievable and doable utopia.

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## Preface

### A good society called 'Pentoutopia'

One of the fundamental questions of and for humans and humankind is how a social system (like a society) needs to be designed and function so that *all* of its members are as free as possible and its institutions are as democratic, equal, just and sustainable as possible. What kind of social system, with what kind of institutions and mechanisms, policies and procedures, structures and processes can provide and guarantee such conditions (Bookchin 1971, p. 229, Held 1987, p. 264, Hahnel 2005, p. 4, Bogason & Musso 2006, p. 15)? What kind of institutions, organisations, economy, government and social sphere would constitute such a *good* society? How would, *how should* they be designed, work and function?

This book attempts to answer these questions. It outlines a society where every individual is as free as possible; where all organisations, the economy and the governance of the public sphere are fully democratic; where everyone has equal rights, equal opportunities, equal conditions and factual possibilities; where justice prevails and everything is in balance and sustainable. I call this society 'Pentoutopia'.<sup>1</sup>

In this book I outline a *general model of a good society* that is as comprehensive and at the same time as detailed and specific as possible. The concept describes what kind of people and institutions constitute and maintain Pentoutopia (*free* individuals and *legitimate* institutions, Part I), how organisations are designed and function (as *democratic organisations*, Part II), what kind of economy Pentoutopia has and how it works (a *democratic market economy*, Part III), how the public sphere and society is governed (via *civil democracy*, Part IV), how (more) equality is achieved throughout (especially *economic* and *social* equality, Part V), how justice is guaranteed (both *procedural* and *distributive justice*, Part V), and how the system, processes and (economic) activities are sustainable (in the form of *durability*, *balance* and *moderation*, Part V). For each of these aspects I provide suitable concepts, theories and models (developed by me when no appropriate ones were available) and address the most relevant issues in order to show that Pentoutopia *can* work and function and *how* it works and functions.

Crucially, Pentoutopia is built on, committed to and functions according to the very same universal values and principles it aims for, i.e.: 1. *Freedom* (negative and positive freedom of individuals), 2. *Democracy* (democratic design, workings, governance and management of institutions, especially organisations, political institutions, the public and social sphere), 3. *Equality* (equal rights, opportunities

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<sup>1</sup> 'Pentoutopia' is a fantasy name that actually is a combination of, or reference to, three different words or loan-words from Greek – *penta*, *pantou*, and *topos*: 1. *penta* is the Greek word for 'five', i.e. this term refers to the essential five principles (freedom, democracy, equality, justice and sustainability) on which Pentoutopia is built. 2. *pantou* is the Greek word for 'everywhere'. I chose this term in order to stress that Pentoutopia can and should be realised *everywhere* (whereas Thomas More (1478–1535) used the prefix 'u' in order to imply that his island society – '*U-topia*' – is a 'nowhere land', nowhere to be found). And 3. *topia* obviously refers to More's amazing literary description of a fictional island society *Utopia* from 1516, where *topia* is the latinised word More used in order to refer to the Greek term '*topos*', i.e. place or location. So, altogether 'Pen-tou-topia'. *Pentoutopia* is the universal concept of a good society that is based on, and adheres to five essential principles (freedom, democracy, equality, justice and sustainability) that *can* – and *should* – be realised *everywhere*.

and conditions for everyone), 4. *Justice* (procedural and distributive justice), and 5. *Sustainability* (durability, balance and moderation). These principles are so fundamental for any decent and legitimate social system that I call them ‘the essential five’. Pentoutopia is based on, upholds, maintains and defends these five essential principles and values comprehensively and robustly as a whole as well as in each and every one of its parts. And it does so at a level and to the extent no other society does or could do.

Freedom, democracy, equality, justice and sustainability are key for every social system and in every cultural context. Throughout history people have been willing to risk their lives for these ideas. When drafting the concept of the good society based on these principles the problem was not so much to provide definitions or concepts of these principles – there are plenty around for each of them. What has been the challenge, and what is probably the problem in general, is to show how *exactly* organisations, the economy, government and society can be designed and function according to these principles; how these principles can be put into practice, how they can be applied to individuals and institutions in ways that serve both; and how to get these – and other – principles together into *one comprehensive and (largely) consistent theoretical framework of ‘the good society’*.

Some of the principles, for example (individual) freedom and (representative) democracy, so far have been institutionalised in many ‘Western’<sup>2</sup> countries more comprehensively and thoroughly than in other parts of the world.<sup>3</sup> But it would be a mistake to portray or understand these principles as ‘Western’ values. In most, if not all, human cultures and societies there are notions of – and an urge for – freedom, democracy, equality, justice and sustainability (even if they are not named as such) – as it is evidenced by the countless struggles in Central and Eastern Europe, the Middle East, Central, South, East and Southeast Asia, in Africa, Oceania, Middle and South America. People, *whoever and wherever they are*, have the *inalienable right* to be free, and *deserve* to be so; to be involved in making individual and collective democratic decisions about (the conditions of) their work and lives, and the social systems they are part of; to have equal rights and to enjoy equal conditions; and to live in circumstances and social systems that are just, balanced, moderate and lasting. Most people actually *want* these things to be the case. In this sense, ‘the essential five’ and their realisation are vital *anywhere and everywhere* in the world. ‘The essential five’ are *universal* principles.

Pentoutopia is not only a society that is based on, and adheres to, these universal principles to the highest degree but applies the principles of freedom, democracy, equality, justice and sustainability to individuals and to institutions, organisations, the economy and (the governance of) the public and social sphere *systematically, comprehensively and profoundly*. This is new, and differentiates it from other concepts of (a good) society. Pentoutopia describes a society, *is* a society, never seen before.<sup>4</sup> Its social and

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<sup>2</sup> ‘Western’ countries (or ‘the West’) is understood here as the concept stemming from the second half of the 20<sup>th</sup> century, i.e. ‘Western Europe’ (the Northern, Western and Southern European countries) plus the Anglo-Saxon countries (Australia, Canada, New Zealand, United Kingdom and USA).

<sup>3</sup> That also ‘Western’ countries and societies are far from perfect will be reiterated and illustrated repeatedly, particularly in chapter ‘The status quo – and what’s wrong with it’ in the introductory part, ‘Status quo and (the search for) a better society’.

<sup>4</sup> Of course, there have already been attempts to outline better, utopian societies (and I have been truly inspired by many of them). In the introductory part, ‘Status quo (and the search for) a better society’, I refer to some of them and show that Pentoutopia can be seen in that tradition. In *this* sense, Pentoutopia is *not* a novelty – though (still) unique in certain ways.

political spheres, economy and organisations are built on principles and policies, structures and processes that make every single person as free as possible, and on institutions that are fully democratic, equal, just and balanced as far as possible. Pentoutopia is an open, inclusive and dynamic society. The model of Pentoutopia provides a universal *positive* alternative. This model, hence, can serve as a blueprint for *any* larger social system or society, in East *and* West, in the Global North *and* the Global South. Thus, this book is for everyone who is, or wants to get, serious about having not only a *fundamentally different*, but a *better* society than the current ones, a *much* better society, anywhere in the world.

### Why this book?

In 1840 the great French social philosopher and politician Pierre-Joseph Proudhon (1809–1865) concluded his thoughts about humankind’s great project to realise a *better society* (quoted, without page numbers, in: Guérin 2005, p. 49): ‘Everyone has his contribution to make, and, mission accomplished, he vanishes.’ This book is *my* contribution. It took me 11 years to complete (from 2012 to 2022). Why did I do it? Why this book? Why yet another book about a ‘better’ society? There are several reasons.

#### *Bad status quo and valid alternatives*

Obviously, there are hundreds or thousands of (very) different societies.<sup>5</sup> Some contemporary societies are actually quite good societies, *relatively* good. They comply with ‘the essential five’ to *some* extent; they grant many fundamental freedoms to their citizens, have fairly democratic political and electoral systems, might have comparatively lower economic and social inequalities, provide procedural justice, and be getting better at achieving environmental, social and economic sustainability. Unfortunately, however, there are many more countries and societies that care about, and practice, these principles little or not at all (so-called ‘illiberal’ democracies, hybrid systems or straightforward autocratic or oligarchic regimes). But whether *relatively* good, bad or really bad societies, *all* of our past and present societies are a far cry from how they *could* be, how they *should* be:

- *All* of our current societies – although to varying degrees – are characterised by high levels of all sorts of *inequalities*; economic inequality (income and wealth inequality) is *systemic* and divides people into ‘haves and have nots’ – and the gaps are widening. Past and present market economies are anti-egalitarian *by design*. Social inequalities are prevalent *everywhere* on a massive scale; resources and power, advantages and disadvantages are allocated unequally and systematically privilege or discriminate against people belonging to certain groups or classes. Inequalities are institutionalised in private, social and economic relationships (*asymmetrical* relationships), in organisations (*orthodox* or *hierarchical organisations*) and in societal institutions (*stratification*). *In every society*, institutionalised inequalities are the norm and ‘unnatural normality’.

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<sup>5</sup> In this book, by ‘society’ I mainly mean a large(r) institutionalised and internationally recognised social system like a ‘country’ or ‘nation state’. However, in a sociological or cultural sense a society could mean any smaller or larger established social system – i.e. not only countries or nation-states but any organised group of people that share certain institutions and values.

- Because of these massive, systematic and systemic inequalities, our contemporary societies by and large are quite *unfair* and *unjust*. At best, there is some formal and procedural, perhaps even substantive justice in legal matters and administrative affairs, but economic and social conditions treat people largely unjustly. Many people are undeservedly privileged, many are unfairly disadvantaged. Unjust, unjustified and unjustifiable stratification, discrimination and exploitation are standard – and institutionalised, even legalised, as standard.
- In large part, societies are *undemocratic* – even the democratic societies. True, we do have some fully fledged free and democratic countries, constitutional democracies based on the rule of law and elaborated parliamentary and electoral systems of limited power – whereas the majority of countries are either fake democracies or straightforward autocracies, monarchies, oligarchies, kleptocracies, faith-based or one-party states. But even the most advanced and developed democracies are still *undemocratic* in *many* respects and in a fundamental sense: their political and electoral systems only provide for some rare, limited and insufficient democratic decision-making (general elections every four years); political parties, even democratic parties, are thinly democratic hierarchies and oligarchies, citizens’ participation (in political institutions, public administration and political decision-making) is largely symbolic and with few consequences. Moreover, there is no democracy whatsoever in (most of) our private and public organisations; orthodox, non-democratic and hierarchical bodies constitute the standard type of organisation. Employer–employee, and similar formal or legal superior–subordinate relationships, represent *hierarchical*, *autocratic* and *anti-democratic* regimes.
- People are not truly (or fully) *free*. Of course, some countries *are* free and democratic states of law. They grant their citizens (almost) the whole range of human and civil rights, have functioning institutions of governance, laws and regulations, public spheres, a civil society and social media that offer people lots of freedoms. But even in such formally and politically libertarian countries, people are *not* free in crucial parts of their lives; at work (if they are employed via a traditional employment contract) people are not allowed to say or do what they think or want but have to obey their superiors, and to perform and function as they have been instructed. And in their social lives, in private and public spheres people are fairly confined and conditioned by tradition – traditional beliefs, norms and values, socially expected behaviour, and prevailing ideologies of functionalism and political correctness.
- Finally, many societies are *unsustainable* in some important respect. There are, of course, the known environmental problems. Most business models, how certain companies, whole industries and economies operate and function, and particular lifestyles (‘throw-away society’) are not sustainable and harm the natural environment. But also in social and cultural respects many of the ways we do things are neither balanced nor moderate, but individually and socially unsustainable (e.g. performance-orientation, egocentrism, consumerism, hectic and unhealthy lifestyles).

Altogether, even in the ‘best’<sup>6</sup> contemporary societies, the essential five are only met and realised in rather limited ways – let alone in the vast number of unfree, closed, autocratic or oligarchic societies

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<sup>6</sup> ‘Best’ countries or societies in the sense that they have robust constitutional, legal, political, social and cultural institutions, policies, structures and processes in place to realise ‘the essential five’ to some extent. Such countries or societies are usually ranked at the top of relevant global rankings – for example, the *Freedom Index*, *Democracy Index*, *income equality*, *wealth equality*, *social welfare policies* or the ‘*happiness index*’. Mostly the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden), some of the (other) Western European countries, and a few American or Asian countries are in the top tiers of such tables and can be regarded as *relatively* good societies.

that are more or less directly opposed to freedom, democracy, equality, justice and sustainability. Our societies could be much more liberal, democratic, equal, fair and balanced. Actually, looking at these good principles and concepts, one might say that even our best societies are still some hundred years (and the worst ones a thousand years) behind how they could be, how they *should* be. This has to change.

Of course, it is relatively easy to criticise things and to make demands. The real challenge is to come up with something better, to develop and to realise *a positive alternative* that is *possible* and *feasible*, i.e. a *realistic* alternative. Back in 2009, I stated in my book *Management and the Dominance of Managers* (Diefenbach 2009a, p. 236): ‘The idea that change is possible and necessary is completed by the demonstration of *positive alternatives*. ... Probably the most important, and definitely the most difficult, part of any critical enterprise, is to provide an *elaborated and realistic* positive alternative to the status quo.’ And I further developed this thought in the conclusion to my book *Hierarchy and Organisation* (Diefenbach 2013, p. 237):

The development and realisation of truly non-hierarchical social systems is still pending. This would mean the end of hierarchical order and unequal social relationships, of oppression and exploitation and of unjustified privileges for the few and unfair disadvantages for the many – and their replacement by different principles, structures and processes. ‘Freedom’ is the task. We can, and need to, develop (again) a ‘utopian spirit’ concerning the (theoretical and practical) search for ‘better’ social systems since even with the currently most developed forms we are still far away from the ideal of truly hierarchy-free, democratic and egalitarian, and fair and just organisations and societies. The search for such social systems continues the endeavour and unfinished business of the Enlightenment. And we have to do it because we can.

Both books (*Management and the Dominance of Managers* and *Hierarchy and Organisation*) were ‘merely’ critical books, but at that time I at least already had the feeling that I needed to answer the ‘So what?’ question; if orthodox, hierarchical organisations and societies are seemingly so anti-libertarian and anti-democratic, unfair, unjust and unsustainable, what then is the alternative? Is there a *viable* alternative *at all*? Therefore, since 2012 I had been working on developing a model of a viable alternative type of organisation – the *democratic organisation* (which was then published under this title in 2020). At the same time, I also developed similar and corresponding ideas and concepts of alternative types of the economy, public and social sphere, of a different, better society – and all of this then came together in this book.

### *Personal experience*

Also my personal experience has been that our organisations, societies and their institutions are a far cry from how they could or should be. Throughout my life I have lived and worked in many different parts of the world (on four continents – Europe, Africa, Asia and Australia) and worked in various jobs for 20–25 different organisations – always as a small cog in the large wheel, like most of us. Everywhere I had been quite puzzled by what I saw, by all the mediocre and dysfunctional design and workings of illegitimate institutions, hierarchical organisations and thoroughly stratified societies, as well as all the strange behaviour people (including myself) demonstrate under such conditions.

Most of what I saw and experienced I found irritating and disappointing, to say the least. And I *suffered*. I suffered *a lot* because living in a society or working for organisations that were anti-libertarian and anti-democratic, oppressive, unfair and unjust went against my very nature and understanding of being

a free individual and being treated decently. Stratified societies and orthodox, hierarchical organisations do not allow (most) people to be individuals, to make use of, and to develop their full human potential, to decide, to act and to be like a human. Our societies and organisations, even the 'free' and 'modern' ones, are fairly old-fashioned, oppressive, socialising and patronising. They reduce people to obedient superiors and subordinates happy to oblige in functioning as the system requires. In all the organisations I have worked for I have only encountered hierarchical, top-down and patronising management, led by rather incompetent and ignorant managers and supervisors. Actually, these organisations were full of inept and mediocre managers and wannabe leaders with severely distorted personalities and bad manners. Dysfunctional supervisors mostly micro-managed and belittled their subordinates (and were quite effective in doing so), and a pathetic, sometimes toxic organisational culture filled the corridors, hearts and minds of all of us little people, keeping us in check but also turning us into mini psychopaths, trying to survive each day on the hierarchical treadmill, mostly by self-censoring, behaving obediently and cunningly playing the system.

As one can imagine, to work professionally in such conditions was a rather unpleasant experience for me. My actual work, and doing what I was told to do, required only a small portion of my competencies, professional knowledge and expertise. Even when I had been a highly qualified and experienced professional, I was only allowed to decide around 10% of what I did and how I did it; the other 90% was decided by 'the system', by policies, and by said inept, micro-managing managers, supervisors or administrators, who usually had little, if any real knowledge and understanding of the work I did. Overall, the organisations (I worked for), managers and supervisors got about 5% of my motivation, creativity, ideas and enthusiasm – probably less. And they got my middle finger!

Actually, hierarchical organisations and (highly) stratified societies are not miserable for everyone. For a minority of people they are quite good and useful. There is a small, privileged minority, power elites, rulers and their entourages, the rich and powerful who enjoy their riches, high status and positions, take advantage of the system, and oppress, control and exploit people. Organisational psychopaths, spineless opportunists, and those who have been broken and conditioned into well-functioning and obedient servants also thrive in such systems. They are in fact among the majority of people on various rungs of the hierarchical ladder being oppressed and exploited, belittled and patronised, and exposed to constant surveillance, control and punishment. Many inequalities and injustices, ridiculous behaviour and damaged personalities accompany such systems. It is just sad to see what such systems do to people, how they bend over and belittle themselves, their mendacious behaviour and tactical manoeuvring in order to keep and use their minor powers and positions, to enjoy their little perks and privileges, to score small victories, or to avoid sticking out and getting punished.

What adds insult to injury is the fact that all these systems are surrounded, maintained and protected by comprehensive ideologies and rhetoric about 'the rightfulness' of the system, how well-organised, efficient and good everything is, why the privileged deserve their positions and what they have, and why the disadvantaged and discriminated against also deserve their positions and what they *don't* have. What has been always shocking for me was that most of the disadvantaged seemingly believe all this nonsense (or, formulated slightly more 'scientifically', they have internalised the prevailing values and narratives). And whenever I see or hear a member of the power elite in their official roles I always wonder whether they actually believe their own lies or they are just very cynical and good actors (and I haven't yet come up with an answer).



Anyway, whether it was because of the hierarchical and stratified structuring and workings of social systems and their oppressive, de-humanising character, the decadence and mendacity of the powerful, the ideological gobbledygook – or all of those together – there was not a single society or organisation (I worked for) that I found sufficiently decent or convincing. And although a lot of my suffering in organisations was due to some direct actions and behaviour of certain *people*, I understood that it was not enough to be angry about those particular individuals and to blame them for all the misery. All my life I have been watching people and what they do with curiosity and am often intrigued. Time and again I have asked myself why people do what they do, why people are like they are, and whether they actually believed what they were saying and doing. Of course, personality (traits), character, personal values, ethics and convictions play a role. Everywhere there are good and bad people. But what I realised is that a lot is down to *institutional settings*. It is the (explicit or implicit) norms and values, the design and workings of societal institutions, the concepts and policies, structures and processes of institutions and organisations that impact on people, shape and even condition them, that *make* people behave, decide and act as they do – at least to some extent.<sup>7</sup> Although institutions, *all* institutions and organisations, are set up, managed and maintained by people, institutions are social systems in their own right, they are *conditions* for people and shape them and their behaviour. It's the institutions that are flawed.<sup>8</sup> All the inequalities and unfreedoms, maltreatment and injustices are not just isolated problems and individual incidents but *inherent, systemic* features of a *fundamentally* flawed social system.

This is why I don't like asymmetrical relationships, hierarchical organisations and stratified societies. I *really* don't like them – and everything that comes with them and what they do to people. Every time I realised that 'the system' worked on me, that I was only required and made to function, when I noticed that I changed my behaviour, even personality, to fit and to 'play the system' (i.e. to avoid punishment), I first started to show some opposition, then tried to fight (which I always lost), and then I finally moved on in the hope of finding a decent organisation or society – only to be disappointed again and again. I admit that my strategy was not very successful. I have not found a single decent organisation or society in my life, *not once!*

Of course, this is just my own personal experience that, measured by scientific standards, counts as no more than 'anecdotal evidence'. However, in my theoretical and empirical research I also came across many models and theories, cases and examples that painted the same picture of stratified societies and hierarchical organisations as severely distorted and dysfunctional social systems very similar to the ones I had experienced personally at first-hand. So, I am fairly certain that the countries, societies and organisations I had been to are all rather typical and representative for current social systems – and that their flaws are not coincidental but systemic.

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<sup>7</sup> This perhaps sounds a bit too 'mechanistic', as if I wanted to take away the responsibility or even individuality from people – far from it. I just want to make the case here that institutions and organisations exert a strong influence over people and that they can be an 'iron casing' (Max Weber) that people must adapt to (because people are born into institutions or join them). People come and go; the institutions remain. Having said that, in Part I, 'Free individuals and legitimate institutions', I will make a very comprehensive and compelling case for the *individual*, the *free* and *autonomous* individual, who is the master of himself and their destiny, work and life. And I will argue and outline that it is, of course, individuals *and* institutions (and their dynamic relationships and interactions) that constitute and maintain social systems.

<sup>8</sup> People are also flawed; there are good and bad ones. But I would advise against trying to change people directly. Usually, this ends up in disaster – whether at an individual or societal scale.

Therefore, based on my own (sad) personal experiences as well as the theoretical and empirical evidence, I came to the conclusion that institutions, organisations and societies need to be *different*. They must be changed. And over the years I wanted to find or develop *positive* alternatives, societies and organisations where people would *not* be reduced and exploited, where they would *not* be privileged and disadvantaged any longer, and where no one has to suffer any longer – at least not because of institutional settings or the conditions of life. That’s why I started to write this book. It was the many pathetic social and organisational institutions I came across throughout my life, all the inequalities, maltreatment and injustices I saw or even experienced personally that led me to develop the concept of Pentoutopia.

*People have the right to live in a good society*

The status quo of our current societies and my personal experiences in my working life might be practical reasons to search for *different – better* – societies, institutions and organisations. But there is also a *principled* reason why should we attempt to realise a *good* society, i.e. a society with institutions that adhere to the essential principles of freedom, democracy, equality, justice and sustainability. People *deserve* it. People deserve it not because of some special entitlements, performance or (other) merits but because they are humans. People deserve to live under conditions that correspond with their status and quality of being human. It’s their right, their *inalienable right* as humans to live in a good society, to work in and for decent organisations and to have legitimate institutions. People, *all* people anywhere and everywhere in the world, deserve to live, work and exist under systemic conditions (i.e. societal and organisational institutions) that permit and support them to:

- Be a free individual as much as possible;
- Make decisions on their own and participate in the democratic governance and management of their work, public affairs and the conditions of their lives;
- Be equally empowered, have equal rights and responsibilities, equal opportunities and equal conditions;
- Be treated fairly and justly; and
- Conduct their businesses and live their lives in balanced and sustainable ways.

Only the conditions of a good society, legitimate institutions and organisations enable people to be humans in an existential sense. People are therefore entitled to a good society *in principle*. And if a society and/or (some of) its institutions and organisations *do not* meet the standards of a good society, are not consistent with the essential principles respectively, then people have every right to change them.

People’s principled entitlement to a good society, decent and legitimate institutions and organisations were for me the third reason why I developed the concept of Pentoutopia. Pentoutopia outlines how a good society and its institutions and organisations look and function. It describes a society with legitimate, fundamentally democratic and sustainable institutions where *all* people are as free as possible and are treated in equal and just ways. It describes a society people deserve and are entitled to.

## Status quo and (the search for) a better society

### Good news – but mind the flaws

There is some good news. First, the economy is doing pretty well. Despite occasional bumps and the odd recession or stagflation, the long-term trend of the global economy and the financial markets know only one way – up. On average, national economies every year grow by some percentage points. Industries and markets thrive. Around the globe financial institutions and stock exchanges handle financial products and conduct financial transactions worth *trillions* of dollars every single day. Local, regional and national economic growth and development, globalisation and the internet have brought businesses, goods and services to almost every household. Producers and online retailers need ever more sophisticated software, logistics and supply chains to manage the hundreds of millions of sales they process daily. Hundreds of thousands of overseas containers full of consumer goods, materials and machinery cross the seven seas on ever larger container ships 24/7. There are now more smartphones and mobile phones than people on this planet. And the metaverse, which will propel industries and markets into a whole new dimension, is just around the corner.

Also politically it doesn't look too bad, although the picture is more mixed: Most countries, unfortunately, are still 'flawed democracies', 'hybrid regimes' or straightforward authoritarian regimes.<sup>9</sup> Even worse, some new democracies were thrown back into autocracies or oligarchies. Nonetheless, the big historical mega-trend is towards *more* democracy. In past centuries the world has become much more democratic. Quite a few countries, especially Western European and Anglo-Saxon countries, have been representative democracies for many decades, if not centuries, and have developed into very solid democracies with comprehensive civil societies. In addition, quite a number of monarchies or aristocratic regimes were turned into fully fledged parliamentary democracies, former colonies in Africa, Asia and Oceania became independent democratic states, dictatorships in the Global South were overthrown and democracies established instead, and some countries of the former Soviet Union, Central and Eastern Europe became democracies (while others turned into some of the worst autocracies or oligarchies). Multinational, international and global institutions (such as the European Union or the United Nations and its various branches) – although large multilingual bureaucracies that often struggle to come to meaningful agreements – slowly add democratic institutionalism and legitimacy to the governance of the world and of international affairs. Democracy is fragile and does not come easy but is spreading and – *in the (very) long run* – will prevail.

Moreover, many societies also show progress in the social sphere. Most developed countries that are fully fledged democracies have comprehensive welfare states, a large number of active civil society

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<sup>9</sup> See the sub-section 'Fully fledged democracies with minimal political democracy' below for more detail.

organisations and citizens that engage in all sorts of voluntary activities in the public sphere. Although public participation in some traditional forms of social and political activities might have declined, overall civic engagement is increasing if one also takes into account new forms of activities and political activism in the realm of the information and knowledge society and social media. In addition, some forms of social inequalities (for instance, oppressive cultural traditions, stratification, hierarchical or asymmetrical relationships) are increasingly challenged, especially by the younger generation and/or people with more modern and cosmopolitan value systems and mindsets. Societies become more open, more vibrant, more civil societies.

So, there *is some* economic, political and social development and progress in the world, and one would be forgiven for thinking that all the problems our societies struggle with are rather ‘technical’ ones. To some extent they are. However, as soon as one scratches the surface and looks deeper, another, very different picture emerges. As I will show in the following chapter, the economic, political and social systems in their current form – even those of free and democratic, fairly developed and prosperous societies – not only *have* problems, but *are* a problem. The economic, political and social spheres of our societies not only have ‘technical’ problems but are *fundamentally flawed*. The very institutions, principles, structures and processes that represent the foundations of our societies and their various spheres are defective. The market economy in its most common form (i.e. neo-classical, capitalist, neo-liberal) is anything but efficient, sustainable, free and fair. Democracies, even the most advanced, fully fledged democracies, are not really democratic. And the public or social spheres of societies are a far cry from a robust and vibrant civil society. Current economic, political and social systems are poorly designed and poorly maintained, inadequate and inefficient, and largely dysfunctional.

Hence, one needs to look at the status quo in much more fundamental terms and address economic, political, social and other issues *critically* in order to get a more appropriate understanding of society and its various spheres. This is what this part is about. In the following sections, the status quo will be critically assessed especially with regard to: 1) *inequality* (economic inequalities in income and wealth and social inequalities such as stratification, hierarchy and asymmetrical relationships); 2) *injustice* (systemic, institutionalised injustice(s) and contract-based exploitation that make our societies so unjust); 3) *lack of democracy* (democracies with only minimal political democracy, undemocratic, even anti-democratic organisations and societies); 4) *lack of freedoms* (people’s unfreedoms in liberal societies, in particular in orthodox organisations, as individuals, and in a social context); and 5) *unsustainability* (economic activities damaging the natural environment and social systems that are out of balance and unsustainable). It will be shown that there actually is *a lot* wrong with the status quo, that our societies – even the most advanced, free and democratic societies – are *fundamentally* flawed.

Based on this critique, the following chapter then makes the case for (the search for) *a better system, a better society*. It introduces the main principles that constitute and define a good society like *Pentoutopia* – freedom, democracy, equality, justice and sustainability. The final chapter describes these founding principles of *Pentoutopia* in some detail and gives an overview of the whole book.

## The status quo – and what’s wrong with it

This chapter critically assesses the state of contemporary societies. In the first section it will show in detail that there are *massive inequalities* both globally and within countries; economic inequalities (in income and wealth) as well as social inequalities (in the form of, and caused by, stratification, hierarchy and asymmetrical relationships), and that these inequalities are fundamental, systemic and persistent. The next section then demonstrates that our societies are largely *unjust* because of systemic, institutionalised injustice(s) and contract-based exploitation. After that, the next section maintains that we live in fairly *undemocratic* societies, that even fully fledged democracies make available only minimal political democracy (I call them ‘undemocratic democracies’) and that most of our institutions, such as organisations, are not only undemocratic, but *anti-democratic*. Moreover, the following section reveals that people’s *freedoms* are severely curtailed even in liberal societies; people are individually and socially unfree in various forms and they face institutions, such as hierarchical organisations, that represent organised unfreedom. In addition, it is argued that such social systems or societies are hardly balanced and sustainable; they are *unsustainable* in environmental as well as in social terms. A final section then wraps up the analysis.

### The world is not flat but unequal

#### *Economic inequalities by design*

In 1750 the great French philosopher Voltaire (1694–1778) (cited in: Kramnick 1995, p. 418) stated that ‘in our unhappy world it is impossible for men living in society not to be divided into two classes, the one the rich who command, the other the poor who serve; and these two classes are subdivided into a thousand, and these thousand still have different gradations’.

Since then not much has changed. Inequality, especially *economic* inequality (i.e. *income inequality* or *wealth inequality*<sup>10</sup>), is systemic in every single country as well as globally. Worldwide, the wealthiest 1% (‘the rich’) – that is, individuals possessing more than 1 million USD in property, businesses and financial assets – own almost half of the global wealth (Economic inequality 2015, no page numbers, Credit Suisse Research Institute 2019a, b). The 26 richest people in the world, i.e. those with more than 50 billion USD each, own as much as 3.5 *billion* poor people together (OECD 2018, p. 13). Williamson (2014, p. 226) found that ‘wealth in the United States is now extraordinarily concentrated at the very top. In 2007, the wealthiest 5% of Americans, measured by net household assets, held nearly 62% of all wealth in the United States, including 72% of financial (non-home) wealth. The top 1% of wealth holders in the United States held 34.6% of all wealth, including 42.7% of financial wealth and 49.3% of directly held stock and mutual funds ... And, at the very top, the richest 0.5% of Americans hold over

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<sup>10</sup> The chapter ‘Increasing economic equality by reducing economic inequalities’ in Part V, ‘A more equal, just and sustainable society’, offers specific definitions of ‘income’, ‘wealth’, ‘economic differences’ and ‘economic inequality’ as well as some detailed analysis of the forms and sources of income and wealth.

25% of total net worth ... Conversely, the bottom 60% of the asset distribution held just 4.2% of all wealth.’

All societies so far, even the most developed democratic welfare states, are actually highly unequal societies. The renowned French economist Thomas Piketty revealed that ‘in all known societies, at all times, the least wealthy half of the population own virtually nothing (generally little more than 5 percent of total wealth); the top decile of the wealth hierarchy own a clear majority of what there is to own (generally more than 60 percent of total wealth and sometimes as much as 90 percent); and the remainder of the population (by construction, the 40 percent in the middle) own from 5 to 35 percent of all wealth’ (Piketty 2014, pp. 336–337). And he concluded his comprehensive studies of (growth of) capital and wealth (p. 258): ‘To my knowledge, no society has ever existed in which ownership of capital can reasonably be described as “mildly” inegalitarian.’ If anything has changed then it is only in the sense that economic inequality has become *worse* in the past decades – *everywhere* in the world (Schweickart 2011, pp. 90–97, Boik 2014, pp. 53–71, 130–134, Gatzia & Woods 2014, p. 36, Malleon 2014, p. 212, Piketty 2014, Yunker 2014, p. 85, Credit Suisse Research Institute 2019a, b, Income equality 2021, Wealth equality 2021).

Inequalities in income and wealth are *not* the result of some ‘natural’ or ‘economic’ laws. Of course, individuals’ work and performance, organisations’ business models and economic activities and their market-related behaviour do create differences in people’s income in the form of salaries and wages. In particular, individual or institutional actors’ profit-maximisation and greed, pure greed,<sup>11</sup> play a major role in the emergence and continuing growth of income and wealth inequality. And for this, the market economy represents an excellent playing field. But it is *institutions*, i.e. social norms and values, constitutional, legal, corporate and fiscal laws, rules and regulations, that create and maintain economic inequalities in the first place. Especially the neo-classical/neo-liberal type of market economy *creates* inequality as well as being *based on*, and *functioning through* inequality. Economic inequality is one of its *fundamental* characteristics. This market economy is a deliberately and consciously designed and maintained inequality-producing system, an inegalitarian and unjust market economy *by design*.<sup>12</sup>

Nevertheless, economic inequality is not just a systemic feature of capitalism or a neo-liberal market economy – although these two are definitely among the most widespread economic systems that produce income and wealth inequalities on a scale rarely seen before.<sup>13</sup> The medieval system of feudalism or

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<sup>11</sup> Remember the speech and the one-liner ‘Greed is good!’ by the investment broker Gordon Gekko, played perfectly by Michael Douglas in the 1987 movie *Wall Street*, that epitomised the new age of financial capitalism. However, greed as one of the driving forces behind capitalism or the neo-liberal market economy is rarely named so directly and honestly. Usually, the proponents of unfettered capitalism call this vice ‘utility-maximising behaviour’ or ‘profit-maximisation’ and portray and justify it as ‘rational’ behaviour – which is quite cynical because any kind of human maximising behaviour is rather *irrational*.

<sup>12</sup> For example, Panayotakis (2011, p. 150) criticised that ‘capitalism’s irrationality stems from its undemocratic nature and its subordination of humanity to an abstract logic of profit and capital expansion that escapes human control’ (similarly Hahnel 2005, pp. 382–383, Wright 2010, p. 40, or Albert 2013, p. 27).

<sup>13</sup> For instance, the *Association pour la Taxation des Transactions financière et l’Aide aux Citoyens* (Association for the Taxation of Financial Transactions and Aid to Citizens), an international movement for democratic control of financial markets and their institutions, describes and criticises the workings of this new kind of economy as follows (ATTAC 2014): ‘Financial globalization increases economic insecurity and social inequalities. It bypasses and undermines popular decision-making, democratic institutions, and sovereign states responsible for the general

contemporary mixed economies (e.g. state capitalism with some market economy), let alone the monarchy, faith-based economies and all sorts of autocracies or kleptocracies also create enormous income and wealth inequalities systematically and permanently. These economic and political systems have been highly efficient in generating and maintaining inequality – as history and current examples show time and again.

All in all, it can be said that economic inequalities are the outcomes and logical consequences not only of *individual behaviour* (such as individual work, economic activities and performance, profit-maximisation, speculation, dubious financial activities of private and institutional investors, banks and other financial institutions and aggressive tax avoidance as well as intergenerational accumulation of capital and wealth) but also, and more so, of *institutional settings*, i.e. of badly designed and managed political, social, economic and financial systems, rules, laws and regulations, fiscal and tax policies (such as minimally taxed profits of corporations or capital gains, insufficient tax laws and their enforcement), and (the lack of adequate) social and welfare policies. Hence, if economic inequalities are to be reduced significantly and in principle, the need is for not only some different *policies* but *a different social system, a different society* (with institutional settings different to contemporary ones).<sup>14</sup>

#### *Social inequalities: Stratification, hierarchy and asymmetrical relationships*

Besides monetary inequalities ('economic inequality') there are many *non-monetary* inequalities that can be subsumed under the term 'social inequality'. 'Social inequality' means that within a social system a certain individual, group of people or social class is systematically advantaged and empowered by having exclusive access to restricted institutions and by being placed into a privileged, superior and dominant position in regard to others, whereas those others are systematically disadvantaged and disempowered, oppressed, exploited, discriminated against and marginalised.

Basically, there are three concepts – or institutionalised structures and processes – that create and maintain social inequality; *stratification, hierarchy* and *asymmetrical relationship* – whereby all three can be found in the same social system, and overlap and mutually reinforce each other.

#### i) Stratification

Stratification means that people are put into socially unequal, i.e. privileged or disadvantaged, positions or classes (and are seen and treated accordingly) because of socially constructed and ascribed features.

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interest. In their place, it substitutes a purely speculative logic that expresses nothing more than the interests of multinational corporations and financial markets. ... The total freedom of capital circulation, the existence of tax havens, and the explosion of the volume of speculative transactions have forced governments into a frantic race to win the favor of big investors. Every day, one hundred billion dollars pass through the currency markets in search of instant profits, with no relation to the state of production or to trade in goods and services. ... The consequences of this state of affairs are the permanent increase of income on capital at the expense of labor, a pervasive economic insecurity, and the growth of poverty.'

<sup>14</sup> Part V, 'A more equal, just and sustainable society', will elaborate much more on this.

Such features can be (almost) *anything*.<sup>15</sup>

- *Personal characteristics*: Genetic predispositions, race, gender, age, physical characteristics and appearance; (sexual, religious, philosophical, political or social) orientations and related identities, knowledge, skills and competences, attitudes and behaviour;
- *Social background, status and position*: Family, upbringing, neighbourhood, peers, community, social networks, affiliations and memberships, education, qualifications, profession/occupation, professional career, formal and informal positions, responsibilities, tasks and functions related to roles and positions, social status/social position, social roles, influence and power;
- *Cultural elements*: Artefacts, symbols, rites, rituals, tradition, ethnicity, language;
- *Concepts*: Norms and values – religious, philosophical, scientific, political, social, economic theories/belief systems/ideologies;
- *Legal features*: Rights, entitlements, obligations, ownership;
- *Economic assets*: Material and immaterial resources, property (land, real estate, goods), business, capital/financial assets, income.

Whether it is because of their social background, status and position, cultural elements, concepts, legal features and/or economic assets, people are either privileged or discriminated against, disadvantaged, robbed of opportunities and denied chances of personal development *systematically and constantly*.

(Almost) all of our societies are *stratified* societies, i.e. they are structured as group-based social hierarchies (Mills 1956, Dahrendorf 1971, Davis & Moore 1971, Laumann et al. 1971, Moore 1971, Mosca 1971, Wrong 1971, Mousnier 1973, Zaleznik 1989, Scott 1990, Sidanius & Pratto 1999, Sidanius et al. 2004). As I have outlined elsewhere (Diefenbach 2013, pp. 15–16), hierarchy and stratification have been

a more or less welcomed companion of humans from the very beginning. In almost every culture and epoch, the notions of stratification and hierarchical social relationships, of ruling elites and followers, and of superiors and subordinates can be identified. In archaic cultures the ruling elites were made up of druids, priests, prophets, royals, rich citizens and the military; in medieval societies there were royals, clergy, knights, aristocrats and merchants; in capitalism some royals and aristocrats remained, but in competition with as well as mingling with capitalists, the bourgeoisie and the military; and in post-modern societies we have bureaucrats, technocrats, managers, politicians and professionals (and, in a few antiquated countries, still royals). All these groups and classes are examples of the fundamental principle that seemingly rules humanity: social systems are structured hierarchically. ... Whether societies consist of clearly demarcated classes or more of a patchwork of clusters and groups of people, whether they are more static or more fluid, or whether the boundaries between the groups are more closed or transparent – in most societies there still seems to be a deeply embedded tradition

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<sup>15</sup> This list is based on classifications of institutions and resources I have produced on several occasions (see Diefenbach 2013, pp. 61, 70–71, Diefenbach 2020, pp. 218–219, and sub-section ‘Socio-cultural aspects and institutions seen critically’ in Part V, ‘A more equal, just and sustainable society’, later in this book).



and understanding that stratification and hierarchical relationships between people are ‘normal’, even desirable and worthwhile.

Social inequality and discrimination based on stratification is not only prevailing in so-called ‘underdeveloped’ societies or ‘developing’ countries; it is also (still) a large, *systemic* part of even the most ‘modern’, ‘advanced’ and ‘developed’ countries and societies. So much so that they can only be described as ‘class societies’. What makes matters worse is the fact that these forms of social inequality and discrimination are often concentrated and lasting; for one thing, certain people are not only disadvantaged because of one feature and in one respect but in various, mutually reinforcing ways (for example, people with certain personal characteristics live in the same deprived neighbourhoods, have limited access to health services, get below-average education, less skilled jobs and (therefore) earn much less money). In addition, the discrimination and disadvantages are transferred to the next generation. It’s a vicious circle from which many try, but only some are able to escape. And the same patterns and mechanisms work for the privileged and advantaged, only the other way round.

The important thing to reiterate is that stratification does *not* exist because people are different. Of course people are different, in almost every respect one can imagine (this is called ‘individuality’ and ‘diversity’). Stratification exists because people with certain features are *judged* by other people or institutions in certain ways (positively or negatively) and then are seen and treated accordingly, i.e. privileged or disadvantaged. Stratification is *not* a natural law but *a social construct* – which means that it can be changed (and must be changed).

## ii) Hierarchy

The second type of concept establishing, representing and maintaining social inequality – *hierarchy* – is also a social construct. ‘Hierarchy’ can be defined as a lasting structure of (mostly) formal positions that are arranged vertically (i.e. at different levels) and horizontally (i.e. at the same level), whereby positions at a higher level have more power but are fewer than positions at a lower level (‘pyramid of hierarchy’).<sup>16</sup> Hierarchy is comprehensive, systematic and thorough. It shapes and underpins all norms and values, principles and policies, structures and processes, governance, management and control systems of a social system.

It is the fundamental idea and key characteristic of hierarchy that things are allocated *unequally* among the positions and members of the social system; all rights, privileges and prerogatives, power and resources are allocated at the top of the hierarchy – in particular ownership and property rights, the rights to pass legislation (laws and regulations), to make decisions, to govern and to manage, to supervise, to control, and to punish – and are partly granted downwards. Hierarchy means authoritarian rule and unrestricted social dominance. People at the top of the hierarchy rule, i.e. they make decisions, give orders, supervise, control and punish. People lower down the hierarchy have to work for those higher up, with a duty to follow and to execute the orders coming from above, to obey and to function while being controlled, supervised and punished.

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<sup>16</sup> See especially my book *Hierarchy and Organisation* (Diefenbach 2013) in which I have comprehensively analysed and criticised hierarchy.

In this sense, hierarchy puts formal positions – and people! – into a thoroughly structured, managed and controlled vertical order of superiority and inferiority, and domination and subordination. It stands for giving and receiving orders (nowadays called ‘instructions’, ‘advice’, ‘guidance’, ‘help’, ‘support’, or even ‘having a conversation’), controlling and being controlled, telling and being told, guiding and being guided, and leading and being led. Hierarchical order is an elaborate social system of artificially created and enhanced differences between people. Hierarchy means the systematic introduction, establishment, maintenance and ideological justification of *inequality* between individuals or groups of people (Mills 1956, Gouldner 1960, Laumann et al. 1971, Mousnier 1973, Abercrombie et al. 1980, p. 130, Pollitt 1990, p. 6, Jermier 1998, Sidanius & Pratto 1999, Levy et al. 2001, p. 10, Gould 2002, Sidanius et al. 2004, Daloz 2007, Diefenbach 2009a, p. 126). As I have argued elsewhere (Diefenbach 2013, p. 4):

Hierarchy *systematically* enables and guarantees unequal distribution of and access to institutions and resources, power differentials and opportunities, privileges and prerogatives, and tasks and duties ... It represents institutionalised differences in power, resources and opportunities; some people are privileged and others are discriminated against. *Hierarchy is anti-democratic, unfair and unjust*. It means advantages and enrichment for the few, and disadvantages and limitations for the many; *every* form of hierarchy, whether dictatorial or democratic, has such principles of social inequality, oppression and exploitation incorporated into its blueprint. Hierarchy benefits superiors and disadvantages subordinates *systematically and with necessity* ... As a consequence, people are not only treated differently but also have different life chances, even life expectancies. Because of hierarchy, people have different pasts, presents and futures.

The most institutionalised and organised form of hierarchy is the *orthodox or hierarchical organisation* (also ‘bureaucratic organisation’, ‘managerial organisation’, ‘corporation’, ‘company’ or ‘firm’) – i.e. a legally and formally established entity that hierarchically structures the relationships and activities of its members. The orthodox organisation gives its members fundamentally different, mostly opposing, legal, formal, organisational and managerial rights and responsibilities that correspond with various types of formal position (such as owners, managers at various levels, and employees or staff). It is *deliberately* designed to provide only *some* people with rights and resources, material goods and power, and advantages and opportunities to pursue *their* interests and to achieve *their* goals (owners and senior managers of the orthodox organisation) – while systematically excluding others from those chances (lower-level members of the orthodox organisation such as lower managers or employees). The orthodox or hierarchical organisation is mainly a tool for pursuing the interests of its owners and senior managers and for securing their privileges and advantages while excluding others – *many* others. Via exclusive ownership rights, employment contracts, and organisational policies, structures and processes it creates a comprehensive micro-cosmos of unequal social positions and relations that systematically privileges the interests and viewpoints of some individuals and groups while silencing and marginalising others (Levy et al. 2001, p. 2). People have different rights and responsibilities, different levels of influence and power, and different privileges and prerogatives within the organisation in accordance with their legally defined and protected statuses and positions as owner, manager or employee, superior or subordinate, leader or follower, master or servant. The systematic privileging of the few comes, and can only happen, at the expense of the many others. The latter are systematically disadvantaged in almost every respect organisational life has to offer (legal rights and entitlements; responsibilities; participation in decision-making and management; income, such as salaries and profit; status and recognition; and efficacy and self-esteem). Viewed in this way, the orthodox organisation resembles and replicates

nothing more than a highly unequal, thoroughly stratified and hierarchically differentiated micro-society – the ideology of autocratic rule and of social differentiation between ‘the rulers’ and ‘the people’, between the ‘haves’ and ‘have nots’. It is *institutionalised inequality and discrimination* (Sidanius et al. 2004, p. 847).

The orthodox organisation has become *the* ideological, legal and formal standard model and prevailing type of organisation, having been propagated extensively by conservative rulers, politicians and businesspeople, economists, and management and organisation theorists, such as Taylor (1911/1967), Coase (1937), Fayol (1949), Drucker (1954), Chandler (1962) and Friedman (1962/1982). Almost all of our organisations are hierarchical; whether private business organisations, civil society organisations, or public administration and public services – educational institutions, hospitals, emergency services or care homes for the elderly – they are all organised as hierarchies. The hierarchical organisation is so common and (seemingly) so normal that we do not even expect anything different, and no longer think about alternatives – which we actually *should*.<sup>17</sup>

### iii) Asymmetrical relationship

And then there are *asymmetrical* relationships, i.e. formal, legal and/or social relationships between individual actors (natural or legal persons) of *unequal power* (Birks 2005, p. 106, Diefenbach 2021, pp. 16–17). This unequal power – or *power differential* – is the crucial bit; there is a ‘stronger’, more powerful, and a ‘weaker’, less powerful actor whereby the former can impose their will on the latter directly or indirectly, even against opposition (Weber 1921/1980, Lukes 1974). An asymmetrical relationship is defined primarily by that power differential; unequal power is a constitutive part as well as a structural component of the asymmetrical relationship and characterises the roles and positions of the parties involved as well as their rights and duties, their behaviour and the outcomes of that relationship (Diefenbach 2013, pp. 39–40, 2021, p. 17). The inequality between actors is (re-)established and maintained through their asymmetrical relationship. An asymmetrical relationship constitutes and means profound inequality.

It can be almost anything that makes actors or parties more or less powerful, ‘strong’ or ‘weak’ in a social, cultural, economic or contractual context; psychological traits, attitudes, behaviour, crude physical appearance or action, social status or positions, legal rights and entitlements, political power, influence, connections, (possession of or access to) resources, property and, of course, money – or any combination of these.

The power differential can stem from, and be based on, *any* of these features. But in the most common asymmetrical relationship – the *superior–subordinate* relationship, especially in the form of the classical master–servant, nowadays employer–employee relationship – the power differential is established first and foremost *formally* and *legally* (and only then *organisationally*, *socially* and *behaviourally*). It is

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<sup>17</sup> In my book *Hierarchy and Organisation* (Diefenbach 2013, p. 1), I called hierarchy an ‘(almost) eternal beast’. ‘Almost’ because there is a small percentage of organisations that are not hierarchical (for example, some cooperatives, associations, partnerships, participative organisations, network organisations, or certain civil society organisations). Part II gives an overview of such alternatives and presents a general model of an organisation that is *not* hierarchical – the *democratic organisation*.

(legal and formal) rights and responsibilities, duties and obligations that are allocated differently, principled unequally; the rights to make decisions, to give orders, to manage, to control and to sanction are *all given solely* to the stronger party. The weaker party largely has corresponding *duties* (and very few and limited, mostly marginal rights), in particular to follow and to execute the orders given, to reason, to act and to behave as they are told (by the stronger party and/or their representatives) (Diefenbach 2021, p. 11). The rights and duties of the stronger and weaker party fit to, and complement each other perfectly; dominating and obeying, leading and being led, giving and receiving orders ('advice', 'support', 'help' or 'guidance'), telling and being told, controlling and being controlled, punishing and being punished.

Actually, most of our relationships are asymmetrical relationships; contractual relationships such as between employer and employee, landlord and tenant, franchisor and franchisee, principal and agent, company and customer are all (highly) asymmetrical relationships. Many formal relationships at work are superior-subordinate relationships – for example, manager (or supervisor) and staff member. Asymmetrical relationships are so common that we take them for granted. They are a *systemic* feature of any non-egalitarian social system. They are carefully and comprehensively designed *institutions of planned and intended* inequality that are not only strong and lasting in themselves but also supported by a range of regulatory, legal and contractual frameworks, the law, the courts, politicians and the media. Almost everywhere in the world, employers, landlords and corporations are systematically advantaged and given privileged and more powerful rights and positions, whereas employees, tenants and consumers are in much weaker positions and enjoy few rights and powers, if any. All these asymmetrical relationships are common, but not normal.

### *Inequalities – fundamental, systemic and persistent*

In general, most of the income and wealth in our societies is distributed highly unequally, society is greatly stratified and split into various classes, most organisations are hierarchical and most social relationships are asymmetrical. This is the unnormal normality most of us experience every day. Whether it is considerable inequalities in income and/or wealth, stratification, hierarchy/hierarchical organisations or asymmetrical relationships, they all lead to the same result: massive legal, political, economic and social inequalities between people. They lead to a systematically and systemically unequal society. Inequality is a *fundamental, systemic and persistent* issue in (almost) all societies as we know them.<sup>18</sup> For most societies, inequality is a *constituting* element and notion that is even portrayed and propagated as a *positive* value and many (usually those who are privileged – the rich and powerful – those close to the privileged, or those who want to become privileged) go to great lengths to justify, to preserve and even to increase economic and social inequalities.

However, inequality is *not* ok. Inequality privileges and empowers the few and disadvantages and disempowers the many. It creates a system of *exclusive, unequally allocated and undeserved* privileges and

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<sup>18</sup> Of course, there are big differences between countries or societies in the scope and nature of inequalities. Rankings of countries in respect to income or wealth inequality, social welfare measures, democracy, freedom or human rights indexes clearly show these differences and which countries fare *relatively* well and which ones don't. Nonetheless, even the top-scoring countries (usually the Nordic countries, many other European and some Asian countries) are still rife with all sorts of inequalities, *systemic* inequalities.

prerogatives, of unequally privileged individuals and groups (Wrong 1971, pp. 132–133, Mousnier 1973, p. 10, Lukes 1974, p. 16, Ravlin & Thomas 2005, p. 976). Those who are privileged and advantaged (the rich and powerful, members of the power elite and upper echelons of society) are placed into positions and given resources and means that better enable them to pursue, promote and defend their vested interests, and to gain, secure and enjoy their privileges and prerogatives. In contrast, the poor, the weak and those who belong to stigmatised social categories are disadvantaged and discriminated against for no reason other than being who they are. They are disadvantaged by not having, or not being provided with, the necessary opportunities and resources to conduct their lives, their work and to pursue self-development. They are disadvantaged, oppressed and exploited politically, ideologically, psychologically, culturally, socially and economically on a daily basis (Tajfel & Turner 1979, Ashforth & Mael 1989, Sidanius & Pratto 1999, Sidanius et al. 2004, Elstak & Van Riel 2005, Jost & Hunyady 2005, Musson & Duberley 2007). And it is not just the ‘very poor’ who are disadvantaged systematically but everyone who is in the daily treadmill of the average life.

For disadvantaged individuals or groups of people inequality obviously has a lot of negative consequences. For them, inequality creates, or aggravates, a whole range of problems and challenges, such as health and social problems, economic and financial problems, work-related problems, restricted social life, and reduced personal development and life chances. Inequalities are also bad for society as a whole. They harm and hamper economic growth and development, lead to political instability and threaten the political and social consensus of the system, are bad for the moral orientation of individuals (they provide a ‘wrong moral compass’) and for the moral fabric of a society (they represent the ‘wrong values’).<sup>19</sup>

Inequality has been one of the curses of mankind and civilisation. Legal, political, economic and social inequalities are detrimental to the idea of a decent society. The idea that rights and resources, social status and positions, privileges and power, income and wealth should be allocated unequally among people goes against the very notion of a civilised society. Inequality has no merits and no legitimacy. It has no place in a civilised world.

### **Injustice: The inequalities and exploitation that make our societies so unjust**

*Systemic, institutionalised injustice(s)*

Inequality means injustice.<sup>20</sup> And vast inequalities mean immense injustice. Our societies are unjust in

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<sup>19</sup> See the list in chapter ‘The case for a more equal society’ in Part V, ‘A more equal, just and sustainable society’, for more details.

<sup>20</sup> There are various concepts and definitions of ‘justice’ and ‘injustice’ (see sub-section ‘Justice: To each, but in the appropriate form’, and especially Table 1, ‘Concepts and principles of justice’, which provides a comprehensive and detailed overview and description of the different principles and concepts of justice). Here I just assume one of the most common understandings of (distributive) justice that ‘people deserve what they get – and get what they deserve’ (or don’t get what they deserve/don’t deserve what they get in the case of injustice). This is the principle of *desert*. In a more formal or philosophical way, the principle of desert is usually formulated as: *X* deserves *y* in virtue of *z*, whereby *x* is an individual or collective actor; *y* is any kind of positive or negative appropriate consequence of *z*; and *z* is any kind of conscious and deliberate activity conducted by *x* freely and voluntarily and *x* is responsible for *z*.

many respects. That ‘life is not fair’ is a conclusion many of us come to occasionally. But this insight is probably more related to single, unfortunate events that happen to us or to people we know. In contrast, the claim that (most of) our societies are ‘not fair’ – i.e. *unjust* – refers to *systematic* and *systemic* issues and reasons. Our societies are *systematically and systemically unjust*.

With injustice I do not only mean all the horrible abuse of human rights, appalling living conditions, the starvation and deaths of the poor and vulnerable members of society or migrants, or that individual perpetrators get away with their misdeeds. All of this *is* injustice (and worse) and needs to be addressed and punished accordingly. But here I also mean the injustice that is *systemic, institutionalised*, the injustices that are a common part of our daily life so that we no longer recognise them as injustice – and there are many of them.

First there are *economic inequalities* that constitute injustices. The massive inequalities in income and wealth outlined above evidence how badly the principle of desert is practised in the economic realm; people who do important jobs and work hard for their money – factory workers, bus-drivers, nurses, teachers, builders, service personnel, office-workers, the police<sup>21</sup> – are not paid adequately. They are not paid appropriately for what they are doing – they are not paid what they *deserve*. Globally, there are 3.5 or so *billion* people, households often with several children, who have to live hand-to-mouth with two, three or five USD per day (these are the official subsistence levels in various regions in the world). They don’t deserve their plight. At the same time, there are business owners and investors, professionals or senior managers that earn (several) hundred thousand dollars, *millions*, some even *billions* of dollars every year. They also might work hard – but they, too, don’t *deserve* what they earn. There is no way to explain or to justify how someone can earn millions or billions of dollars without exploiting others, the system and/or simply being lucky. The rich and super-rich live off capital gains they earn via speculation, semi-legal offshore companies, trusts and family offices – often tax-free, stashed away and hidden from the public (and the tax office’s) eye.<sup>22</sup>

There is no neo-classical theory or neo-liberal political programme, let alone any religious or philosophical ideology, that could explain or justify these enormous economic inequalities, these vast differences in people’s income and wealth as something that is ‘just’ and that people ‘deserve’. People *do not* ‘deserve’ their economic situation – neither the rich and super-rich, nor the low-income, poor and homeless deserve their economic/financial situations. Large inequalities in income and wealth are not just, justified or justifiable. Economic inequalities are straightforward injustice. And a society that has large economic inequalities is neither a good nor a just society – or, to rephrase it: a society that has large economic inequalities is a good and seemingly just society only for *some*, but not for the *many*. Economic inequalities have no place in the concept of a good society.

It is the same with *social inequalities*. Of course, people are different in almost every respect one can imagine – whether it is personal characteristics, social background, status and position, or cultural aspects. And they have different orientations, they act and behave differently – and get different responses

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<sup>21</sup> Obviously, this is not an exhaustive list.

<sup>22</sup> The ‘success’ stories of most so-called ‘self-made’ billionaires are stories about boundless greed and ruthlessness, dodgy and unethical business practices, distorted personalities, principled antisocial behaviour and aggressive tax avoidance – and that they got away with it and did not end up in jail but instead on the Forbes list of the richest people on the planet.

and reactions to their actions. Surely, people should be held accountable for what they do or don't do – and they 'deserve' the right and appropriate treatment and consequences for their *individual* right conduct or wrongdoing. But people *do not* deserve to be privileged or disadvantaged, to be seen and treated in certain ways *generally*, i.e. because of some stereotypical and generalised assumptions about them or because of their social positions.

But this is what social inequality does. It systematically treats people unfairly and unjustly. As outlined in the previous section, social inequality can come mainly in three different structures: as stratification, hierarchy or asymmetrical relationships. Accordingly, injustices emerge along these structures.

*Stratification* – or social stratification – means categorisation of people into groups or social classes according to socio-economic aspects such as their income and wealth, their race, age, gender, religious or sexual orientations, or their social and family background, social status, profession and professional career. People have unequal status and positions, resources and opportunities only because they belong to a particular social group or class. However, people *do not* deserve to be put into certain social categories (such as classes or groups of people) and to be advantaged or disadvantaged, privileged or discriminated against, or even stigmatised accordingly. People *do not* deserve to be seen and treated in certain ways only because of some stereotypical and generalised assumptions about them. People *do not* deserve different availability of, and access to, public services, differences in the quality of education, opportunities for personal and professional development, or different life chances because of their social status and position. Neither the privileged and powerful, nor the discriminated against and disempowered *deserve* their unequal positions or opportunities. Stratification is institutionalised injustice. That people are privileged or disadvantaged simply because of certain features that put them into socially specified categories is not only unjust but simply unacceptable for any open, modern and diverse society. There is no justification whatsoever for any sort of stratification, for social classes, elites or the populace.

The same can be said about *hierarchy* and hierarchical organisations – or any political system that is organised hierarchically. Like stratification, hierarchy is a concept and structure of social inequality that can't be justified. A hierarchical social order not only sets the conditions for appreciating people differently, but also for treating and rewarding them differently. Merely because of their place in the hierarchical order, individuals or groups of people (rulers or ruling elites) receive a relatively larger share of the overall outcomes in relation to their contributions than others. In this sense, hierarchy – and/or a hierarchical organisation – is the formal, legal and organisational vehicle for the egoistic pursuit of individual and group interests at the expense of others by utilising and exploiting them. For individual superiors and for small dominating minorities and power elites, the hierarchical organisation is the best and most suitable form of a social system for extracting labour, goods and services from a majority (Burnham 1941, p. 123, Scott 1990, p. 21, Beetham 1991, p. 58, Stoddart 2007, p. 196). It is *specifically* designed and maintained for social dominance and exploitation. Hierarchical social systems such as monarchy, tyranny, other autocratic regimes or orthodox organisations are no more than the most common institutionalised and systemised form of undeserved privileges and exploitation. There is nothing just about the social phenomenon that some members of a given social system can take advantage of others, or can use others to their own advantage. There is nothing just about a system that puts people into superior–subordinate relationships, that turns people into superiors or subordinates, empowers and privileges the former, and disempowers and disadvantages the latter. Neither group deserves their status and position, or all the perks and privileges or shortages and oppression that come with their status and position. Hierarchical social

order is unfair and unjust because it represents comprehensively institutionalised social inequality, discrimination and exploitation (Mills 1956, p. 246, Gouldner 1960, p. 165).

It is a similar case with asymmetrical relationships. The following sub-section provides a detailed example of how a particular, widely institutionalised asymmetrical relationship – the employment contract – is unfair, unjust and exploitative.

### *The employment contract as contract-based exploitation*

One of the most institutionalised asymmetrical relationships is *employment*, i.e. the relationship between an employer (who owns property and/or an organisation) and an employee (who agrees to work for that employer). This relationship is based on a contract. The *standard employment contract* establishes an asymmetrical relationship between an employer as the stronger party (i.e. superior) and an employee as the weaker party (i.e. subordinate); power, resources, rights and responsibilities are allocated *deliberately* unequally. The employment contract privileges the owner/employer at the expense of the employee by giving the former (all) power and control over the latter as well as the sole right to govern and to manage; to make decisions, supervise, control and punish; and to accrue all gains generated collaboratively and collectively, especially profit – and the latter has to work *for* the former and follow their orders.

But does the employment contract constitute an injustice? Its proponents, especially conservative, neo-classical and neo-liberal politicians, lawyers, economists and businesspeople don't think so. They claim that the exchange of labour and money via dependent employment (i.e. regular work for an agreed salary) represents an *equal exchange*; the contracting parties agree *freely* on an exchange of labour and money in mutually beneficial ways without one party taking advantage of the other (e.g. Carson 2008, p. 385, Narveson 2010, p. 111). Seemingly, it's a fair deal.

No, it is *not* a fair deal. In the tradition of classical schools of economic thought, one can argue that the standard employment contract as we know it constitutes and means a rather *unequal* exchange, an asymmetrical relationship that is unfair and unjust. The employment contract is unfair and unjust because it is institutionalised *exploitation*.<sup>23</sup> Of course, one needs to establish what exploitation means. According to Gouldner (1960, p. 164), 'if B is considerably more powerful than A, B may force A to benefit it with little or no reciprocity'. Such a relationship with a lack of reciprocity is one-sided, or exploitative. *Exploitation* means 'a relationship in which unearned income results from certain kinds of unequal exchange' (Gouldner 1960, p. 165). Exploitation means that in an asymmetrical relationship the stronger/more powerful party takes unfair advantage of, or even uses, the weaker party against the weaker party's genuine will and interests and appropriates all, or a disproportionately large part, of the outcomes that stem from the parties' relationship, actions, interactions and transactions.<sup>24</sup> In an exploitative relationship, one party takes unfair advantage of another party, such as one party using the other

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<sup>23</sup> For some, 'exploitation' may sound like an old-fashioned, if not to say out-dated, term that was only relevant during 19<sup>th</sup> century Manchester capitalism or that is only (still) an issue in some industries in developing countries. But, as I will show in this sub-section, exploitation is much more fundamental (and a fundamental problem).

<sup>24</sup> This definition is partly based on definitions from Gouldner 1960, p. 165, Buchanan 1985, p. 87, Levine 1988, pp. 66–67, Miller 1990, p. 175, Ellerman 1992, pp. 62–63, Archer 1995, pp. 42–43, Van Parijs 1995, pp. 145–146, Wertheimer 1999, pp. 10–12, and Carson 2008, p. 396.



party (its skills, competencies or capacities) mainly as a means or tool for its own advantage. It does so even with the weaker party's explicit or implicit consent.

This is exactly what happens in dependent employment on the basis of the employment contract. The core object of the standard employment contract is regular work for a regular salary. In that respect it is important to note that the employee is *not* only paid for the time they make themselves available for the organisation, i.e. hours of work against an hourly rate of pay. The work the employee has to complete, which is specified in the employment contract or job description and then remunerated accordingly, takes into account the agreed number of hours of work but also includes the specific tasks the employee has to conduct, certain responsibilities, their performance and (expected) related outcomes. This is what the employee gets paid for – i.e. the remuneration in the form of a salary reflects this whole bundle of deliverables (the employee's individual experience, skills, qualifications, outcomes and performance) as well as their job grade and all relevant labour laws, industry standards and regulations that define and protect employees' and workers' rights and benefits.<sup>25</sup>

Such a (contractually agreed) exchange of specified work for a specified salary seems to be a fair and equal arrangement and exchange. However, the problem with the standard employment contract is not what *is* included but what is *not* included. It is an *incompletely specified* contract, an *incomplete* contract. The employee's work and performance (as specified by the employment contract and paid for via a regular salary) is input into the organisation's transformation processes (the 'production' of goods or services, even if the employee does back-office work). During the transformation process, the employee *adds value* to things – to material and immaterial assets, products, services, structures and processes – via their work and activities. This value-added contributes to the generation of the organisation's overall outcomes and revenues, and finally profit (which usually is positive). Although it is the employee's work and activities that generate this value-added (and part of their individual performance), the value-added is *not* linked (back) to the individual. The employee's contribution to the organisation's performance, the value-added they generate, is not itemised – and is not included in the employment contract or in the employee's remuneration.<sup>26</sup> The result is that, even with the best standard employment contract available, employees are only remunerated for their *contractually agreed* work and performance (input), but not for (all of) their *actual* work and performance, i.e. all the specified work *plus* the value-added they create (output).<sup>27</sup>

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<sup>25</sup> Obviously, this is as good as it can get (for the employee) in the real world of (dependent) work. This means that for the purposes of the discussion here of possible exploitation I assume *the best possible and most legitimate form* of standard employment (and contract). Many employment arrangements and contracts (in certain industries and/or in developing countries but also in developed countries) are much less 'generous', 'fair' and legitimate – by far – if not to say straightforwardly exploitative in the very common meaning of the word, i.e. they don't even pay fully for people's work (as input).

<sup>26</sup> Some employment contracts have a 'performance-related' wage or salary component, bonuses, or even some form of profit-sharing scheme. Such elements *do* recognise, and thus compensate for, *some* of the value-added the employee generates. Nevertheless, such agreements are voluntarily, i.e. are solely based on the employers' 'goodwill', and usually such policies are limited in their design, are relatively marginal compared to the overall profit and distribution of profit, are more the exception than the rule, and do not represent or constitute employees' fundamental and principle-based right to their fair share of value-added or profit.

<sup>27</sup> The argument is similar to Marx's *theory of surplus value* (in German: *Mehrwerttheorie*) – but there are differences. The value-added theory or surplus value theory followed here is *not* based on, or linked to, the (falsified)

This difference between *contractually agreed* (and remunerated) performance as input and *factually produced* (and partly *not* remunerated) performance as output lies at the core of the employment contract and the capitalist system (and it is one of the employer's reasons, if not *the* reason, to employ people in the first place). It means that employees are neither remunerated nor compensated *fully* for their *actual* performance and value-added activities by their employer, or the owner(s) of the organisation they work for. The standard employment contract does not arrange for compensating employees adequately for their (value-added) activities and contributions and does not allow them to participate in all gains (in particular profit) stemming from their joint work and cooperation (e.g. Miller 1990, p. 175, Van Parijs 1995, p. 147, Carson 2008, p. 381). As a result, employees are insufficiently remunerated and compensated for their work, performance, value-added activities and contributions to the generation of profit. In this respect they are treated unequally, unfairly and unjustly. It means that with regard to employees' performance and value-added, there is no (full) reciprocity provided by the standard employment contract. It is not an equal exchange. The owner/employer utilising the employee as the weaker party on the basis of their asymmetrical relationship to generate value-added and profit, and then take all profit as the stronger party at the expense of the employee as the weaker party, constitutes and represents an *exploitative exchange*. It is exploitation.

Overall, it can be concluded: The standard employment contract establishes formally, legally, organisationally and practically a *highly unequal, asymmetrical* relationship between employer and employee in which the former takes advantage of the latter during an *exploitative exchange* and profits disproportionately via appropriating *all* value-added and profit at the expense of the employee, who gets nothing. That all value-added or profit goes entirely to the employer/owner(s) constitutes *wrongful appropriation* because there is no legitimate basis for their disproportionate profit. At the same time, employees are systematically and in principle excluded from a proportional and appropriate share of the value-added and profit. They are *not* compensated for their value-added activities and their contributions to the generation of profit and do not receive a fair share of the profit proportional to their contributions. In this sense, the standard employment contract is neither a contract between equals nor a contract about equal exchange. Worse, the employment contract institutionalises and legitimises exploitation – it is institutionalised, *contract-based exploitation*.<sup>28</sup> The standard employment contract is *inconsistent* with the

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*labour theory of value*, the employee's salary is not seen as a meagre 'subsistence wage', and productivity or generation of value-added or surplus is not seen as a mere function of hours worked. Hence, exploitative exchange and exploitation are explained here rather differently from how they are explained in Marx's theory (though I share wholeheartedly both his observations of and his opinion about the capitalist production process as well as his indignation about the capitalist system and regimes of employment).

<sup>28</sup> The US economist and social philosopher John Francis Bray (1809–1897) called the employment contract and transaction between capitalist and worker (i.e. employer and employee) a 'barefaced though legalised robbery' (Bray 1839/2013, p. 50). Earlier, the great Scottish moral philosopher and economist Adam Smith (1723–1790) saw this kind of legalised robbery, exploitation and injustice happening between landlord and peasant, i.e. even *before* the emergence of capitalism, capitalists and workers respectively. He criticised (quoted in Fine 1997, p. 17) that 'the poor provide both for themselves and for the enormous luxury of their superiors. The rent which goes to support the vanity of the slothful landlord, is all earned by the industry of the peasant. ... The labourer who bears, as it were, upon his shoulders the whole fabric of human society, seems himself to be pressed down below ground by the weight. ... Those who labour most get least'. Hence, the standard employment contract is only one,

principle of desert (or with any other legitimate principle of distributive justice) and, thus, is *fundamentally* and *in principle* unjust, unjustified and unjustifiable.

### **Undemocratic democracies, undemocratic organisations, undemocratic societies**

#### *Fully fledged democracies with minimal political democracy*

According to the *Democracy Index*<sup>29</sup> (The Economist Intelligence Unit 2021, p. 3), in 2020 only 23 out of 167 countries, i.e. a mere 13.8%, were ‘full democracies’,<sup>30</sup> 52 countries were ‘flawed democracies’ (31.1%), 35 countries were so-called ‘hybrid regimes’ (21.0%) and 57 countries (34.1%) were ‘authoritarian regimes’.

So, the vast majority of countries is still *non*-democratic. Many are even autocratic or oligarchic regimes, i.e. *anti*-democratic *in principle* (e.g. dictatorships, military juntas, monarchies, religious states, or one-party states). It would be relatively easy – and indeed it is necessary – to thoroughly criticise many of the ‘flawed democracies’ and all ‘hybrid’ and ‘authoritarian regimes’ for what they are lacking in terms of fundamental democratic rights and principles, standards and procedures, for the absence of even the most minimal conditions for a democratic, decent and legitimate state. Autocratic and oligarchic regimes have no place in a civilised world.

But here I want to focus my criticism on the most advanced democracies, the ‘full democracies’, and want to argue that even *they*, although they seemingly got and provide many of the formal attributes of a democracy, still fall short of being real democracies. They fall *way* short.<sup>31</sup>

This is perhaps not immediately obvious because we have become accustomed to our democracies and the way(s) they function. Fully fledged democracies (i.e. ‘full democracies’ and some of the ‘flawed democracies’ in the Democracy Index) are relatively developed and solid democracies with a due electoral system and processes (free and fair elections, democratic political parties), fully functioning and legitimate democratic governments, relatively strong and pluralistic political cultures and political participation, and they grant all their citizens the whole range of civil rights and civil liberties. People who

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worldwide applied form or type of contract-based exploitation.

<sup>29</sup> The *Democracy Index* is based on five categories: electoral process and pluralism, functioning of government, political participation, political culture, and civil liberties (The Economist Intelligence Unit 2021, footnote 1, p. 17). Each country is categorised according to 60 indicators that are organised into those five categories (ibid., listed there on pp. 59–67), graded, and then ranked according to its grades and subsumed under one of those four types of political regime. There are other, also good and informative, indices about countries’ level of freedom and democracy, for instance Freedom House’s annual *Freedom in the World* report or the *Bertelsmann Transformation Index*. Although they are in some respects and details different, they nonetheless make the same case and provide roughly the same picture.

<sup>30</sup> The 23 countries classified as ‘full democracies’ were (The Economist Intelligence Unit 2021, pp. 3, 8–9): 13 from Northern, Southern, and Western Europe (Austria, Denmark, Finland, Germany, Iceland, Ireland, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom), 1 from North America (Canada), 3 from Central and South America (Chile, Costa Rica and Uruguay), 3 from Asia (Japan, South Korea and Taiwan), 1 from Africa (Mauritius) and 2 in Oceania (Australia and New Zealand).

<sup>31</sup> In this sense, all the following criticism is targeted *solely* at fully fledged, fully developed contemporary democracies. It is, so to speak, ‘complaining at a high level’.

live in such fully developed and advanced democracies have (almost) all freedoms and opportunities, enjoy (almost) all human, civil and democratic rights, and in *that* respect can count themselves very lucky (compared to those who live in the bottom half of ‘flawed democracies’, in ‘hybrid regimes’ or in ‘authoritarian regimes’).

However, even these most advanced democracies are democratic only in fairly limited ways. That they are not democratic enough (Giddens 1998, p. 71) is mostly down to the fact that they are *only* representative democracies. Democracy is left to be done by elected representatives, and that’s it. The whole political and electoral system and process is focused on a few, more or less regular elections, and democracy happens largely just before elections (i.e. when the political parties and their candidates have their election campaigns in full swing) and on election day – at least, this is how it looks and feels for the majority of the people.<sup>32</sup> Such a democracy is just an *elections once every four years democracy*.

Correspondingly, government – i.e. the democratic governance of society or parts of it, public affairs or matters of public concern – doesn’t look or function like a genuine and natural part of society and social life – people’s lives. Government is a separate and fairly isolated, bureaucratic administrative machinery functioning (primarily, if not only) according to its own rules and regulations, policies and politics. For many people, democracy just means to elect the next government. As a consequence, ‘democracy has become far more a means of legitimation of the centralized and bureaucratic government of the nation state than it is a check upon it’ (Hirst 1994, p. 3).<sup>33</sup> Moreover, although governments in general are elected democratically, quite a number of senior representatives of the legislative, executive and judicial branches of government are *not* elected democratically, but appointed undemocratically and barely held accountable. Crucial parts of the government (i.e. head of government, cabinet and ministers) are structured and operate internally in fairly hierarchical and anti-democratic (i.e. autocratic or oligarchic) ways.

The type of representative democracy that is prevailing in the most advanced contemporary democracies does not mean ‘rule by the people’ but ‘rule by politicians’ (Held 1987, p. 166). More than 100 years ago, Michels (1915/2001, p. 77) argued that ‘permanent representation will always be tantamount to the exercise of dominion by the representatives over the represented’. In a representative democracy, political institutions of governance – such as political parties, the government and its administration, or ministries – although fairly legitimate and well-functioning, are structured hierarchically and centralise

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<sup>32</sup> For some time I was an active member of a political party and even elected member of a local council in my old hometown, Frankfurt am Main, Germany. Also from that experience, I know that many representatives, members of (national, regional or local) parliament and the government, as well as members of political parties, civil society organisations or individual citizens work politically all year round and show great political activism and engagement. But this is a minority, a *tiny* minority. For most people, democracy doesn’t exist or happen between election days – or exists and happens only as news about politics, the government or opposition parties. Even most party members are not politically active but are ‘passive members’ who pay their monthly membership fee but don’t participate in any political activities.

<sup>33</sup> Fung and Wright (2001, p. 5) criticised contemporary representative democracies similarly. They argued that “‘democracy’ as a way of organizing the state has come to be narrowly identified with territorially based competitive elections of political leadership for legislative and executive offices. Yet, increasingly this mechanism of political representation seems ineffective in accomplishing the central ideals of democratic politics: facilitating active political involvement of citizenry, forging political consensus through dialogue, devising and implementing public policies that ground a productive economy and healthy society, and, in more radical egalitarian versions of the democratic ideal, ensuring that all citizens benefit from the nation’s wealth’.

power. Among other things, this leads to *oligarchisation* (Michels 1915/2001), i.e. to the institutionalisation of a minority that holds power and makes decisions – professional, full-time politicians and administrators run the institutions of representative democracy and, thus, democracy as a whole.<sup>34</sup> As a consequence, in a representative democracy the majority of political institutions of governance, politicians and actual politics resemble fairly hierarchical and oligarchic, narrow and narrow-minded, conservative and closed entities and concepts.

Consequently, the majority of proponents of a representative democracy are actually *opposed* to the idea of democracy, to the notion of democracy in the (broad) sense of ‘power of the people’ or ‘rule by the people’. They *don’t want* people to interfere with their work (and with their power). For instance, Arblaster (1999, p. 46) argued that ‘democracy can be accepted precisely because it is defined so narrowly, and only in so far as it continues to be so. Attempts to broaden the definition, or to widen the application of the democratic principle within society as a whole, would be, and are, strongly resisted; as is the notion that democracy might imply a challenge to the distribution of economic and political power within capitalist society’.<sup>35</sup> Political parties, their senior leaders and delegates, representatives at all levels and in all functions of government are happy with the representative democracy *as it is*, i.e. with the power and positions, perks and privileges it provides *for them*. It is therefore only logical that most of them are opposed to a form of democracy that would mean more democratic, participative governance and decision-making (Michels 1915/2001, p. 79, Held 1987, p. 282). Contemporary democracies, representative democracies, do *not* give (much) power to the people. They do not grant people sufficient political power to be in strong control of the governance and policy process and to hold the institutions of governance and their representatives comprehensively and thoroughly accountable. And they do not provide people with much power and opportunities to govern themselves or to participate in the governance of the public sphere or society as a whole (Arblaster 1999, p. 44, Box et al 2001, p. 609, Rothstein 2009, pp. 316–318, Kokkinidis 2012, pp. 234, 236); ‘politics in the contemporary democratic state does not offer many people a chance for Rousseauian self-determination. Citizenship, taken by itself, is today mostly a passive role: citizens are spectators who vote. Between elections, they are served, well or badly, by the civil service’ (Walzer 1992, p. 99).<sup>36</sup>

And it is not only the system of representative democracy and its main actors that keep (most) people

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<sup>34</sup> At the beginning of the 20<sup>th</sup> century, the great German sociologist Robert Michels (1876–1936) famously revealed and analysed this process of oligarchisation in his thorough study *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy* (Michels 1915/2001, original 1911 in German: *Zur Soziologie des Parteiwesens in der modernen Demokratie; Untersuchungen über die oligarchischen Tendenzen des Gruppenlebens*).

<sup>35</sup> And Arblaster (1999, p. 47) continued to warn that ‘resistance to democracy or fear of democracy is not some ephemeral piece of reactionary nostalgia: it has deep roots in the established structures of privilege and advantage, from which angle popular power has always been seen as a threat’.

<sup>36</sup> In a similar vein, Kokkinidis (2012, p. 234) argued that representative democracy is ‘a form of governance which, by legitimating the authority of the leaders as the “voice” of the subordinates, aims to exclude the vast majority of the members from exercising any control over the decision-making process’. And he continued to criticise (p. 236) that in this ‘elitist theory of democracy there is a division of labour between the citizens and the politicians and the responsibilities and political participation of the former are very restricted. Citizens have the right to vote and periodically choose their representatives but once they choose them, political action is no longer their business’.

out of politics. Many people themselves *do not participate* – they do not *want* to participate (in this kind of democracy). In his book *Bowling Alone: The Collapse and Revival of American Community* the US political scientist Robert Putnam (2000) described vividly a widespread decline in social and political activities in public. He called it ‘civic disengagement’, showing itself in, for example, low levels of electoral turnout, decline in memberships in traditional clubs or other civil society organisations, volunteering or political activism (Putnam 2000, p. 185, Skocpol 2004, p. 733, Smith 2005, p. 13, Malleson 2014, p. xi).

But political participation has not only declined; *if* it happens it is often rather insufficient – and largely irrelevant – ‘low-level participation’. Taylor (2001, p. 136) argued that political participation ‘is largely cosmetic ... and fulfills the role of a deflecting device in order to give a “sense” of participation without its substance. Where there is some participation it is usually restricted to the determination of means to achieve a predetermined outcome (such as profit, efficiency, project out-come, disbursement of funds) rather than participation in determining the ends sought’. Political participation has been turned into a mere technique, has been depoliticised, de-radicalised, and no longer exemplifies a ‘challenge from below’. It does not represent a challenge to the status quo or a threat to the establishment; it is a resource the establishment can tap into to strengthen its rule. It has become a tool for co-optation and for asserting control (Taylor 2001, p. 136, Leal 2007, pp. 539, 543–544, McQuarrie 2015, p. 99).<sup>37</sup> As a consequence, and somehow almost paradoxically, political participation can actually *reduce* democratisation in the sense of that the people decide (Calhoun 2015, p. ix).

All in all, we have fully fledged democracies with minimal political democracy – democracies with just enough democracy ‘to enable opponents and the masses to let off steam without endangering the foundations of the social fabric. ... Democracy, within a class society, must be so limited as not to interfere with the basic social relations whereby the ruling class maintains its position of power and privilege’ (Burnham 1941, pp. 167, 168). In this sense, democracy (in the form of contemporary representative democracies) doesn’t do, doesn’t decide much. It just does enough to tick the boxes. Although representative democracy is a multi-party system with legitimate institutions of governance, strong, free and independent political parties, media, civil society organisations, and some politically active citizens, it is not sufficient to make a society democratic. Representative democracy is a necessary, but not sufficient element of and for democracy (Pateman 1970, p. 42).<sup>38</sup> Even the good ones, i.e. our contemporary, most advanced and developed fully fledged representative democracies, are still a far cry from what could be democracy, what is, and should be, a democratic society.

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<sup>37</sup> Leal (2007, pp. 543–544) explained this in more detail: ‘For participation to become part of dominant development practice, it first had to be modified, sanitised, and depoliticised. Once purged of all the threatening elements, participation could be re-engineered as an instrument that could play a role within the status quo, rather than one that defied it. ... As such, participation became another ingredient in the prevailing modernisation paradigm. ... Freed from its originally intended politics and ideology, participation was also liberated from any meaningful form of social confrontation.’

<sup>38</sup> In Part IV, ‘Civil democracy’, it will be argued that democracy not only means ‘representative democracy’, but (first and foremost) ‘self-governance’, ‘participative governance’ and ‘civil society’.

### *The anti-democratic nature of orthodox/hierarchical organisations*

Even in the most advanced representative democracies there is a profound lack or absence of democracy in the political realm. If this wasn't already bad enough, matters are actually worse; democracy is completely missing in other crucial parts of society, such as in formerly and legally established social relationships or organisations – and the lack or absence of democracy in those areas might be even more relevant for most of us because such relationships or organisations make up a large part of our lives.

For instance, the standard employment contract establishes, structures and maintains the relationship between employer and employee as a *hierarchical* social relationship (Diefenbach 2013, pp. 37–38). It is a relationship where power and resources, rights and responsibilities are allocated *deliberately* unequally and define the roles of employer and employee, or manager and worker, specifically as *superior* and *subordinate* (Bird 2005, pp. 160–161, Turner 2013, p. 84). In such a hierarchically established relationship (and hierarchical organisation) the superior has *all* the rights and power whereas the subordinate has *none*. Fundamental civil and democratic rights, democratic standards and procedures – such as free speech, freedom of assembly and association, the right to participate in (democratic) decision-making, free and fair elections of representatives, self-governance, democratic governance, self-management, participative or representative management, separation of powers and 'checks and balances', democratic control, transparency and accountability – are withheld from the employee and not incorporated in the standard employment contract or the blueprint of the hierarchical organisation (Carnoy & Shearer 1980, p. 246, Miller 1990, p. 7, Fournier 2002, p. 204, Courpasson & Clegg 2006, p. 329, Wright 2010, p. 50, Diefenbach 2013, Doran 2013, p. 85). These essential and basic features of democracy are alien to the employment contract and the hierarchical organisation, the ideology of management, orthodox management concepts and the dominance of managers *in principle* (Diefenbach 2009a, pp. 221–222).

All decisions within the organisation are made not democratically by its members, but single-handedly by the owner(s) and their representatives (senior managers or others with special responsibilities). Only *they* have the prerogative and exclusive right to make decisions. And, crucially, they are neither controlled nor held accountable by those for whom they make their decisions (Malleon 2014, p. 27). Decisions made by owners or managers cannot be debated or challenged but are simply passed down along hierarchical lines as orders or instructions. *All* governance, management and decision-making processes follow this principle. There is no bottom-up, only top-down control – *comprehensive, systematic, multidimensional and thorough top-down control* of all subordinates that amounts to surveillance and oppression. Subordinates' only right, even obligation, is to follow and to execute their superiors' orders, to comply and to behave. Clearly, there is no – and *cannot* be – democracy between employer and employee, superior and subordinate, manager and worker in the sense of equal rights and power to govern. For instance, Sauser (2009, p. 157) concluded that 'hierarchical structure is a major obstacle to democracy and self-governance as it is the embodiment of autocratic control'.<sup>39</sup> Formal and legal

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<sup>39</sup> Formal or informal hierarchy, managerialism, oligarchisation, social dominance, oppression and exploitation can also emerge and prevail in *alternative* types of organisations, for example in cooperatives, associations, participative or network organisations, even in the most advanced democratic organisations (Cornforth et al. 1988, p. 141, Varman & Chakrabarti 2004, p. 183, Leach 2005, pp. 314, 330–331, Bogason & Musso 2006, p. 14, Hernandez 2006, Osterman 2006, pp. 623–624, Sauser 2009, p. 155, Tolbert & Hiatt 2009, Kokkinidis 2012, p. 236), but the focus here is solely on orthodox organisations, i.e. on organisations that are *deliberately* designed, established and maintained for these things to happen.

concepts like the employment contract, the hierarchical organisation and orthodox management concepts establish and maintain the employer–employee, manager–worker relationship not only as a hierarchy but as an *autocratic* regime (or as an oligarchic regime, if there is an established and institutionalised power elite within the hierarchical organisation, such as managers).<sup>40</sup>

The old adage ‘democracy stops at the factory gate’ (or, nowadays, ‘democracy stops at the workplace’) drives this point home. The Austrian and French social philosopher and socialist André Gorz (1923–2007) described it as follows (quoted in Blumberg 1968, p. 6): ‘On the margin of civil society, with its formal liberties, there ... persists behind the gates of factories, a despotic, authoritarian society with a military discipline and hierarchy which demands of the workers both unconditional obedience and active participation in their own oppression.’ Mayer (2001, p. 221) criticised that ‘most employees are subject to managers they did not elect and to rules in which they had little or no say. They are subordinates, a role manifestly at odds with the ideal of the democratic citizen’. In a similar vein, Schweickart (2011, p. 48) pointed out that ‘it is a striking anomaly of modern capitalist societies that ordinary people are deemed competent enough to select their political leaders – but not their bosses. Contemporary capitalism celebrates democracy, yet denies us our democratic rights at precisely the point where they might be utilized most immediately and concretely’. And Malleson (2014, p. 27) argued that ‘the present authoritarian structure of workplaces means that the majority of the population spends the majority of their lives in associations that are severely undemocratic and hierarchical, yet we unhesitatingly call our societies “democracies.” This is a puzzle and a paradox’.<sup>41</sup>

The standard employment contract, hierarchical organisations and orthodox management concepts represent and establish *autocratic* or *oligarchic* regimes (within democratic societies). These regimes are not just *non-democratic*, but flatly *anti-democratic*, despotic, oppressive and exploitative both *de jure* and *de facto* and alien to the notion of a libertarian, democratic, fair and just social system or society. Hierarchy and the orthodox organisation are a fundamentally anti-democratic and oppressive social order; they are *anti-democratic regimes* and incompatible with democracy or free and democratic societies (Dahl 1985, p. 55, Miller 1990, p. 7, Ellerman 1992, p. 11, Dahl 1998, p. 182, Rothschild & Ollilainen

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<sup>40</sup> Malleson (2014, p. 27) gives a vivid description of how this hierarchical social relationship works in the organisational reality of hierarchical organisations where superior–subordinate relationships are based on, and shaped by, the standard employment contract: ‘Many workplaces in our society [Canada], particularly for working-class jobs, are organized so hierarchically that they are deeply unpleasant if not outright oppressive. Almost everyone has experienced at some time or another the degradations of workplace hierarchy – yelling bosses, managers who act like petty tyrants, supervisors who stonewall and stifle feedback, arbitrariness and inequality, favouritism and snobbery, privilege and superiority. In such ways hierarchical work can underline the freedom of large numbers of working people to adequately control their own lives.’

<sup>41</sup> And he elaborated more on this point (Malleson 2014, p. xiii): ‘Societies in the West are fervent about their democratic credentials. Our politicians give speeches extolling the virtues of democracy; our self-conception of being citizens in a democratic state is deeply ingrained in our identity. And yet, despite this, a central part of society, the economy, has very little democracy in it at all. Workers do not elect the managers of their firms. Bankers do not allocate finance with any accountability to the communities in which they operate. Investment decisions are not made with any participation of the citizenry. It is like we have erected a wall down the middle of society, and said that in this half, the economy, there is no need for democracy, while at the same time insisting on calling society as a whole “democratic”.’



1999, Diefenbach 2009a, pp. 221–222, Sauser 2009, p. 157, Schweickart 2011, p. 152, Doran 2013, pp. 85–86, Malleon 2014, p. 27).

### **People's unfreedoms in liberal societies**

#### *Politically free – but individually and socially unfree*

The case of freedom is relatively similar to the case of democracy – probably because ‘freedom’ and ‘democracy’ go a long way together and in many respects necessitate and mutually reinforce each other (for instance, we often talk about a ‘free and democratic society’). Many countries in the world are ‘free’ in the sense that they grant (all) the fundamental human, civil and democratic rights and freedoms to their citizens, are based on the rule of law, have well-designed and fully functioning electoral systems and political institutions of governance, free and independent political parties and media, a vibrant civil society, and people can largely decide on their own and for themselves what to do. At the same time, there are many countries that are only ‘partly free’, or even ‘unfree’.<sup>42</sup> The countries that are ‘free’, ‘partly free’ or ‘unfree’ are roughly the same as those that are ‘full democracies’, ‘flawed democracies’ or ‘hybrid/authoritarian regimes’ (see the sub-section ‘Fully fledged democracies with minimal political democracy’ above).<sup>43</sup>

In this sub-section, the focus is mostly on ‘free’ countries. In the following it will be argued that people even in free and democratic societies – where they have all the important fundamental rights and freedoms and are, so to speak, politically free – are actually individually and socially *unfree*.

#### i) Individually unfree

Free and democratic societies both imply and require ‘free individuals’ (or ‘autonomous individuals’ – Fromm 1956/1971, Berlin 1969/2006, Raz 1986/2009), i.e. individuals that are able to make their own decisions and to conduct their lives as *they* deem right, that (can) see themselves as autonomous individuals and reason, act and behave accordingly (Raz 1986/2009, p. 369, Knights & Willmott 2002, pp. 60–61).

Such a notion might be prevalent in pre- and primary school pedagogy and the curriculum of progressive schools (like Waldorf and Montessori schools). The societal reality, though, looks rather different. Throughout their lives, people (have to) go through institutions and organisations that are structured quite hierarchically (e.g. family, nursery, pre-school, school, college, army, university, public- and

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<sup>42</sup> Freedom House, an independent US non-profit, non-governmental organisation, categorises countries or autonomous territories as ‘free’, ‘partly free’ or ‘unfree’ according to graded indicators for political rights and civil liberties that are grouped into subcategories ‘electoral process’, ‘political pluralism and participation’, ‘functioning of government’, ‘freedom of expression and belief’, ‘associational and organizational rights’, ‘rule of law’ and ‘personal autonomy and individual rights’ (Freedom House 2021a, no page numbers).

<sup>43</sup> According to Freedom House (2021b, no page numbers), all Northern, Western, and Southern European countries are ‘free’; some Eastern European countries, all North American and most South American countries, some Southern African countries, and some East Asian/Asia Pacific countries are ‘partly free’, whereas most African, almost all Middle East, Central Asian, South Asian and Southeast Asian countries are ‘not free’.

private-sector organisations) and that, therefore, confine them considerably and systematically. In all educational institutions – whether it is early childhood, primary, secondary, further or higher education – people mainly are socialised towards fitting into existing structures and processes, complying with rules and regulations, and doing what they are told or required to do. The prevailing social and cultural norms and values are conformism, obedience and functioning. In this sense, the institutions of education prepare people perfectly for their adult life in a stratified society and for their work in hierarchical organisations – but they do a real disservice to developing people into free individuals. They produce highly intelligent people with little or no independent intellect. It is not that people are not capable or not willing to be, and to act like, free individuals – people *are made* incapable and unwilling to be, and to act like, free individuals.

Little wonder that most of their interests and objectives just reflect what is consistent with the prevailing norms and values (Bachrach & Botwinick 1992, p. 54). In our current epoch, the potential ‘I’ of the autonomous individual is only a ‘Me, me, me’ within a material and virtual world. Functioning, performance, achievements, consumption and self-realisation are all such socialised people (can) think of and pursue. With such interests and orientations, people are hardly able, and even less willing, to critically reflect on their personal and social reality in principle, and to deal with the realities *critically*, i.e. to challenge and change what is portrayed as the ‘normal state of affairs’ and to free themselves (and others) from any form of oppression (Freire 1970/1996, Brookfield 2005, pp. viii, 25, 207).

All in all, one can say that (even) in free and democratic societies a vast number of people are not free and autonomous individuals but over-socialised, conditioned and well-functioning subjects only keen and capable to do what is permissible and expected (from them), but neither willing nor able to critically reflect on their personal and social reality and to change an oppressive status quo in fundamental terms. They are *individually unfree* – with most people even not knowing *how* unfree they actually are.

## ii) Socially unfree<sup>44</sup>

Earlier I argued that almost all of our past and present societies are socially unequal in the sense that they are (highly) stratified (i.e. they are class societies), that many social systems/institutions in those societies are hierarchical (orthodox organisations) and/or that most social relationships are asymmetrical (superiors and subordinates). And most people, by definition, do *not* belong to the ruling elite, are *not* at the top of the hierarchy and are *not* superiors in most asymmetrical relationships. In other words; most people, most of the time, are seen and treated as *inferior* in such inegalitarian social structures and processes<sup>45</sup> – and inferiority means limitations to one’s freedom. Thus, people are also unfree because of, and in, a social context. They are *socially unfree*. In which way(s) exactly people are socially unfree will be shown in the following with the help of Kohlberg’s ‘stages of moral development’<sup>46</sup> (Kohlberg

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<sup>44</sup> This point is based on section 4.2.6, ‘Levels of moral development and hierarchy’, in my book *Hierarchy and Organisation* (Diefenbach 2013, pp. 111–118).

<sup>45</sup> I would like to reiterate that ‘superiority’ and ‘inferiority’, superiors and subordinates, are social *constructs* (i.e. perceptions, norms, values, ideologies, judgements and assessments, and then corresponding institutional and social arrangements, behaviours and actions) and *not* qualities of people *per se*.

<sup>46</sup> His model comprises 3 levels with altogether 6 stages (with 1 the lowest and 6 the highest stage of moral development): Pre-conventional level of moral development (with stage 1 ‘punishment-and-obedience orientation’ and

1973, Kohlberg & Hersh 1977, Kohlberg & Wasserman 1980).

First, many people restrict themselves by showing the behaviour – and the mindset! – of the *obedient personality*. Kohlberg (1973, p. 631, Kohlberg & Hersh 1977, pp. 56–57) called this the ‘punishment-and-obedience orientation’. It is the lowest level of human orientation, motivation and behaviour, i.e. stage 1 of the ‘pre-conventional level’ of moral development. At this stage, ‘avoidance of punishment and unquestioning deference to power are valued in their own right, not in terms of respect for an underlying moral order supported by punishment and authority (the latter being stage 4)’ (Kohlberg 1973, p. 631). People do so largely because of the way they have been socialised and because of their weaker, more vulnerable position within a social context. When one is obedient one only does what the stronger party orders or allows, i.e. one’s individual freedom is reduced, *severely* reduced.

One can find obedient and submissive behaviour in abundance in Asian societies. They are built on the principles and notions, even values of stratification, hierarchy and asymmetrical relationships, of domination and subordination – and all of this is glossed over by all-encompassing ideologies of ‘we’, ‘harmony’ and ‘destiny’. But the ‘submissive servant’, who defines themselves primarily via the values and requirements to knuckle under, to function, to conform, to obey and to follow orders and, in doing so, to avoid negative sanctions (Merton 1961, p. 52, Alvesson & Willmott 2002, p. 619), is also widespread in Western cultures, *very* widespread. Despite all rhetoric about individualism, equality and personal development, the obedient personality is still one of *the* prevailing characters in many Western countries. Many people primarily and predominantly function and obey in East *and* West, in the Global North *and* the Global South. When they face power and authority they make themselves literally, metaphorically and actually smaller – they belittle themselves, and demonstrate obedient and submissive behaviour. They are *made* socially unfree *and* they *make themselves* socially unfree.<sup>47</sup>

Of course, people also demonstrate other motivation and behaviour than pure obedience, or punishment avoidance. All forms of *egoism*, *opportunism* or ‘*calculative selfishness*’ are increasingly common in most societies – traditionally more in Western countries that have predominantly individualistic cultures but increasingly also in countries that have more collectivist cultures. The tendency of an individual to assess the opportunities and threats of a given or possible situation primarily in respect to the possible outcomes *for themselves* is Kohlberg’s stage 2 of moral development, an ‘instrumental-relativist orientation’ as he called it; individuals see social relationships, interaction and exchanging favours primarily as instrumental for the pursuit of their individual advantages (Crain 1985). People ‘play the system’ (i.e. they behave, function’ and perform as required) and take advantage of others while ‘cunningly’ avoiding punishment and pursuing little advantages. People with such a ‘calculative mind’ have an explicit interest in functioning smoothly within the parameters set by the system and/or superiors as long as it is advantageous for them. They don’t do it out of fear but out of calculation. That means that people can

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stage 2 ‘instrumental-relativist orientation’), conventional level of moral development (with stage 3 ‘interpersonal concordance, “good boy–nice girl” orientation’ and stage 4 “law and order” orientation’), and the post-conventional level of moral development (with stage 5 ‘social-contract orientation’ and stage 6 ‘universal-ethical-principle orientation’).

<sup>47</sup> One is immediately reminded of Lukes’ (1974) third type of power – *internalised* values. Rulers don’t need direct, physical power (first type) or institutions (second type) anymore to oppress people – people do it by themselves (i.e. via internalised norms and values of ‘the good subordinate’ and their inferiority), even without knowing and realising that they do it.

also function within the boundaries of unjust and oppressive social systems (such as a stratified society, hierarchical organisation or asymmetrical relationship) that reduces their freedoms.<sup>48</sup> But people are fine with having their freedom reduced because they consider that the advantages they get for their own egoistic and opportunistic behaviour are worth it. With their egoistic/opportunistic behaviour they will even contribute to making sure that the system continues to confine and reduce their freedoms.

At the *conventional level of moral development* (which comprises stages 3 and 4), people start to demonstrate a social conscience. According to Kohlberg (1973, p. 631), at this level of moral development, ‘maintaining the expectations of the individual’s family, group, or nation is perceived as valuable in its own right, regardless of immediate and obvious consequences. The attitude is not only one of conformity to personal expectations and social order, but of loyalty to it, of actively maintaining, supporting, and justifying the order, and of identifying with the persons or group involved in it’. At stage 3, it is about the importance of good interpersonal social relationships and there is, hence, an intention to demonstrate ‘good behaviour’ towards others (Kohlberg 1973, p. 631; Kohlberg called this stage ‘interpersonal concordance or “good boy–nice girl” orientation’). In contrast to people with a calculative mind, at stage 3 people not only want to function well for their own advantage but also because they want to please their peers.

Such social orientation creates possibilities of social freedom (in the sense of being an active member of a social system) – as well as of social unfreedom; orientation towards one’s peers, social or group orientation can easily lead to (a strong) *group cohesion*, i.e. ‘the group’ becomes not only dominant but oppressive, and takes away a lot of freedoms of its members (for example, the freedom to have an individual opinion, to voice those opinions, to be different, to be, act and develop as one wants). Although a strong, if not oppressive group cohesion is more prevalent in collectivistic cultures (and even seen *as a positive*, see the comment above about ‘we’ and ‘harmony’), individualistic cultures are not immune to it (whether it is teenager groups, ‘the team’ at the workplace or the local populace). The stronger the group (and members’ group orientation) the less free is everyone.

There is a similar picture concerning stage 4 of Kohlberg’s taxonomy, the ‘law and order’ orientation. Kohlberg (1973, p. 631) explained that at this stage there is an ‘orientation toward authority, fixed rules, and the maintenance of the social order. Right behavior consists of doing one’s duty, showing respect for authority, and maintaining the given social order for its own sake’. People obey rules because they are more broadly concerned with the stability of the social system or the society as a whole. The social order, and maintaining *that* social order *as it is*, is regarded as a value in itself (Crain 1985, p. 122). Obviously, such an orientation towards (maintaining) a currently existing social order per se and behaving in ways that are consistent with that social order limits people’s freedoms; they are allowed – and willing – only to do what is in line with the social order (and people’s corresponding expectations). Although such an orientation is one of the necessary conditions for the perseverance of an institutionalised social system, it is fairly conservative and might be felt by many people as constricting. In fact, it *is* constricting.

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<sup>48</sup> Just put one stripe, two stripes, three stripes or four stripes (and then dots or stars) onto people’s chests or shoulders, tell them that more stars or stripes are higher than less stars or stripes and people will behave within, and in line with, that artificially created system of stars and stripes. Or give people job titles, academic titles or glass pearls and tell them that these make them superior or inferior – and make sure that all is thoroughly and comprehensively institutionalised and controlled, punished and rewarded.

It is different at the highest level of moral development, i.e. the *post-conventional level of moral development* which comprises stages 5 and 6. At this level, ‘there is a clear effort to define moral values and principles that have validity and application apart from the authority of the groups or persons holding these principles and apart from the individual’s own identification with these groups’ (Kohlberg 1973, pp. 631–632). Kohlberg’s stage 5 implies a ‘social-contract orientation’ – i.e. at this stage people are keen to implement and defend general principles and consensual rules for a good society that everyone with a free will could agree to (Crain 1985, p. 123) – *and that make everyone as free as possible*.

This becomes even more obvious when one looks at Kohlberg’s sixth stage representing a ‘universal-ethical-principle orientation’. Kohlberg (1973, p. 632) maintained that at this stage ‘right is defined by the decision of conscience in accord with self-chosen ethical principles appealing to logical comprehensiveness, universality, and consistency. These principles are abstract and ethical (the Golden Rule, the categorical imperative); ... At heart, these are universal principles of justice, of the reciprocity and equality of human rights, and of respect for the dignity of human beings as individual persons’. Such ‘universally true principles’ could be, for example, freedom, democracy or equality. People with such an orientation and motivation do not obey authority that is not democratic and egalitarian (Rothschild-Witt 1979, Passini & Morselli 2010, p. 11). They reject oppressive structures and processes, superior–subordinate relationships, dominance and obedience, order and control, privileges and inequalities. People are free.

Altogether, it can be argued that in most (past and present) societies principles and institutions prevail (such as stratification, hierarchy and/or asymmetrical relationships) that limit most people’s freedom considerably. Moreover, people *themselves* reduce their freedom, especially people with pre-conventional and conventional levels of moral development (stages 1–4); they are keen to function and to fit into the very structures and processes that oppress them, either because of fear of negative consequences from authorities (stage 1), because it is to their advantage (stage 2), because they think their peers expect it from them (stage 3) and/or because they appreciate rules and regulations as such and want to maintain a social order as it is (stage 4). Although the motivation at each stage is rather different, any of this – all of this – reduces people’s social freedoms.

Only people at a *post-conventional level of moral development* – with either a ‘social-contract orientation’ (stage 5) or a ‘universal-ethical-principle orientation’ (stage 6) – increase their and others’ freedom – but it is the exception, rather than the rule, that people reach this level.

#### *The orthodox organisation as organised unfreedom*

Also organisations can make people individually and socially unfree – in particular the prevailing type of organisation, the orthodox/hierarchical organisation. In orthodox/hierarchical organisations all *control rights* and *de facto control* are allocated to, and rest with the employer, owner and/or their representatives (managers or supervisors with line authority).<sup>49</sup> These control rights comprise the rights of

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<sup>49</sup> Employer, owner and manager can be the same person (e.g. in a family business) but they can also be different persons (e.g. when the organisation is a legal entity and has absent owners such as shareholders and employed managers). The latter case complicates the legal, administrative and managerial aspects between those parties (e.g. principal–agent problems) as well as between the parties and employees, and would require additional investigation and analysis. Nonetheless, for the sake of the argument here it is assumed that all three are the same (legal or

the owners or their representatives to make decisions, give orders, manage, control and sanction, in regard to the organisation as a whole, how the organisation is run and its conduct of business as well as in relation to individuals and their work, behaviour and performance. Control rights also comprise the corresponding *duties*, and willingness, of those working for the organisations, the employees, to behave, to reason, to act and to work *as they are ordered* to do (by their employer, the owner of the organisation and/or their representatives) and in accordance with expectations and performance standards and measures (Wright 2010, p. 51). The hierarchical organisation is based on, and functions according to, the principle of command and control, where one person tells another person what to do, when to do it, how to do it, and even why to do it, and also controls, ‘motivates’ and punishes that person (altogether, this is called ‘management’, ‘supervision’ or ‘leadership’).

As argued above, the main idea of the employment contract is not only to establish the rights and responsibilities (or duties) of the two contracting parties – employer and employee – but also to put the two contracting parties into a particular legal, formal, organisational and social relationship. For this relationship to function, appropriate management concepts are developed – *authoritarian* management concepts – and managers are given the right authority and means to ensure the implementation of the concepts and employees’ functioning and compliance.

Evidently, the employment contract, organisational means (structures and processes) and corresponding management (concepts and functions) restrict not only employees’ rights and responsibilities but also their freedom *considerably and substantially* (Carnoy & Shearer 1980, p. 246, Fournier 2002, p. 204, Sauser 2009, p. 157, Wright 2010, p. 50, Erdal 2011, p. 140). They restrict employees’ *fundamental* rights and freedoms, such as:

- Rights of self-ownership, i.e. individuals’ inalienable rights to themselves, their personality and individuality as well as the mental (cognitive, psychological, emotional and intellectual) competencies and abilities to think autonomously, to make decisions, to behave and act purposefully, and to bear responsibility for their own actions or inactions;
- Autonomy, free will, freedom of thought, freedom of opinion and expression, free development of one’s personality, ability to develop as a person;
- Civil and democratic rights, such as free speech, freedom of assembly and association, the right to information, consultation and participation, participation in decision-making, free and fair elections of representatives, self-governance, democratic governance, self-management, participative or representative management, democratic control and accountability.

Employees are denied *all* of these rights and freedoms – whereas owners *do* have *all* of these rights and freedoms, and their representatives (e.g. senior and middle managers) some or most of them. This means that for *most* people – i.e. for all people employed by an organisation on the basis of the standard employment contract – the (orthodox/hierarchical) organisation is a place of organised unfreedom. The hierarchical organisation deprives the vast majority of its members of fundamental human, civil and democratic rights and freedoms); it neither protects them from the arbitrary power of superiors (negative freedom) nor provides them with the rights to and opportunities for sovereignty, self-determination and

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administrative) person.

personal development (positive freedom) (Malleon 2014, p. 33). Hierarchy reduces free and intelligent people to cognitive and emotional toddlers.

The standard employment contract, hierarchical organisation and orthodox management severely restrict or even deny employees many of their most fundamental freedom(s) and even some of their basic human, democratic and civil rights – and they do so within free and democratic societies. By granting *all* of these powers, rights and freedoms *solely* to the owner or employer, and withholding *all* of these powers, rights and freedoms *completely* from the employee, the employment contract, orthodox organisation and management are not only inconsistent with the principles and values of a free and democratic society, but they are *illegitimate* (and should be rendered illegal). If a nation-state or any other political or social system were to restrict people's fundamental human, democratic and civil rights and freedoms as comprehensively as the standard employment contract and orthodox organisation do, we would – rightly – call it a totalitarian and oppressive regime.

### **Systems are hardly balanced and sustainable**

#### *Economic activities and human-caused changes of the natural environment*

As widely known, and evidenced thousands of times by science, the way(s) individual and collective actors (especially orthodox business organisations) conduct economic activities, the way(s) certain industries operate and the way(s) our economies work and function (or don't function) is not sustainable. They cause severe and lasting damage to people, species, the natural environment and the planet as a whole. Some of the most prominent are:

- *Climate change/global warming and consequences*: ozone depletion, temperature rise, melting icecaps, rising sea levels; more, and more extreme, weather phenomena, heat-waves, more draughts, more flooding; depletion of large water reservoirs (lakes, dams, rivers, ground water), water scarcity;
- *Specific damage to the natural environment*: habitat destruction/destruction or disappearance of ecosystems (such as rainforests, forests and wetlands) because of (illegal) logging, deforestation, land clearing for crops and cattle; overuse of land, intensive farming, enlargement of residential areas, industrial sites, tourism and infrastructure; extensive use of water in agriculture, industry and by households, use of pesticides in farming, toxic/health-threatening substances in materials, products and food; pollution of soil, water or air by toxins (e.g. heavy metals, PVC, radioactive material), fertilizers, chemicals or organic pollutants; industrial waste, hazardous waste sites, landfill sites;
- *Endangering of species*: reduction or loss of biodiversity, over-fishing, extinction of (rare and endangered) species, animal cruelty;
- *Energy*: exploitation and usage of non-renewable energy sources/fossil fuels (oil, coal, natural gas), emission of greenhouse gases (mainly carbon dioxide – CO<sub>2</sub>) into the atmosphere, (dangers of the) use of nuclear energy.

Obviously, many individual and collective actors *are* concerned about these issues and developments; national governments and international organisations, governmental and non-governmental organisations, civil society organisations and individual citizens press for rules and regulations as well as for

policies, actions and changes in behaviour to protect the natural environment almost everywhere in the world. Even many business organisations are keen to demonstrate an ecological awareness and responsibility, to produce and to use products in more environmentally friendly ways, and to reduce (their) ecological footprints.

But this is a (very) long uphill battle because the root causes for all these environmental problems are not *technical* but *systemic*; current market economies – or, to formulate it even more generally: the conditions for economic activities – are poorly designed, regulated, governed and managed. In respect of the production and consumption of goods and services, individual actors (such as individuals, households or business organisations) have only incentives for a *short-term orientation* and for an *externalisation of internal costs* (Connelly et al. 2012, p. 80, Rees 2014, p. 91). Both lead to unsustainable business models that, among other things, cause damage to the natural environment. How individual actors or market participants conduct their economic activities, how markets function, and how contemporary economies are designed and work is at odds with the principles and necessities of balanced, moderate and sustainable developments. Especially the neo-classical models and ideologies of utility- and profit-maximising actors and competitive markets, and neo-liberal ideologies of quantitative growth-oriented economies and a *laissez-faire* capitalism have contributed to, if not caused, most of the unsustainability – the social and environmental damage we are seeing today. Goodwin (2014, p. 40), hence, proclaimed that ‘the great practical challenge for all of us is to work out the least painful – maybe even the most exciting – ways of making the transition from existing economic systems to systems that are socially and environmentally just, sustainable and satisfying. If we do not manage to plan an orderly U-turn from our present growth dependence, the result will be ecological – hence economic and social – disaster on an almost unimaginable scale’.

### *The unsustainability of inegalitarian regimes and oppressed people*

Most of our contemporary societies and economies are not only *ecologically* but also *economically* and *socially* imbalanced and unsustainable. Surely, stratified societies, hierarchical organisations or asymmetrical relationships can last long, *very* long. Some of the most stratified and highly unequal, hierarchical and oppressive, unfair and unjust nations (societies based on ultra-orthodox cultures) and organisations (like the Catholic Church) have been around for many hundreds, if not a thousand years. But they could do so only because they are based on and function through massive, comprehensive and thorough systems and mechanisms of power and control, punishment and oppression by using crude force and blunt ideologies or, nowadays, slightly more sublime ideologies and sophisticated instruments and measures.

All these systems and mechanisms of oppression, control and punishment require vast amounts of resources: ideologies, laws, regulations and policies must be drafted, surveillance technologies developed and installed, institutions of enforcement established and staffed, people must be controlled and, if any deviance is detected, people must be prosecuted and punished. Whether it is the Medieval Holy Inquisition or modern performance measurement and management systems; they are highly inefficient, counterproductive, hardly achieve what they are supposed to deliver, and are actually a waste of resources.

But stratified societies, hierarchical organisations or asymmetrical relationships can’t do without these systems and mechanisms; they keep them in balance and keep them going. *As such*, inegalitarian,



authoritarian and oppressive regimes (whether nation-states, cultures, organisations or social relationships) are *unbalanced* and *unsustainable in principle*. Without systems and measures of power and control, dominance and subordination, highly stratified societies, hierarchical organisations or asymmetrical relationships would disintegrate very quickly and cease to exist.

In addition, the conditions that anti-libertarian, anti-democratic, inegalitarian and oppressive social systems provide for their members to live sustainable and balanced lives are rather different. Privileged members (i.e. the rulers and their entourage, members of the power elite, the rich or other privileged groups or classes) find very favourable political, economic and social conditions and thus can lead their lives in more balanced and sustainable ways. It doesn't mean that they live more healthily or are less 'sinful' per se (for example, some members of the British Royal family have been alcoholics, sport rather questionable personality traits and consistently demonstrate antisocial behaviour), but it means that privileged persons are in a better position to balance and compensate for their dark sides and have much more resources at hand to make their lives more sustainable (and enjoyable).

In contrast, for the discriminated against and disadvantaged, for those who belong to the lower half or bottom of society (the poor or 'working class', lower-income families, foreigners, migrants or other marginalised groups), who are on the lower rungs of the organisational hierarchy (workers or employees) and/or subordinates in asymmetrical relationships the pressure is on; for the disadvantaged, most things are less available, in less quantity and of poorer quality, and less sustainable. Notwithstanding individual vices and virtues, on average and in general disadvantaged and discriminated against people live more unsustainable lifestyles – and their lives are shorter.<sup>50</sup>

### **Past and present societies' major shortcomings**

In this chapter I have tried to demonstrate what is wrong with the status quo, with our current societies – what is wrong with even “the best” contemporary societies, i.e. those that are (seemingly) fairly free and democratic, relatively equal and just, prosperous and lasting. Their major shortcomings are:

- 1) *Inequalities*: There are *massive, fundamental, systemic* and *persistent* inequalities. In particular, there are *economic inequalities*; income and wealth are distributed highly unequally. These economic inequalities stem from a (capitalist, neo-classical or neo-liberal) market economy that is deliberately and consciously designed and maintained as an anti-egalitarian, inefficient and unjust market economy, and from legal and fiscal laws and regulations (such as laws on private ownership and property rights, or income, corporate, capital gains, inheritance and wealth tax) that favour the rich, those who own property, financial assets or business organisations. And there are *social inequalities* in form of, and caused by, stratification, hierarchy and/or asymmetrical relationships. Social inequality is *institutionalised* inequality and discrimination. Societies are greatly stratified and split into various classes, most organisations are hierarchical and most social relationships asymmetrical. As a consequence, certain individuals, groups of people or social classes are systematically advantaged and empowered by having exclusive access to restricted entities or issues and by being

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<sup>50</sup> Everywhere in the world the life expectancy of rich and privileged people is higher, *much* higher, than the life expectancy of poor and disadvantaged people. For instance, British monarchs outlive their subjects by a staggering 30 years! (Olshansky 2021). And the privileged do not only live much longer, but also live much better lives.

placed into privileged, superior and dominating positions in regard to others. These others (the poor and vulnerable, minorities, the working class, employees in orthodox organisations, subordinates in asymmetrical relationships) are systematically disadvantaged and disempowered, oppressed, exploited, discriminated against and marginalised.

- 2) *Injustices*: Consistent with the vast and systemic inequalities there are also ample and immense injustices. Whether it is economic inequalities (in the form of massive differences in people's income and wealth) or social inequalities (in the form of stratification, hierarchy or asymmetrical relationships) – they are *all* unjust, unjustified and unjustifiable *in principle*. But they are institutionalised injustice(s). And the more institutionalised these inequalities are, the more unjust they are. The problem is that our societies – even the economically developed countries – are characterised by these injustices. Even worse, some of these injustices are even portrayed as positives and virtues (for instance, the notion of the 'self-made' millionaire or billionaire, stories 'from rags to riches', the portraits of the powerful and their privileges, the lifestyle of the rich and famous). Our societies are not only comprehensively and systematically unfair and unjust, but they even celebrate this as 'merit-based achievements'.
- 3) *Lack of democracy*: Even fully fledged democracies are largely *undemocratic*; they provide only minimal political democracy in the form of a fairly limited and exclusive *representative* democracy through some representatives that are selected in rare elections (democracy as 'rule by politicians' instead of 'rule by the people'). Large parts of society are completely shut off from democracy, for example the economy or (orthodox/hierarchical) organisations. In such institutions most people (everyone who is not a full owner) are denied fundamental civil and democratic rights, such as free speech, freedom of assembly and association, the right to participate in (democratic) decision-making, democratic standards and procedures of decision-making, free and fair elections of representatives, self-governance, democratic governance, self-management, participative or representative management, separation of powers and 'checks and balances', democratic control, transparency and accountability. Most of our institutions, such as hierarchical organisations, are not only *undemocratic*, but flatly *anti-democratic*, despotic, oppressive and exploitative *autocratic* or *oligarchic* regimes (within democratic societies).
- 4) *Lack of freedoms*: Even in 'free and democratic societies' people are denied a lot of freedoms. People are politically free, but individually and socially unfree – or *made* unfree; prevailing socio-cultural norms and values are conformism, obedience and functioning. Accordingly, many social institutions (such as stratification, hierarchical organisations and/or asymmetrical relationships) limit most of people's freedom considerably; people are mainly socialised and managed to fit into existing structures and processes, to comply with rules and regulations, and to do what they are told or required to do – even to think, to behave and to act as they are expected. Consequently, for example, the hierarchical organisation deprives the vast majority of its members of fundamental human, civil and democratic rights and freedoms; employees do not have the freedom to be how and who they are, to be themselves (personal autonomy), to express themselves and to voice their own thoughts, to think on their own, to make decisions, to behave and to act purposely (self-determination).
- 5) *Unsustainability*: Most societies are unsustainable across all three major dimensions, i.e. they are environmentally, economically and socially unsustainable. Economic activities of individual and collective actors, the way(s) especially orthodox business organisations operate and conduct

business, and how whole industries and economies function cause severe and lasting damage to the natural environment, and all species, including people. A prevailing short-term orientation and externalisation of internal costs prevent more balanced, moderate and sustainable economic activities and developments. Moreover, societies are also unbalanced and unsustainable in their social configuration and social fabric. As largely stratified societies, hierarchical organisations or asymmetrical relationships, our societies provide only a minority (the privileged, rich and powerful) with the appropriate conditions to live their lives in sustainable and balanced ways. The large majority of people is left with insufficient means and resources.

Massive inequalities, systemic and systematic injustices, lack of democracy, lack of freedoms as well as profound unsustainability – there is something *seriously* wrong with our societies,<sup>51</sup> how they are designed and function (or don't function). These issues are not just 'technical' inefficiencies – they are *fundamental, systemic* flaws and shortcomings even of the most advanced and developed, free and democratic societies. They are *existential* problems of and for (almost) all the social systems and societies we have known so far as well as for the people that live in these social systems, at least for the great majority of people. Inequality, the lack of democracy and lack of freedoms as well as unsustainable systems are *de jure* and *de facto* incompatible with, and alien to, the notion of the good society, of a libertarian, democratic, equal, just and sustainable social system or society. Compared to what *could* be, how our societies could be, how they *should* be, we are 1,000 years behind. We live in the Dark Ages, still. This must change. We cannot go on like this.

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<sup>51</sup> I was quite surprised when I realised that I came to exactly the same conclusion as the great American market socialist and labour activist John Francis Bray (1809–1897) nearly 200 years ago when he wrote that 'there is something inherently wrong in our social arrangements' (Bray 1839/2013, p. 28). It just underscores my claim that, despite all the technological and economic, even political and social advancements, the *fundamentals* (i.e. the fundamental problems) of our societies have not improved or changed (much) in the past centuries.

## The search for a better society and the founding principles of Pentoutopia

This chapter offers some first thoughts about the search for a better society and the founding principles of a good society like Pentoutopia. The first section will show that the search for a good society has a long tradition. Some of the main (realistic) utopian ideas of a better society will be listed in chronological order to show that there is a thread running through this endeavour, i.e. certain ideas that (almost) all models of a better society have in common and propagate. The second section of this chapter actually deduces from a general model the *first principles* that establish a good society – *freedom, democracy, equality, justice* and *sustainability*. These principles – ‘the essential five’ – constitute and define *Pentoutopia*. The following five sections describe each principle in turn, how it works and its relevance for a good society. For each of the five principles definitions will be provided (or developed if necessary) that define each principle in the most fundamental and general, comprehensive and detailed form. Based on such definitions it will be shown what each principle means or implies for a social system like Pentoutopia. It will be argued that, in order to have a *good* society, everyone ought to be as free as possible (has as much *positive* and *negative freedom* as possible), that the social system and its institutions of governance must be as democratic as possible (*full* democracy), that the system must grant and guarantee equality in all its forms for everyone (especially *formal/legal, political, economic* and *social* equality), that there needs to be *formal, procedural* and *substantive* justice, and that the system and anthropogenic activities must be sustainable (i.e. durable, balanced and moderate), in particular in respect to environmental, economic and social affairs and issues (*triple bottom line*). After those five sections another section then wraps up the analysis and summarises the relevance of ‘the essential five’ for Pentoutopia. A final section gives a detailed outlook of the whole book.

### (Realistic) utopian ideas of a better society

In the face of all the fundamental and systemic shortcomings of past and present societies it is understandable that over the centuries there have been attempts to develop, even to realise, utopian concepts of the good society. The urge for a better society is as old as society itself. In this sense, Pentoutopia continues a long tradition of some of the most honourable and enlightened reasoning. It is not possible to give a full historical account of all the utopian concepts that have been developed through the centuries. But I want to mention at least some of those great social philosophers and reformers, and their works in which tradition Pentoutopia can be seen.

- The great English statesman and social philosopher Thomas More’s (1478–1535) incomparably visionary description of the political system and social life of an imaginary island state – *Utopia* (published in 1516) – is probably *the* inspiration for most decent utopian projects. The ‘best state of a republic’ (More 1516/1987) and society More described are communitarian and socialist, with people being free and equal, and government being a comprehensive system of legitimate democratic governance guaranteeing that people rule themselves.

- The Welsh businessman, social reformer and philanthropist Robert Owen (1771–1858) actually attempted to realise Utopia on a small scale.<sup>52</sup> Around 1800, Owen converted a textile mill in New Lanark, Scotland, into a utopian socialist community (and in 1825 started another experimental socialist community, New Harmony in Indiana, USA). The communities of New Lanark and New Harmony – although not uncontroversial and far from perfect or successful – have been exemplary and seminal for many projects in the cooperative movement and utopian socialism.
- The French philosopher Charles Fourier (1772–1837) developed a ‘new amorous world order’ (the title of the book he wrote in 1816–1818), where society would be based on communal associations and the principles of individual freedom, cooperation, equality and justice. Work would be organised in egalitarian communities, workers would decide and organise their work freely and would be compensated for their labour fairly according to their contribution.
- In various works (Thompson 1824/2005, 1827, 1830), the Irish political philosopher, economist and social reformer William Thompson (1775–1833) laid out a similar concept of a communitarian economy and society. Especially in order to achieve and guarantee full democracy and equality (mainly as fair distribution of income and wealth), Thompson saw cooperatives and cooperative communities as instrumental and as the fundamental forms of organisation, with workers owning the organisations as well as all property/land and capital.
- The French politician, diplomat and social philosopher Alexis De Tocqueville (1805–1859) could see for himself first-hand how communities could be organised and function cooperatively. In his *Democracy in America* (Tocqueville 1835–1840/2003), Tocqueville described how people organised and managed their communities and communal affairs freely and collectively via political associations and (other) institutions of local democratic governance (such as town hall meetings) and called this form of civil society *associationalism*.
- Probably the most thoroughly and comprehensively developed concept of an economic democracy and democratic state (*liberal socialism*) was put forward by the English social philosopher, economist, civil servant and politician John Stuart Mill (1806–1873). In his *Principles of Political Economy* from 1848, Mill made the case for worker cooperatives as the standard form of (business) organisations and for associations of workers that provide collective ownership, democracy (elected managers and collective decision-making) and equality (profit-sharing). He also argued for not only free, but regulated markets, for government with active social and economic policies that reduce poverty and promote equality, and for welfare and tax policies (such as a fair income tax, wealth and inheritance tax).
- The French politician, philosopher and economist Pierre-Joseph Proudhon (1809–1865) had similar, though more far-reaching, anarchist ideas (Proudhon 1840/1994, 1849/1927, 1851/1923). In his concept of a republic he, too, argued for labour associations and cooperatives owned by workers and designed and operating according to democratic principles. Cooperatives, worker communes, self-employed peasants and artisans would own property and trade freely and cooperatively (Proudhon called such a market economy ‘mutualism’. It might be also called ‘industrial

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<sup>52</sup> Owen outlined the political, pedagogical and organisational concepts underlying the communities in *A New View of Society* (Owen 1813).

democracy' or 'market socialism'). The state would have minimal functions (or would 'disappear' altogether), governance (of the economy and society) would be conducted largely by worker communes and the citizens. Proudhon's republic would be based on, and functioning, according to the fundamental principles of liberty, equality, fraternity and order.

- In 1839 the US political philosopher and activist John Francis Bray (1809–1897) developed a similar concept of market socialism in his works *Labour's Wrongs and Labour's Remedy* (Bray 1839/2013). Bray argued that the source of employers' profits is an unequal exchange with employees in which the latter are not paid the full value of their labour. The remedy then is creating a society of equal exchange between producers at fair value. Workers should own the companies they work for, markets should function and be regulated in fair and just ways and society should be governed democratically.

These are some of the 'classical' works (all but Thomas More's *Utopia* are from the first half of the 19<sup>th</sup> century) that have imagined a *different, better* economy, state and society and which have established a tradition in which Pentoutopia can be seen. The list above is just a small sample and by no means exhaustive. Other philosophers, social reformers and political activists have developed similar concepts at that time or later in the 19<sup>th</sup> or 20<sup>th</sup> century. And contemporary scholars have also developed academic concepts of a good society or a good economy, or at least provide some discussion of such concepts (e.g. Ellerman 1992, Walzer 1992, 1997, Schweickart 1993, Hirst 1994, Roemer 1994, Archer 1995, Cohen & Rogers 1995, Van Parijs 1995, 2011, Caspary 2004, Allard & Matthaei 2008, Carson 2008, O'Neill 2009, Williamson 2009, 2014, Restakis 2010, Malleson 2013, 2014, Utting 2015).

All these classical and contemporary works and approaches represent fascinating and inspiring alternative concepts, *realistic* utopian ideas, of a better society. These concepts and approaches are subsumed under terms like *left-libertarianism*, *economic democracy*, all sorts of *socialism* that are *not* state socialism (such as *utopian socialism*, *libertarian socialism*, *democratic socialism*, *liberal socialism* or *market socialism*) or, the latest and most contemporary term, *Social and Solidarity Economy (SSE)*. The concepts and approaches may differ in some respects, have more or less compelling elements, and various strengths and weaknesses. But what they all have in common is the desire, if not longing, for a better society where all people would be free and equal, enjoy equal status and opportunities, where social dominance, oppression and exploitation would be absent, and where democracy and justice would prevail. This is what Pentoutopia has in common with them and where it, so to speak, continues the tradition, the great human project of the good society.<sup>53</sup>

### **'The essential five' constituting and defining Pentoutopia**

When one looks at all the shortcomings of past and present societies (see the chapter 'The status quo – and what's wrong with it' above) and at the positive utopian concepts of a good society as outlined it is fairly obvious and self-evident that we should strive for such a better society. But I want to show that the case for the good society can also be made in a value-free way by deducting the essential principles of the good society from a universal model, the model of 'system'.

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<sup>53</sup> As Schweickart (2011, p. 7) rightly said: 'We owe it to ourselves – and to them – to keep this tradition alive.'

A system is defined as at least two elements related to each other and principles. In the case of a human social system,<sup>54</sup> *elements* are individuals (as the smallest elements) or aggregates such as families, groups or social classes. The elements can be related to other elements via structures and processes and/or their actions and behaviour.

The elements of a system, their relationships as well as the system as a whole, are defined, shaped, steered and maintained by *principles*. ‘Principles’ are ruling statements, such as natural laws, scientific models and theories, but also ideologies, norms, values, customs and traditions, rights, laws, regulations and contracts, generalised perceptions or expectations, standard or routine behaviour, actions or interactions. Principles define the elements, (their) relationships and the system as a whole – i.e. what they are, how they are, how they operate, function and behave, and which kind of activities and outcomes they can possibly cause or create (and which they can’t create or achieve or don’t allow).

Every system, whether it is a logical system (e.g. dual logic), a mathematical system (e.g. the decimal system), a natural science system (e.g. the solar system, periodic table of elements or ecosystems), or a human social system, is based on, defined by and functions according to principles. *Social systems* are the most complex systems one can imagine. Every social system, every society is based on, and functions according to, many different, explicit or implicit principles that can be consistent or clash with each other. Usually there are some prevailing principles (in the form of widely held and shared beliefs, norms and values, rules, laws and regulations) that considerably influence, guide and shape institutions and people, i.e. the purposes, design, structures, processes and functioning of institutions as well as the worldviews, attitudes and behaviour of people. The most general or basic principles might be called ‘first principles’. They are literally *essential* for a social system; they define and shape the design and functioning of the system. A social system, its elements and their relationships must be based at least on the following essential principles:

1. *Freedom*: Each and every individual is, and should be, *as free as possible*. Every single member of a social system *must* be as free as possible so that it can live according to its individuality that defines and characterises it and can use, and develop, its capabilities and potential.
2. *Democracy*: Every member of the social system, i.e. every individual, must be equally able to make decisions or to participate in making decisions about themselves as well as about the system(s) they are part of. Thus, every individual must potentially be involved in governing and managing themselves and the system – i.e. there needs to be some form of *democracy*. In order to enable every member of a social system to participate in decision-making and to rule, the social system must be *as democratic as possible*. The social system must have comprehensive and robust democratic institutions, structures and processes in place that enable the participation of everyone in the governance and management of the whole as well as its parts as much as possible.
3. *Equality*: A social system must provide and guarantee *equality*; it must equip *every* member with *equal* opportunities, possibilities and conditions so that it is able to be itself and to make

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<sup>54</sup> Evidently, most, if not all, species form social systems. But throughout this book, ‘social system’ is only meant as a social system of humans.

decisions about itself and the whole as much as possible. There needs to be legal, political, economic and social equality of and for individuals as well as in their relationships so that each and every individual is in the same position to be, to act and to develop as appropriate and/or as they deem right.

4. *Justice*: There needs to be a moral evaluation of the system's institutions and their implications as well as of (the relationship between) human actions and the direct or indirect consequences of those actions – i.e. it needs to be established whether or not the system, its structures and processes, as well as the activities, actions and reactions within the system are *just*. *Justice* must prevail because only a just society provides the same degree of freedom, democracy and equality of and for everyone. For this, it needs to make sure that the right and most appropriate principles and concepts of justice are applied to any particular case or issue.
5. *Sustainability*: If the social system is to exist for a longer period of time (i.e. is, or shall be, 'permanent'), the system's institutions as well as individual and collective actors that are members of that social system must function and conduct their activities in decent and sustainable ways – they must achieve a sufficient level of *sustainability*. Individual elements or systems can only continue when they operate in *durable*, *balanced* and *moderate* ways as such, as well as relative to the environments they are in.

Hence, *freedom*, *democracy*, *equality*, *justice* and *sustainability* are the most fundamental principles for any social system. Together, these five principles ('the essential five') establish how the conditions for people and their relationships ought to be, how a social system should be, and how it should function. Individuals can be themselves and live under good and decent conditions *only* if there is freedom, democracy, equality, justice and sustainability for everyone *as much as possible*. The more these five principles configure and shape a social system, the better is the system.<sup>55</sup> In this sense, 'the essential five' are not only axiomatic principles that constitute a social system but the foundations of a good society.<sup>56</sup> The following sections discuss 'the essential five' in turn in some more detail.

### **Freedom: 'Freedom' is the call**

The famous Swiss philosopher Jean-Jacques Rousseau (1712–1778) opened his *Social Contract* with the dramatic words: 'Man was born free, and he is everywhere in chains' (Rousseau 1762/2004, p. 2). The great German philosopher Immanuel Kant (1724–1804) concluded his thorough analysis of the battle between the oppressive and progressive forces in society and humans: 'Enlightenment is man's

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<sup>55</sup> Equally, the less a social system meets and cares about these principles, the worse it is as such and for the majority of the people. Such social systems are, for instance, authoritarian regimes, autocracies, oligarchies, monarchies, kleptocracies, religious states, capitalist/neo-liberal societies, one-party states, hierarchical organisations or asymmetrical relationships – good for a few, bad for the many.

<sup>56</sup> In calling these principles 'essential', I do *not* say that they are the only ones that are required to constitute a good society. 'The essential five' is not meant as an exclusive and exhaustive list of (necessary) principles. For example, principles such as 'legitimacy' or 'morality' might also be regarded as fundamental and essential for any decent social system, for the institutions operating and the people living in such a social system. But 'the essential five' are the most and absolute relevant ones. They provide, so to speak, the minimal conditions for any decent social system, for a good society.



emergence from his self-imposed immaturity.’ And another, not so well-known German philosopher, Max Stirner (1806–1856), stated apodictically (Guérin 1980/2005, p. 19): ‘Being free, that is really living.’ ‘Freedom’ – or ‘liberty’ – is the first call in every epoch, culture and society – even, or especially, in dark times, oppressive cultures and closed societies where it is silenced.

But why freedom? And why freedom as much as possible? As indicated above, as an incompletely configured species, humans *need* freedom in an essential sense. They need to be free in order to be able to make use of their potential and to develop themselves. The French existentialist Jean-Paul Sartre (1905–1980) even said that ‘Humans are condemned to be free’. Freedom is one of the defining characteristics of humans, it constitutes us *as* humans, as reasoning, inquiring, exploring, trying and developing individuals.<sup>57</sup> Freedom, being free respectively, is a necessary state *of* individuals as well as a necessary precondition *for* individuals. It is a necessary notion and condition of and for humans so that they can make use of their capacities to reason, to judge, to decide between alternatives and to follow their will, so that they can live, act and develop in accordance with their essence. One could also say that people are *entitled* to freedom – it is their *inalienable right* as humans. And that is why there is also a basic human desire for freedom (Melman 2001, p. 271); humans *want* to be free because they *need* to be free.

Although immediately evident, the question is: what exactly is freedom? Traditionally, freedom is differentiated into *negative* freedom and *positive* freedom:<sup>58</sup>

*Negative* freedom means ‘freedom from’, in particular being free from external restraints other than those which have to be imposed for the protection of other individuals and *their* liberty (Macmillan 1938/2011, p. 153, Berlin 1969/2006, pp. 369–370, Miller 1990, p. 24). Crucially, negative freedom means not being subordinate to illegitimate (oppressive) institutions or to someone else.

*Positive* freedom means ‘freedom to’. It’s about being able to do what one would like to do (as far and as long as one does not negatively impact on other people’s fundamental rights, freedom and free will). It means that people are free to form opinions, to express their opinions without reserve, and to act upon their opinions (Macmillan 1938/2011, p. 153, Carter et al. 2007, p. 34). The great English social philosopher and economist John Stuart Mill (1806–1873) described this notion of positive freedom very vividly (Mill 1859, 1863/1992, p. 15):

This, then, is the appropriate region of human liberty. It comprises, first, the inward domain of consciousness; demanding liberty of conscience in the most comprehensive sense; liberty of thought and feeling; absolute freedom of opinion and sentiment on all subjects,

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<sup>57</sup> Actually, individuals are configured relatively incompletely, but they have capabilities and potential; they are open, free and able to explore, to make decisions, to try and err, and to develop on their own terms – i.e. there is a (high) degree of autonomy, creativity and individuality that defines and characterises people. Hence, the first principle in regard to social systems and their elements *must be freedom*, that each and every member of a social system is as free as possible.

<sup>58</sup> It seems that the English philosopher Bernard Bosanquet (1848–1923) was the first to mention, if not develop, this dual concept of freedom in his 1899 book *The Philosophical Theory of the State*. The concept was then taken up again by the Italian historian Guido de Ruggiero (1888–1948) in *The History of European Liberalism* (1927, original in Italian *Storia del liberalismo Europea*, 1925). The German social psychologist Erich Fromm (1900–1980) drew a similar distinction between negative and positive freedom in his *The Fear of freedom* (1941), followed some years later by the Russian philosopher Isaiah Berlin (1909–1997) with his famous essay ‘Two concepts of liberty’ in 1958 (published in 1969).

practical or speculative, scientific, moral, or theological. ... Secondly, the principle requires liberty of tastes and pursuits; of framing the plan of our life to suit our own character; of doing as we like, subject to such consequences as may follow: without impediment from our fellow-creatures, so long as what we do does not harm them, even though they should think our conduct foolish, perverse, or wrong. Thirdly, from this liberty of each individual, follows the liberty, within the same limits, of combination among individuals; freedom to unite, for any purpose not involving harm to others.

And he concluded (*ibid.*): ‘The only freedom which deserves the name, is that of pursuing our own good in our own way so long as we do not attempt to deprive others of theirs, or impede their efforts to obtain it. Each is the proper guardian of his own health, whether bodily, or mental and spiritual.’

Positive freedom means *free will*; it is up to the people – to each and every individual – to decide what they want, what they want to do, how they want to do things, to conduct their lives and to develop. Positive freedom means to be willing and able to fulfil one’s own potential, the capacity for self-mastery, self-government and self-actualisation (Berlin 1969/2006, p. 373, Parker 1998, p. 18) – and to have the means, in particular the power, opportunities and (access to) the necessary resources, to fulfil that potential.

Positive and negative freedom often come together; one is free *from* something and (therefore) able *to* something else: *X is free from y to be, to have, or to do z*. ‘Freedom from’ and ‘freedom to’ are, so to speak, two sides of the same coin (Feinberg 1980, pp. 3–5, Graham 1986, pp. 38, 45). Altogether, one could say: ‘Freedom’ means that people are as free as possible from external, unreasonable or illegitimate interference, coercion or restraints (*negative freedom*) so that they can be, feel, reason, decide, act and live their lives as freely as possible and according to their own will and liking (as long as they leave others the same right and don’t cause harm) (*positive freedom*) (Bray 1839/2013, p. 32, Mill 1859, 1863/1992, p. 54, Guérin 1980/2005, p. 79, Archer 1995, p. 8, Parker 1998, p. 134, Peirce 2001, p. 25). Or, in short: Individual freedom means that individuals are free from illegitimate external restraints (*negative freedom*) and free and able to act upon their own will (*positive freedom*).

Freedom is *essential* for humans. Consequently, any social system and its institutions must factually respect and propagate, enable, support and protect the freedom of each and every individual as much as possible (Hart 1955, p. 175, Knights & Willmott 2002, pp. 64–65). Only a society, organisation or social relationship that provides for the greatest possible freedom of all its members is a good social system.<sup>59</sup> A social system must make available the whole range of freedoms, rights and liberties, in particular (UN Universal Declaration of Human Rights 1948, Beitz 2001/2006, p. 352):

1. *Legal rights and liberties*: Human and civil rights, such as rights of the person (life, liberty and security of the person; freedom of thought, conscience, religion; privacy, freedom of movement; private ownership) and rights associated with the rule of law (equal recognition before the law; equal legal and effective rights; prohibition of arbitrary arrest; impartial hearing and trial; presumption of innocence).

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<sup>59</sup> Obviously, there are some institutions that are *meant to reduce* the freedom of people in some respect – prisons, the military, educational institutions, hospitals or nursing homes, for instance. But even these institutions must be measured and judged against, among other things, how much freedom they grant people. Prison inmates, soldiers, students, or patients – as well as employees, partners or family members – are, of course, *individuals* and *citizens* that still have the whole range of inalienable rights humans always have (particularly human, democratic and civil rights), including the right of and to freedom as much as possible.

2. *Political rights and liberties*: Freedom of expression, assembly and association (the right to form independent political parties); the right to take part in free and fair periodic elections by universal and equal suffrage; the right to take part in government and to replace government by democratic means.
3. *Socio-cultural rights and liberties*: Norms and values that promote, protect and encourage liberation, emancipation, pluralism and toleration; individuals are free to form their own worldviews and opinions, to experiment, to deviate and to live their lives as they deem right; there are no stratification, hierarchical organisations or asymmetrical relationships.
4. *Economic rights and liberties*: Rights of and to private ownership for everyone; free choice of establishing non-hierarchical business organisations and conducting economic activities in legitimate and sustainable ways; comprehensive labour laws; just remuneration/no exploitation; adequate standard of living; comprehensive social security and welfare policies.
5. *Psychological and cognitive liberties*: One is not *internally* constrained, one is as free as possible from internal, pathological restraints (physical and mental health); ability of, and willingness to, personal development and self-actualisation.

So, *freedom* actually is, and means, freedoms – and *all* of these freedoms are necessary to make people free, to provide the required conditions for *the free individual*.

### **Democracy: Full democracy**

There is a reason why we use ‘*free and democratic society*’ as a fixed phrase. *Freedom* requires and implies *democracy* – and democracy needs and suggests freedom. Democracy in the sense of ‘rule by the people’ is the logical continuation of the idea of free individuals. And individual freedom would not, and could not be if the conditions were not supportive for it, i.e. democratic. In respect to the formal and political conditions for freedom it is only democracy that enables the greatest possible individual freedom of all members of a social system. In order to establish and to guarantee equal rights and liberties for all members of a social system, one has to have *demos kratos* – power of the people or rule by the people (Dahl 1970, p. 35, Carnoy & Shearer 1980, p. 3, Dahl 1985, pp. 19, 74, Graham 1986, p. 13, Caspary 2004, p. 245). The American political scientist Robert Dahl (1915–2014) argued that ‘the process of government should as far as possible meet democratic criteria, because people involved in this kind of association possess a *right*, an inalienable right to govern themselves by the democratic process’ (Dahl 1985, pp. 56–57). Legitimate societies – or other formally institutionalised social systems that shall be legitimate – *must* have *democratic* governance,<sup>60</sup> governance ‘of the people, by the people, for the people’. Governance must be formally institutionalised people’s power. There is no other way.

Also from a practical perspective democracy is the most preferable concept of governance. Democracy has a lot of advantages. Dahl (1998, pp. 45, 60–61) created quite a comprehensive list of benefits and advantages democracy provides, in particular:

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<sup>60</sup> I deliberately use the term ‘governance’ here (and not ‘government’) in order to indicate that the ruling (governance and management) of a social system is not, and should not be, equated with, and confined to, only one specific institution (‘the government’).

1. *Avoiding tyranny*: Democracy helps to prevent government by cruel and vicious autocrats.
2. *Essential rights*: Democracy guarantees its citizens a number of fundamental rights that non-democratic systems do not, and cannot, grant.
3. *General freedom*: Democracy ensures its citizens a broader range of personal freedom than any feasible alternative to it.
4. *Protecting essential personal interests*: Democracy helps people to protect their own fundamental interests.
5. *Self-determination*: Only a democratic government can provide a maximum opportunity for persons to exercise the freedom of self-determination—that is, to live under laws of their own choosing.
6. *Moral autonomy*: Only a democratic government can provide a maximum opportunity for exercising moral responsibility.
7. *Human development*: Democracy fosters human development more fully than any feasible alternative.
8. *Political equality*: Only a democratic government can foster a relatively high degree of political equality.
9. *Peace-seeking*: Modern representative democracies do not fight wars with one another.
10. *Prosperity*: Countries with democratic governments tend to be more prosperous than countries with non-democratic governments.

At a general level, the definition of democracy and the advantages it provides are relatively clear. Nevertheless, how democracy is then *actually* conceptualised, institutionalised (as a political system) and practised varies considerably.

As outlined in the section ‘Undemocratic democracies, undemocratic organisations, undemocratic societies’ above, even our most advanced ‘free and democratic’ societies provide only ‘democracy light’; the minimal features and procedures of representative democracy largely mean ‘rule by politicians’ (instead of ‘rule by the people’), with institutions of political governance – such as political parties, the government and its administration, or ministries – that are fairly hierarchical, oligarchic and anti-democratic in their design and functioning.

Such a minimal concept of democracy is in some contrast to the original, more general understanding of democracy as people ruling or governing themselves (Bevir 2006, p. 430, Canovan 2008, p. 353) – *everywhere and as much as possible*. This is the idea of *full* democracy, of a fully democratic society:

- ‘*Democracy everywhere*’ means democracy in every sphere of society. In the political sphere it means that also the institutions of governance, i.e. political parties, the government and public administration, should function according to democratic principles and standards at local, regional and national level. Moreover, democracy should be the prevailing mode also in the economic, social and even the private sphere (Dahl 1970, p. 7, Benello & Roussopoulos 1971, p. 8). Business organisations should be democratic organisations (the old demand of ‘democracy at the workplace’), the economy – a market economy – should be regulated by a combination of self-regulating bodies (business

associations), participative regulation (business organisations, public administration, citizens and civil society organisations regulate economic affairs jointly), and government regulation. In the social sphere, all forms of voluntary associations, civic engagement and participation should contribute to the governance of public affairs and matters of public concern – the model and ideal of a vibrant ‘civil society’. And in the economic, social and even private sphere, there should no longer be any asymmetrical relationships, but relations of equals that allow individuals to be their own masters.

- ‘*Democracy as much as possible*’: Democracy does indeed mean *representative democracy* – as *one element* of full democracy; a constitution outlining the separation of powers, large and independent political parties that select candidates and compete for votes, free and fair elections, a strong, democratically elected parliament, and a (hopefully) decent and democratic government (that can be voted out of office) are fundamental and necessary elements of any state or society that claims to be democratic. But representative democracy is only *one* element of democratic governance. The original, and much more potent, meaning of democracy is *democratic self-governance*, that people decide public affairs or matters of public concern either directly or via voluntary democratic associations or assemblies (Arblaster 1999, p. 44, Dryzek 2008, p. 262). This is when democracy is at its best and really matters; (democratic) governance happens where the people are. And it happens by the people. Moreover, democratic self-governance can come together with *participatory governance*, i.e. when individual citizens, groups of people, civil society organisations or other formations collaborate with decentralised public authorities and other third parties in order to govern (local) affairs. All this might be accompanied by extensive *citizenship behaviour*, i.e. citizens demonstrating all sorts of political activism and political engagement in public.

In order to be legitimate, every formally established social system must have *institutions of democratic governance* in place that give *all* members of the social system (‘the people’) ample opportunities to:

- 1) Govern themselves and matters of public concern directly and through self-governed associations and assemblies (*democratic self-governance*);
- 2) Be governed in fully democratic, transparent and legitimate ways by democratically elected and replaceable representatives (representative democracy);
- 3) Voluntarily participate in the governance of public affairs and in formal decision-making processes of public authorities (*participatory governance*); and
- 4) Demonstrate the whole range of political activism and engagement in public (*citizenship behaviour*).

Hence, understood in its original sense, democracy means a *multi-level concept of democratic governance* of society, of a *fully* democratic, participative and inclusive governance of society.

### **Equality: Equality across various dimensions**

The notion that all people should have the same rights and possibilities to be free individuals and to govern themselves and the whole democratically implies (or necessitates) another fundamental principle – *equality*. Equality does *not* mean that people are equal. People have only some things in common with others but are different in almost every respect. People are definitely *not* equal. So, why then all that fuss about equality? Why should people, although different, ‘be equal’ (Nielsen 1985, p. 63, Pojman &

Westmoreland 1997, pp. 5, Hausman 1998, p. 81) – and if so, in what ways?<sup>61</sup>

Equality has various advantages. It increases the well-being of a large majority of people (all those who are not privileged but disadvantaged); it provides them with greater freedom, moral autonomy and self-respect (Nielsen 1985, p. 63, Hausman 1998, pp. 81–82), and with (access to) more and better resources and institutions that are necessary for meeting their needs, conducting their daily lives, and pursuing their work and career, personal well-being and personal development.<sup>62</sup> In so doing, equality is good for the social fabric of a society as well as for individuals because it propagates equal concern and (mutual) respect, trust and solidarity (Deutsch 1985, p. 41, Hausman 1998, pp. 82–83, Bowles & Gintis 1998, pp. 4–5, Rothstein 1998, p. 33, Schmitz 2002, pp. 245–246). The more equal a society, the more stable and sustainable it is, the smoother run are its institutions, and the better off is the vast majority of its citizens.

All in all, equality is good (a good or value) in itself as well as for people and social systems as a whole.<sup>63</sup> It is good because it doesn't equalise *people* but *the conditions* under which they live. 'Equality' means that rights and duties, benefits and burdens, resources and opportunities, contributions and returns are distributed relatively equally amongst people because this is the most desirable, right and fair treatment of people and things.<sup>64</sup> In this sense, equality is of intrinsic moral value and importance as such, as well as of instrumental use and value. Equality is operationalised and applied in various dimensions, in respect to various issues:

- First, there is a universal perception that people should be treated equally, that there should be equal formal, procedural and legal treatment of people. 'Equality before the law', i.e. the notion or ideal that like cases shall be treated alike (and different cases differently) and that all people shall have the same rights and shall face the same consequences for their deeds, can be found in any civilisation. Laws, rules and regulations (and related punishment) should be the same for everyone. Moreover, everyone should equally enjoy the whole range of human and civil rights (as put forward in the United Nations Universal Declaration of Human Rights from 1948). Formal

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<sup>61</sup> Or, as Pojman and Westmoreland (1997, p. 1) asked: 'It is an empirical fact that human beings are unequal in almost every way. ... Yet it is one of the basic tenets of almost all contemporary moral and political theories that humans are essentially equal, of equal worth, and should have this ideal reflected in the economic, social, and political structures of society. ... how can these opposing theses, empirical inequality and egalitarianism, be reconciled?'

<sup>62</sup> For example, Anderson (1999, p. 315) wrapped up the argument as follows: 'Equals are not subject to arbitrary violence or physical coercion by others. ... Equals are not marginalized by others. They are therefore free to participate in politics and the major institutions of civil society. Equals are not dominated by others; they do not live at the mercy of others' wills. This means that they govern their lives by their own wills, which is freedom. Equals are not exploited by others. This means they are free to secure the fair value of their labor. Equals are not subject to cultural imperialism: they are free to practice their own culture, subject to the constraint of respecting everyone else. To live in an egalitarian community, then, is to be free from oppression to participate in and enjoy the goods of society, and to participate in democratic self-government.'

<sup>63</sup> Correspondingly, *inequality* – in whatever type and form – is usually seen, and refuted, as something that is *not* good (not efficient, not optimal, not right, not fair and/or not just).

<sup>64</sup> There is not one, universally valid and applicable definition of 'equality', understanding of what 'is' equality or what should be equal. The introductory chapter 'The case for a more equal society' in Part V, 'A more equal, just and sustainable society', provides an overview of the most common and different definitions and concepts of equality.

equality, the equal formal, procedural and legal treatment of people, is not a ‘nice to have’ but is people’s inalienable right and constitutes their fundamental status in an organised social system as individuals, persons and citizens who have the same rights and fall under the same laws.

- Formal equality does not only mean equal ‘passive’ rights in the sense of *legal* rights, but also ‘active’ rights in the sense of *political* rights. A society or nation-state based on the rule of law *must* grant every person equal political or democratic rights because if people fall under certain laws or jurisdiction then it is also their right to decide about these laws and jurisdiction (and to decide about the institutions and the representatives and office-holders serving in these institutions that make and execute the laws). Consequently, people must have equal political rights and means to participate in all institutions of governance and political processes, and to demonstrate all forms of political activism and engagement (Mansbridge 1977, 1980, Knight & Johnson 1997, Dahl 1998, Anderson 1999). Such democratic equality means equal political *rights* and equal political *power*, the equal right and power of everyone (of ‘citizens’) to participate in the governance of the social system and to decide upon public affairs and matters of public concern.
- Moreover, equality also means *substantive* equality, i.e. equality with regard to the material and non-material means to conduct one’s life. For one thing, substantive equality comes as *economic* equality. Economic equality does not necessarily mean a (completely) egalitarian distribution of goods and resources or the means of production (i.e. collective instead of private property) – but it means *some* equality in income and wealth (or, better to say, *less inequality*), achieved via fiscal and social welfare policies such as progressive taxation of income and wealth or redistribution of income and wealth through monetary social policies. There cannot be a (more) equal society without a relatively high degree of economic equality.
- And substantive equality implies *social* equality. As a minimum, social equality means that people have equal status, equal opportunities and equal conditions because people who are in inferior positions are not only systematically disadvantaged, but oppressed, exploited and marginalised, stripped of their life chances and opportunities for personal development.<sup>65</sup> Hence, social equality connotes that institutionalised forms of social dominance and inequality – such as stratification, hierarchy or asymmetrical relationships – are either reduced or completely replaced by more egalitarian, non-oppressive and inclusive structures and processes (Anderson 1999, p. 313, Kohn 2011, p. 235) and that there are active policies to empower and support the disadvantaged.

All in all, equality means that people, that *all* members of a social system, (shall) have:

- 1) The same fundamental rights (in particular all human and civil rights), fall under the same general and specific laws, rules and regulations, and are treated formally in the same way as everyone else (*formal/legal equality*);

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<sup>65</sup> Chapter ‘The case for a more equal society’ in Part V ‘A more equal, just and sustainable society’ addresses the problems that stem from economic and social inequalities in some more detail, in particular the problems for individuals (such as various health and social problems, economic and financial problems, work-related problems, reduced social life and lessened personal development) as well as the problems for a society as a whole (such as various economic problems, political problems, social/moral problems and ethical problems).

- 2) Equal political and democratic rights and means to participate in all institutions of governance and political processes, and to demonstrate all forms of political activism and engagement (*political equality*);
- 3) Relatively equal and appropriate material and non-material means and resources, in particular income and wealth, to conduct their lives (*economic equality*); and
- 4) Equal status, equal opportunities and equal conditions (*social equality*).

People should be seen as equals, they should be treated equally, and they should have equal conditions for conducting their lives. Understood in such a way, equality – i.e. *all* of the equalities, whether formal/legal, political, economic or social equality – is essential for any institutionalised social system as well as for each and every individual. The more advanced and developed a society is, the more it also represents and achieves equality – *all* forms of equality. And the more equality a social system provides and achieves, the better it is for the people as well as for the system itself.

### **Justice: To each, but in the appropriate form**

And then there is *justice* – or, there *should* be justice. As it is the case with freedom, democracy and equality, justice to some extent is self-evident; literally everywhere in the world, in every culture, people dislike ‘injustice’ (Scherer 1992, p. 3) – however, it is understood generally or materialises specifically in a particular case. In every socio-cultural context, ‘injustice’ is perceived as something that is not right, as a moral and factual wrong that needs to be remedied (i.e. that justice is done). People don’t like injustice and want justice.

The question is what ‘is’ justice. In a very general sense, one could say that ‘justice’ means the moral evaluation of the relation between a human action and the (direct or indirect) consequences of that action. Common-sense statements, such as: ‘X really deserved this’, ‘justice was done’ or ‘that’s not fair’ underscore this notion or understanding of justice.

But this is just the very *general* understanding or definition of justice. When it comes to what justice means *specifically*, one realises that there is not a single theory, but various and competing theories, principles and concepts of justice (Austin 1979, pp. 127–128, Walzer 1983/1997, p. 301, Burchardt & Craig 2008, pp. 4–6, Wolff 2008, pp. 18–24).

At first, (theories of) justice can be differentiated into *formal/procedural* and *substantive* justice (Lucas 1980, p. 6). Principles of formal/procedural justice are, for example: rule of law, justice in holdings, or contractual rights and obligations. *Procedural justice* means the unbiased, fair and equal application of legitimate formal rules and regulations to issues and people (Lucas 1980, p. 75, Nielsen 1985/1997, p. 208, Bell 1992, p. 127). Treating like cases alike, the rule of law, fair trial and treatment, or impartiality are some of the key characteristics of procedural justice (Lucas 1980, pp. 82, 84, Nielsen 1985/1997, p. 208). Procedural justice, a procedural understanding of justice as rule-based, equal, unbiased and fair treatment of issues, humans and human conduct is especially relevant regarding legal or administrative matters or procedures.

In contrast, *substantive justice* means that people are not only treated equally and justly according to rules and regulations (procedural justice) but that they also *actually* face ‘just’, ‘appropriate’ or ‘right’ consequences for their actions (or inactions) (either direct consequences in the form of rewards or punishment or indirect consequences in the form of positive or negative outcomes). Distributive justice is a *relational* or *proportional* concept; what is allocated or distributed is seen in relation to a particular point



of reference (where it comes from or the claim or reason put forward to justify the distribution). Referring to the Greek philosopher Aristotle (1997), one could say that only a distribution proportional to the point of reference is a just distribution. ‘Everyone shall get their fair share (in proportion to their contribution)’ epitomises this idea of proportional distribution. Only proportional distribution is equal, fair or just distribution (Vlastos 1962/1997, p. 121).

Distributive or substantive justice is especially relevant in respect to economic and social issues. Actually, the whole realm of business and economics – whether it is business organisations, markets or whole economies – is mainly about *distributive justice*, i.e. the right allocation, distribution and redistribution of resources, inputs and outputs as well as the efficiency and effectiveness of optimal and sub-optimal mechanisms of distribution. ‘Who gets what and why?’ and ‘who *should* get what and why?’ are the fundamental questions or problems of distributive justice (Arts & van der Veen 1992, p. 145), as well as the whole of economics. But the social realm is also about distributive justice, in particular about how societal institutions and resources should be (made) available to certain (groups of) people, how institutions, policies, and the structures and processes of social systems impact on people in different ways, and how people’s socio-cultural backgrounds, mindsets, preferences and expectations shape their subjective perceptions of justice (Scherer 1992, pp. 11–14).

Hence, ‘justice’ is a pluralistic concept – or a collection of different, and differing, concepts and understandings of what is, or is not, ‘justice’ and ‘just’. The following table lists the most common concepts and principles of justice.

Concept	Main proponents or sources	Justice in regard to	Principle
<i>Formal/procedural justice</i>			
Rule of law	The law, formal rules and regulations	Rights and duties formulated by the law, civil or criminal proceedings	Just is when everyone gets what they are entitled or obliged to by law or rulings.
Contractual rights and obligations	Ancient civilisations (such as Greek/Athenian and Roman law in a Western context)	Contractual agreements	Just is what is in compliance with freely agreed, legally binding contracts.
Justice in holdings	Nozick (1974)	Holdings of assets (ownership, in particular private property)	A holding of a material or immaterial asset is just if the asset was acquired (at that time) rightfully in legal terms.
<i>Distributive justice</i>			
Egalitarian distribution	Religious texts (e.g. early Christian thoughts), <i>Communist Manifesto</i> (Karl Marx & Friedrich Engels, 1848)	Distribution of income (especially profits, salaries and wages) and allocation of wealth (especially property, generally tangible, intangible and financial assets)	‘To each the same’; the distribution of income and wealth is just when everyone gets the same.

Social minimum	Rawls (1971)	Provision of economic and social goods	Each person should be provided with the minimum of necessary economic and social goods ('primary goods').
Needs	Louis Blanc (1851), Karl Marx (1875)	People's basic needs	A distribution of resources is just when everyone gets what they need.
Luck egalitarianism	Cohen (1989), Dworkin (2000)	Luck or bad luck	People should be compensated for undeserved bad luck.
Social justice	Various religious, cultural and socio-philosophical sources  Well-ordered society (Rawls 1971, Williamson 2009)	Availability of institutions and functions a society provides for the well-being and development of its citizens	People should be provided with the best possible conditions for their own development and should not be treated differently/discriminated against because they inherit different social positions or belong to different social categories (such as class, race, gender or age).
Reciprocity	Various religious, cultural and socio-philosophical sources	Related response to others' (good or bad) direct actions	Actions from others should be responded to in kind – or even (slightly) exceed the original action).
Capabilities	Sen (1980)	Capabilities of people	A distribution of resources is just when it equalises the basic capabilities of each person (to function).
Desert	Various ancient and medieval theories/schools of thoughts	Individual or collective actors' activity (e.g. attitude, behaviour, effort, work, performance, merits, and achievements) and related consequences (sanctions, rewards or punishment)	$X$ deserves $y$ in virtue of $z$ , whereby $x$ is an individual or collective actor; $y$ is any kind of positive or negative appropriate consequence of $z$ ; and $z$ is any kind of conscious and deliberate activity conducted by $x$ freely and voluntarily and $x$ is responsible for $z$ .
Utilitarianism	Jeremy Bentham (1789)	Utility, 'happiness'	Weak version: An action is just when it either increases the pleasure or reduces the pain more than another measure.  Strong version: An action is just when it maximises the happiness (i.e. increased pleasure, reduced pain) of everyone.
Pareto efficiency	Vilfredo Pareto (1906)	Allocation of resources	A current allocation of resources shall only be altered if, and only if at least one individual can be made better off without making anyone worse off.

Table 1: Concepts and principles of justice.

It would be neither possible nor recommendable to apodictically decide a single principle or concept of justice as *the* universal form of justice (Lucas 1980, p. 184) that is applicable everywhere and that should be applied everywhere and to every case. Instead, justice needs to be understood as a *context-dependent* and *issue-specific* phenomenon; which principle of justice should be applied depends on the particular situation, issue and case in question (Lucas 1980, pp. 13–14, 164–165, Deutsch 1985, p. 35, Cullen 1992, p. 39, Konow 2003, p. 1231). The basic idea is that that the principle and concept of justice should be applied in a particular case or to a particular issue that is the most appropriate one for the issue in question. For example, if it is about:

- Guaranteeing and protecting the fundamental rights of people (such as human, democratic or civil rights, rights of and to ownership, or citizenship rights) then principles of *procedural justice* should be applied because rights are guaranteed and protected through constitutional settings and their application, legal rules and regulations, formal mechanisms, and administrative policies and procedures.
- (Political) power, governance, government and management then principles of *procedural justice* should be applied because political power and governance must be legitimate, and must happen legitimately, as well as the principles of *egalitarian distribution* and *reciprocity* so that governance, government and management are as democratic and participative as possible (and that political power is balanced, confined and controlled as much as possible).
- Income and wealth, remuneration and profit-sharing, distribution and redistribution of income and wealth then the principle of *desert* should be applied because these economic aspects are about (individuals’) performance and it needs to be ensured that people own and earn what they deserve and deserve what they own and earn.
- Social issues and social welfare policies then principles of distributive justice such as *social minimum*, *needs*, *social justice* and *capabilities* should be applied because all members of a social system have the inalienable right of and to sufficient conditions of their life, (access to) adequate resources and institutions to conduct their lives and for their personal development.

The more that appropriate principles and concepts of justice are applied, the more just is a society.<sup>66</sup>

### **Sustainability: Balance, moderation, durability**

If a system or an entity is not a singular event but exists – or shall exist – over a (longer) period of time without declining or diminishing considerably then it needs to be *sustainable*. ‘Sustainability’ is a necessary condition of (lasting) systems or entities. This has come to the attention of the world since the United Nations’ so-called ‘Brundtland Commission’ revealed in its report from 1987 *Our Common Future* that planet earth and its ecosystems are in an increasingly precarious situation and in danger of severe damage, if not to be destruction, if unsustainable modes of human activities continued and no pro-environmental policies and actions were taken. In its report, the commission famously defined sustainable development as (ecological, economic and social) development that ‘meets the needs of the

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<sup>66</sup> Chapter ‘Pentoutopia: A just society’ in Part V, ‘A more equal, just and sustainable society’, will demonstrate how the various principles and concepts of justice are applied in Pentoutopia.

present without compromising the ability of future generations to meet their own needs' (World Commission on Environment and Development 1987, n.p.).

Although there might be an 'anthropocentric bias' in such an understanding (Purser et al. 1995, pp. 1067–1068), it highlights a very important fact; a system and its elements must show certain characteristics in their essence, design, functioning and operations so that they (can) last – whether for the sake of humans or for their own sake. Consequently, 'sustainability' might be understood and defined in a more general sense as a system's and its elements' capability and capacity to exist and to operate in a particular environment over a longer period of time without having their capability and capacity deteriorating irrecoverably and without destabilising the environment(s) they exist in irreversibly. According to such a definition or understanding, 'sustainability' has several implications. Sustainability:

- 1) Comprises the idea of 'balance' (also 'homeostasis', 'equilibrium', or 'harmony'). Balance, or to be in balance, means a situation where different things, or aspects of an entity, are evenly distributed, in a steady position or in right proportions to each other, where different forces equalise each other (Homeostasis 2016).
- 2) Implies 'moderation' (also 'golden mean'), i.e. to avoid extremes or excesses, in particular in one's feelings, tastes, manners, attitudes, behaviour or worldviews ('All things in moderation!'). The 'golden mean' (or 'golden middle path', 'striving for the middle way') means to choose the middle between two extremes (of excess and deficiency), to avoid extremes or excesses (Golden mean 2016).
- 3) Means 'durability' (or 'permanence', 'endurance'), i.e. that something lasts over a longer period of time in both a chronological and qualitative sense.

'Balance', 'moderation' and 'durability' have long been ideals as well as practical concepts in moral theory and ethics, sciences, physiology and psychology, sociology, economics, and even in political science. Such notions are not only relevant (and good) for the individual but also relevant (and good) for others and the whole (social) system. Although systems or entities might have innate characteristics and features of sustainability, the three main characteristics of sustainability – *balance*, *moderation* and *durability* – cannot be taken for granted but have to be achieved and maintained. There must be arrangements and features in place that allow for measurement and active regulation of variables so that systems or entities can remain (almost or relatively) constant, durable, balanced and moderate (Homeostasis 2016, Sustainability 2021).

The sustainability of a system and its operations can be seen, measured and regulated in respect to any issue and in any dimension. Traditionally, following the 'triple bottom line' concept (Elkington 1997, who might have coined the term and developed the concept), sustainability is seen especially in regard to the (natural) environment, economy and society ('people, planet, profit'), whereby (Sustainability 2021):

- *Environmental sustainability* is mainly concerned about the atmosphere, oceans, land, species and biodiversity, agriculture, food production and consumption, energy production and consumption, natural resources, materials and waste;
- *Economic sustainability* is largely about economic activities of individual and collective actors (production, exchange, consumption), technologies and technological developments, (quantitative) economic growth; and

- *Social sustainability* refers to population (change/growth), social norms and values, social structures and processes, social equalities, social justice, human and civil rights, personal well-being and development.

If a social system or entity is to last, it *must* be sustainable, i.e. it must exist and operate in a durable, balanced and moderate manner in respect to environmental, economic *and* social aspects and values (Purser et al. 1995, p. 1068, Smith 2003, pp. 3–5, Fisher 2013, p. 140, Rees 2014, pp. 92–95). And it is not only the social system as a whole that needs to be sustainable but also its institutions as well as the activities and processes within the social system. For a highly complex social system like a society, sustainability must be an issue in its formal/legal foundations (e.g. in its constitution, laws and regulations), in its economic sphere (organisations’ purposes, design, functioning and conduct of business, economic activities of actors and market participants, business models of industries, functioning of markets, macroeconomic aspects of the economy and of sustainable development), its political sphere (the governance of public affairs and matters of public concern, political activism and engagement of citizens), and the social sphere (e.g. (pro)social and pro-environmental orientation and behaviour, lifestyles, individual and societal development) (Bocken et al. 2014, p. 46, Wilkinson & Pickett 2014, pp. 74, 79).

### **Relevance of ‘the essential five’ for Pentoutopia**

Following ‘the essential five’, the main idea of Pentoutopia is for people to be as *free* as possible, with *fully democratic* institutions, the conditions for people as *equal* and as *just* as possible, and the whole system operating *sustainably*. The principles of freedom, democracy, equality, justice and sustainability are linked, necessitating and strengthening each other:<sup>67</sup> It starts with *freedom*, i.e. with free and autonomous individuals. In order that individuals are, and continue to be, as free as possible, one needs to have libertarian and *democratic* institutions, in particular democratic organisations, a democratic market economy and democratic governance. Only such legitimate institutions can grant and guarantee the freedom of people. And only they can guarantee the freedom of each and everyone. Hence, there must be *equality*, equal conditions respectively. Only when people enjoy relatively equal conditions can they be free and equal. Together, legitimate institutions and equal conditions provide and guarantee *justice*; in particular, formal, procedural and distributive justice. Combined, freedom, democracy, equality and justice make a social system *sustainable* in a way that is consistent with the fundamental principles, i.e. with existential individual freedom, institutionalised democracy and systemic equality.

Freedom, democracy, equality, justice and sustainability are the building blocks for a good society, a society where free individuals are equally enabled to live their lives and act within democratic institutions in sustainable ways. This is *Pentoutopia*. *Pentoutopia* is a society where:

1. Every single member enjoys the greatest possible range of negative and positive freedoms (*freedom*);

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<sup>67</sup> These principles are not completely consistent but are, or can be, partly inconsistent and can clash with each other. In a planned Volume 2 *Discussion* I would discuss the problem of consistency (or inconsistency) of axioms and first principles in general as well as of those five principles more specifically.

2. All organisations and institutions of governance are based on, designed, maintained and run according to democratic principles (*democracy*);
3. All members are equal in the sense that they have the same broad range of formal/legal, political, economic and social equalities (*equality*);
4. Every person possesses the same human, ownership and citizenship rights, governance and management happen in legitimate forms, and power, income and wealth are (re)distributed fairly (*justice*);
5. The social system as a whole, its institutions and operations, as well as the various spheres and activities of individual or collective members are durable, balanced and moderate (*sustainability*).

These founding principles of Pentoutopia are tackled and utilised in this book as follows:

1. *Freedom* is addressed directly in Part I, which is about ‘free individuals’ (and corresponding ‘legitimate institutions’) and then applied in Parts II to IV (largely in that the institutions of democratic organisations, a democratic market economy and civil governance are designed and function in as libertarian a manner as possible and ensure people’s freedom as much as possible).
2. *Democracy* is the main feature of Parts II–IV. It will be shown how *democratic organisations* are based on, and maintained by democratic governance and democratic management (Part II), how a *democratic market economy* is governed and regulated democratically via institutions and mechanisms of democratic self-regulation, co-regulation and government regulation (Part III), and how the public sphere/society in general is governed democratically in the form of *civil governance* and its institutions of self-governance, representative democracy, participatory governance and citizenship behaviour (Part IV).
3. *Equality* is addressed separately and specifically in Part V ‘A more equal, just and sustainable society’. The focus there is on economic and social equality since formal/legal equality is covered in Part I, ‘Free individuals and legitimate institutions’, and political equality in Part IV, ‘Civil democracy’.
4. In Part V it will be also shown that *justice* is a fundamental aspect of Pentoutopia. In a separate chapter it will be demonstrated that Pentoutopia’s constitutional and legal institutions guarantee formal (and substantive) justice (in the form of human, democratic and civil rights, ownership and citizenship rights) and that its institutions of governance and management – of organisations (Part II), the economy (Part III) and society (Part IV) – grant procedural (and substantive) justice. Moreover, Pentoutopia offers distributive justice, especially in respect to power, income, wealth and social welfare.
5. Part V also focuses on *sustainability*. A chapter will discuss how sustainability is a systemic feature of Pentoutopia as a whole as well as of its elements. Moreover, it will be demonstrated how free individuals and democratic organisations exist, and conduct their activities, in durable, balanced and moderate ways (Parts I and II), and how the economy and governance of Pentoutopia function sustainably (Parts III and IV).

## Outlook

The main idea of this book is to develop a general model and theory of the good society, of free individuals in democratic, equal, just and sustainable organisations, economy and society<sup>68</sup> – ‘Pentoutopia’, as I call it. Pentoutopia is the concept of a society with legitimate institutions, democratic organisations, a democratic market economy, and a vibrant and robust civil democracy where *all* people are as free as possible and enjoy the largest possible range of democratic, equal, just and sustainable conditions.

Actually, this work was conceptualised originally as *three* volumes:<sup>69</sup> Volume 1 – this present book – presenting the *concept* of Pentoutopia. Volume 2 comprising *discussion* of key issues,<sup>70</sup> and Volume 3 reasoning about how a good society can be achieved and maintained (*systems change*).<sup>71</sup> This first volume is structured as follows:

*Part I* is about *free individuals* and *legitimate institutions*. Any considerations about the good society must include reasoning (and caring) about people, about *individuals*. Part I, therefore, starts with creating some conceptual understanding of ‘the individual’ and interrogates the key characteristics not only of the individual in general, but of the *free* individual; what are its essence, personal and social status, identities, orientations, interests and behaviour? The concept of the free individual will be developed along three dimensions: 1) individual dimension (the individual as such), 2) social dimension (the individual among others), and 3) environmental dimension (the individual within environments). In respect to each of the three dimensions it will be looked at how the individual can be as free as possible in four categories (cognitive, moral, psychological and existential category).

The investigation then turns to *institutions* (e.g. norms, values, rules and regulations, but also organisations, structures and processes) because they provide the societal conditions for individuals and their existence. It is not about any type of institution but *legitimate* institutions, i.e. institutions that correspond with, and adhere to, the fundamental rights of individuals and the principled features of the good

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<sup>68</sup> Or, as I described this idea in the Preface: ‘This book ... outlines a society where every individual is as free as possible; where all organisations, the economy, and the governance of the public sphere are fully democratic; where everyone has equal rights, equal opportunities, equal conditions and factual possibilities; where justice prevails and everything is balanced and sustainable.’

<sup>69</sup> Volumes 2 and 3 are already structured and (almost) all material for both volumes has been collected and processed. However, I am not sure whether there will be sufficient time, capacity and energy left to complete both volumes.

<sup>70</sup> Volume 2 – *Discussion* – comprises some methodological and in-content considerations and discussions that are meant to further clarify, justify and strengthen key principles, concepts, models or theories that have been used or developed in Volume 1 to constitute Pentoutopia. The main parts of Volume 2 are: ‘Validity of first principles’ (relates to the introductory part of Volume 1), ‘The individual and the whole’ (relates to Part I of Volume 1), ‘Attractiveness and vulnerabilities of democratic organisations’ (relates to Part II of Volume 1), and ‘Problems of the governance of the economic and public sphere’ (relates to Parts III and IV of Volume 1). I might develop another chapter that would relate to Part V of Volume 1.

<sup>71</sup> Volume 3 – *Systems Change* – comprises two large parts: ‘The inertia of stratified and hierarchical social systems’ and ‘How can a good society be achieved and maintained in democratic ways?’ The latter has eight sections: 1. ‘Realising democratic systems change in specific historical situations’, 2. ‘Non-conformist ways of changing things’, 3. ‘Starting and running democratic organisations’, 4. ‘March through the institutions’, 5. ‘The government/the state helps’, 6. ‘Who will do it? Various groups of people can do different things’, 7. ‘Why people do it/why people start or join democratic organisations’, and 8. ‘Getting people to do it’.

society. For this, the types and criteria of legitimacy will be identified that institutions have to meet (that is, formal, procedural, substantive, perceived and rational legitimacy) so that they are legitimate institutions.

Finally, Part I sheds some light on *the relationship between free individuals and legitimate institutions*. For this, I have developed the principle and concept of *subsidiarial authority*. Subsidiarial authority (from 'subsidiarity') means that governance happens at the lowest possible level and that, therefore, people are empowered and enabled by institutions to democratically govern and to manage those parts of their work, life, public and social spheres that are relevant for them. This specific 'people and institutions' relationship is also fundamental for the various spheres of the good society that will be covered in the following parts of the book.

*Part II* then covers *organisations* as the basic and most common type of formally institutionalised social systems. It develops the concept of the *democratic organisation*. First it will be argued that there is already quite a number of alternative types of organisations, i.e. organisations that are fundamentally different from, and much better than, the prevailing type of orthodox, hierarchical organisation – such as associations, cooperatives, partnerships, worker-owned companies/collectivist organisations or Social and Solidarity Economy (SSE) organisations. All these types can be subsumed under 'democratic organisation' and it will be shown which key features these democratic organisations have in common. The concept of the *democratic organisation* will be developed especially in respect to its organisational principles, governance and management, the way(s) it operates, functions and conducts its business. The concept comprises the following elements:

- 1) *A libertarian constitution* (the constitutional and legal foundations of the democratic organisation) that reflects the free will of free individuals, appreciates everyone's self-ownership and inalienable rights, and grants everyone partner status and related ownership and property rights in a binding partnership agreement.
- 2) *Democratic governance* represented and put into practice by democratic institutions of governance (in the form of organisational institutions of governance, separation of powers and 'checks and balances', the principle and notion of subsidiarity), legitimate authoritative sources, democratic governing (democratic decision-making, transparency and transparent decision-making, multidimensional, top-down and bottom-up accountability), and 'good governance'.
- 3) *Democratic management* in the form of *self-management* via collective structures of authority, *representative management* via individual positions or organisational institutions, and *participative management* that enables all members to make individual and collective decisions and that gives them full control over the democratic organisation and its operations.
- 4) *Equal(ising) empowerment* represented and utilised in the form of a *three-dimensional concept of empowerment and disempowerment* that ensures the formal, psychological and social empowerment of the disempowered many and disempowerment of the empowered few.
- 5) *Considerate conduct of business* that is based on the '*people, planet, profit*' concept. It will be shown that the way(s) they function, conduct economic activities and operate within market environments, democratic organisations demonstrate: a) (*pro*)*social orientation and behaviour* (collaborative minds and cooperative behaviour, community orientation and local embeddedness, decent business practices, responsible and ethical behaviour); b) *pro-environmental orientation and behaviour*



(owner-managers' awareness and valuing of nature, localism and local people's (pro-)environmental orientation, environmentally friendly goals and actions); and c) *balanced and sustainable economic and other performance(s)* (better economic performance understood in a broad sense).

Finally, Part II is wrapped up by summarising the general model of the democratic organisation and demonstrating that democratic organisations *are* better, *do* better and *perform* better.

*Part III* is about Pentoutopia's economy. A concept of the *democratic market economy* will be developed that mainly means free, largely non-competitive and democratically regulated markets. The main features of the concept are:

- *Foundations of the free market*: The free market is defined as an institutionalised market, i.e. a market that is based on, and governed by, social norms and rules, legal rights and obligations that are equally relevant for all market participants and that constitute the various market mechanisms.
- *Legitimate and illegitimate participants in the free market*: At the hand of various types of legitimacy the legitimacy of market participants in a democratic market economy is determined; legitimate market participants are alternative and democratic organisations and autonomous/self-employed individuals (whereas radical and profit-maximising organisations are deemed illegitimate).
- *The workings of the democratic market economy*: It will be interrogated how legitimate market participants act and interact with regard to/in the marketplace; individual market participants' economic behaviour, cooperative actions and interactions between market participants, their multidimensional, cooperative and sustainable business models ('the way they do business'), how they show corresponding market-related behaviour, how individual industries and the whole economy are transformed from economic growth to socio-environmental-economic development.
- *Regulation of markets and market participants*: Various market failures and market participants' market-related misbehaviour will be identified (externalisation of internal costs, abuse of market power, and dodgy business practices, products or services) that provide arguments for *market regulation*. The case will be made for governance and regulation of markets in the form of *self-regulation*, *co-regulation* and *government regulation*. Such forms of non-governmental and governmental democratic governance and regulation of markets, market participants and market-oriented behaviour will be described in detail.

A final chapter then presents the democratic market economy in overview, in particular its key features and main advantages, compares the democratic market economy with the neo-liberal market economy, and shows why (and how) the democratic market economy works (so well).

*Part IV* addresses the governance of society in the form of *civil democracy*. Civil democracy means the governance of the public sphere, public affairs or matters of public concern in the most democratic, participative, collaborative and inclusive ways possible. Civil democracy comprises *democratic self-governance*, *representative democracy*, *participatory governance* and *citizenship behaviour*.

*Democratic self-governance* comes first; citizens shall be empowered and enabled as much and as far as possible to govern and to shape the conditions of their lives democratically. Such self-governance of local public spheres can happen via the notions of localism, self-created spaces, self-organised representative bodies (such as associations) or self-organised assemblies. Some forms of self-governance in and of virtual public spheres are also identified (e.g. certain aspects of social media and online activism).

*Representative democracy* concerns the common institutions of government. It will be discussed how government per se can be justified and that only democracy, *fully* representative, parliamentary democracy, can be justified as *the only* legitimate form of government. The main institutions of democratic government – i.e. a democratic electoral system and free and fair elections, democratic political parties, parliament and a democratic government – will be looked at in more detail. The focus here is on configuring and maintaining these institutions so that they are as democratic as possible. For this, the concept of *the chain of delegation, representation and accountability* will be introduced that shapes and links these institutions of governance in the most democratic ways.

Democratic self-governance and representative democracy are complemented by *participatory governance*. The idea of participatory governance and how it is realised will be described. It will be argued that participatory governance happens largely via citizen participation and direct collaboration between citizens and public administration.

Democratic self-governance, representative democracy and participatory governance first and foremost mean institutions, institutionalised principles and policies, rules and regulations, mechanisms and procedures of governance. But these institutions are maintained, and governance is conducted, by *people*. In this sense, another chapter looks at *citizens* and (their) *citizenship behaviour*, i.e. how people actually govern society or parts of it. The status, identity and behaviour of ‘the citizen’ will be clarified and types and forms of (proto-political, basic political, advanced and radical) citizenship behaviour will be identified and described systematically and in detail.

The whole concept and workings of civil democracy, interlocking concepts of democratic governance of society respectively, and the strengths and advantages of civil democracy are summarised in the closing chapter of Part IV.

*Part V* then is about *equality, justice and sustainability – a more equal, just and sustainable society*, to be precise. In particular, the case will be made for a *more* equal (not *an* equal) society, for guaranteeing people certain fundamental equalities and aiming at reducing certain fundamental inequalities. In particular, it is about *economic and social inequalities* and which economic (monetary and fiscal) and social policies can contribute to achieve a more equal society.

First it is about *increasing economic equality by reducing economic inequalities*. For this, key issues (income, wealth, economic differences and economic inequality) will be defined and the main forms and sources of income and wealth identified and described (a) salary from work/employment, b) profits from business activities, c) capital gains from financial investments, d) inheritance, e) wealth creation, acquisition and/or accumulation). It then will be interrogated how economic inequalities in income and wealth can be reduced via taxes or other fiscal and financial policies. Various measures of equality-enhancing taxation and redistribution of income and wealth will be described in detail: *taxation* of income and wealth through a) income tax, b) corporate tax, c) capital gains tax, d) inheritance tax and e) wealth tax, as well as *redistribution of income* via social welfare policies and redistribution of *wealth* through widespread private ownership.

In respect to *increasing social equality by reducing social inequalities*, a concept of social inequality will be developed that distinguishes between social differences and social inequalities and offers arguments why social inequalities should be reduced as much and as far as possible. It will be shown how social inequalities can be tackled at the individual level via welfare-enhancing accommodation of

individuals' basic needs, equal opportunities and capabilities, and non-monetary social welfare policies instrumental for individuals, and how systemic social inequalities can be minimised via socio-cultural institutions and availability of resources.

The next chapter demonstrates how Pentoutopia achieves *economic* and *social equalities* at a scale no other legitimate social system has ever achieved, or can achieve and provide. The individual features through which Pentoutopia reduces economic and social inequalities (systems-constituting legitimate institutions, democratic organisations, democratic market economy, civil democracy, fiscal and social welfare policies) as well as their dynamic interactions will be presented in an organised form.

The following chapter shows how Pentoutopia is, or can be, a *just* society. The chapter illustrates how key concepts of justice can be applied and realised. In Pentoutopia, *formal justice* is guaranteed via the universal provision of human rights, ownership and citizenship, and *procedural justice* is not only ensured in the legal system but through, and throughout, all institutions of governance and management – be it in organisations, the economy, government or society. Finally, it will be shown how *distributive justice* is achieved in form of equal power/equalising empowerment, fair remuneration and profit-sharing, distribution and redistribution of income and wealth and comprehensive social welfare policies.

The concluding chapter of Part V focuses on the fifth of the essential principles, *sustainability*. It will represent sustainability as a multi-faceted concept and will show how Pentoutopia and its various institutions and spheres is a sustainable, self-regulating and self-stabilising, moderate and balanced social system and society.

The final part – ‘Summary and conclusions’ – provides a brief overview and some analysis of the model of the good society Pentoutopia. A first section presents the key parts of the model society of Pentoutopia – 1) free individuals and legitimate institutions, 2) democratic organisations, 3) a democratic market economy, 4) civil democracy, and 5) a more equal, just and sustainable society) – and the main principles and concepts, theories and models Pentoutopia is based on.<sup>72</sup>

The following two sections highlight some of the systemic problems Pentoutopia has and doesn't solve and argue that Pentoutopia is not ‘perfect’ (and, thankfully, does not try or pretend to be perfect), but a ‘moderate’ and ‘realistic’ utopia that works (very well) – and that Pentoutopia is a good society, better than any other society we know of, *much* better.

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<sup>72</sup> In addition, all principles, definitions and concepts (altogether 220) are listed in Appendix 1.

## Part I: Free individuals and legitimate institutions

### People and institutions

In the introductory part it has been established that every social system (e.g. dyads, groups, organisations, networks, nation-states, societies, humanity) consists of *people* and *institutions*.<sup>73</sup> All social sciences – and all social systems – are about *people* (i.e. individuals, or aggregates of individuals, and their existence, reasoning, beliefs, emotions, identities, personalities, attitudes, actions and behaviour) and *institutions* (i.e. principles and policies, norms and values, rules and regulations, organisations, structures and processes). The ‘people and institutions’ theme constitutes humanity – everything else is details.

From a logical point of view, first there need to be people because institutions are either established by people or emerge as a (direct or indirect) consequence of human conduct. However, from a chronological and factual point of view, institutions usually come first; people are born into, or join, grow up and live within already existing institutions. People and institutions mutually necessitate, influence and maintain each other. Institutions shape people shaping institutions. It is people (‘individuals’) *and* institutions (‘the whole’). Hence, from a methodological point of view both are equally relevant for conceptualising, interrogating and managing the world of humans. Consequently, social systems and social phenomena can, and should, be seen, constructed and analysed from *individual and holistic* perspective(s) in the sense of methodological individualism *and* methodological holism.<sup>74</sup>

When it is about people it is actually about *individuals*. It is about *the* individual and its relations to itself, to others, to things, to institutions and to the whole, i.e. there are individual, social and environmental dimensions that are relevant for the individual. Moreover, and crucially, it is about *free* individuals, i.e. that individuals, each and every one, *can* be, and *should* be, *as free as possible* – everywhere in the world. Equally, when it is about institutions one needs to consider that it does not take just any kind of institutions to establish a good society, but institutions that are *legitimate* and that are, therefore, compatible with, and supportive to, free individuals. ‘Free individuals’ and ‘legitimate institutions’ fit with each other, they actively interact, strengthen and support each other – and together build the good society. In this sense, (establishing and maintaining) a good society means not only ‘people and institutions’ but ‘free individuals and legitimate institutions’. The chapters of this Part I develop this concept step by step.

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<sup>73</sup> See section ‘‘The essential five’ constituting and defining Pentoutopia’ in the introductory part, ‘Status quo and (the search for) a better society’.

<sup>74</sup> This problem of what comes first (the element/individual, i.e. methodological individualism, or the whole, i.e. methodological holism), or what *should* come first (*normative* individualism or *normative* collectivism, holism or institutionalism), will be discussed more thoroughly in a planned Volume 2, *Discussion*.

## Individuals – free individuals

In respect to social systems as ‘people and institutions’ it first shall be looked at people – individuals or ‘the’ individual. This chapter examines how people can be seen and understood as individuals. In particular, the individual will be established as a *free* individual and it will be shown how individuals can be as free as possible. For this, a first section discusses what constitutes the individual conceptually, which dimensions and categories the free individual comprises. The following section then concentrates on the individual *as such*. It will analyse which criteria and aspects make an individual free in the *individual dimension*. The next section then focuses on the *social dimension* and interrogates how the individual can be as free as possible *among others*, i.e. in a social context, followed by a section that looks at the *environmental dimension* and how the free individual *relates to the natural environment*. The concluding section then represents and analyses the whole concept of *the free individual*.

### Dimensions and categories of the free individual

Regarding the constitution of a good (or better) society, I claimed earlier that ‘Each and every individual is, and should be, *as free as possible*. Every single member of a social system *must* be as free as possible so that it can live according to its individuality that defines and characterises it and can use, and develop, its capabilities and potential.’<sup>75</sup> *Freedom for everyone as much as possible!* – this statement probably describes best not only the fundamental and necessary conditions for an individual to be *human* but for every social system – be it a dyad, a group, an organisation, a society, nation-state or humankind – to be *humane*. The individual can – ought to – be free in three respects or dimensions:

1. *Individual dimension*: The individual should be as free as possible *as such*. The individual dimension is about an individual’s cognitive and intellectual capabilities to reason on its own, its morality and competences to identify and distinguish between right and wrong, its developed personal identity and confidence about itself, and its abilities to be an autonomous individual that lives its life according to its own will and imagination.
2. *Social dimension*: The individual should be as free as possible *among others*. The social dimension is about an individual’s social competences to communicate and to interact with others, its social, even prosocial orientation towards others, its robust and advanced social identity of a confident member of social systems, and its mastery to govern and to manage social interactions, social relationships and social systems.
3. *Environmental dimension*: The individual should be also as free as possible *within the environment*. The environmental dimension is about humans’ (problematic) relationship with the natural environment, their reflective views of humans and human activity as part of the natural environment, their

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<sup>75</sup> Section ‘‘The essential five’ constituting and defining Pentoutopia’ in introductory part, ‘Status quo and (the search for) a better society’.

possible pro-environmental orientation and behaviour, and their competences, skills and expertise to actually manage and maintain, use and develop the environment in balanced and sustainable ways.

Thus, in order to be a *free* individual, an individual should be free *as such* (individual dimension), *among others* (social dimension), and *within the environment* (environmental dimension). In each of these three dimensions, the individual needs to be free in various respects:

- a) It must be free in a *cognitive* sense, i.e. it needs to have the mental or intellectual competences to reason on its own, an independent intellect, social and environmental competences and knowledge to make sense of things in rational ways (*cognitive category*).
- b) An individual must have *moral* competences, i.e. high levels of comprehensive moral development, an enlightened morality, prosocial and pro-environmental orientations that enable the individual to assess and to judge things, to know about right and wrong (*moral category*).
- c) An individual needs to be *psychologically* free, i.e. it should have robust and developed identities and emotions about itself (developed personal identity), in the social realm (advanced social identity) and regarding its relationship with nature (environmental anthropocentrism) (*psychological category*).
- d) The individual ought to be free in an *existential* sense, i.e. it must be able to master its existence, its being and doing as such (self-mastery), in a social context / among others (social mastery), and in regard to nature (environmental mastery) (*existential category*).

These four categories cover all that defines the individual spiritually. Consequently, in order to be a fully free individual, an individual needs to be free in all four categories (cognitive, moral, psychological and existential) in regard to each of the three dimensions (individual, social and environmental). The following three sections will demonstrate this in detail.

### **Individual dimension: The individual as such**

#### **i) Intellectual sovereignty**

Humans are called *homo sapiens* – with the Latin word *sapientia* meaning ‘reasoning’, ‘judgement’, even ‘wisdom’. If one looks at the history of humankind and the state of our world one might be forgiven for doubting that we are really that wise – or wise at all. Nonetheless, it is indeed our (potential) capabilities to *reason* that define us as a species as well as individuals and set us apart – and (can) set us free. Humans are capable – even compelled – to *think*, i.e. to create images and ideas, to generate and/or to gather, to analyse and to utilise data, information and knowledge, to interrogate and to learn, to develop and to apply abstract concepts (theories, models), to formulate and to solve problems, to create and to implement solutions (Human intelligence 2018). And humans *must* do so because – unlike other animals – nature has not equipped humans with sufficient instincts, routine skills and genetically determined behaviour that would make thinking and applying creative solutions obsolete.

Individuals as such are not only defined by their abilities to think – but to think *on their own*. The German philosopher Immanuel Kant’s battle cry of and for the (European) Age of Enlightenment – ‘*Sapere aude!*’ (‘Dare to know!’ or ‘Think on your own!’) – encapsulates this notion vividly. In his famous essay ‘An answer to the question: What is enlightenment?’ from 1784, Kant defined

‘enlightenment’ as people’s emergence from their self-incurred immaturity. In this sense, enlightenment means *the sovereignty of independent reason and people who (dare to) think on their own*.<sup>76</sup> This is what actually defines humans. One might call it the principle of *intellectual sovereignty*; it connotes that every individual is able – *and entitled* – to reason independently according to its own capabilities, convictions and wishes without guidance or interference from external authorities,<sup>77</sup> that every individual has the cognitive and intellectual capabilities – or can develop such capabilities – to reason on its own, to formulate its own will as *it* deems right and appropriate, and to employ and rely on one’s own intellectual capacities in determining true and false, right and wrong, what to believe (and what *not* to believe) and what to do (and what *not* to do (Graham 1986, p. 33, Bristow 2017, no page numbers). Consequently, humans are – and ought to be seen as – *intellectually* free individuals.

## ii) Enlightened morality

Moreover, reasoning does not only comprise thinking about what *is*, or is not, but also what *ought to be*, or not to be, the case. Reasoning means thinking about facts *and* values, i.e. reasoning also comprises (thinking about) morality in the sense of what is right and what is wrong. Hence, a second characteristic of the free individual is that it does not simply and naively believe in any kind of *given* rights and wrongs (simple morality), but that it has an *enlightened morality*; the free individual is able – and entitled – to develop a comprehensive and differentiated understanding of what is right and wrong, to see and to analyse on which claims such judgements are based (such as ethical concepts, institutions of faith or political ideologies), to critically interrogate such claims, to choose between different specific claims as well as between general concepts of right and wrong, to decide freely for principles of right and wrong that are based on universal truths, and to judge any issues of concern on the basis of, and against universal, and universally justifiable, norms and values of right and wrong *on its own* and as *it* deems right and appropriate.<sup>78</sup>

## iii) Self-mastery

Intellectual sovereignty and enlightened morality enable the free individual *to be its own master*. This is the notion of ‘self-mastery’.<sup>79</sup> Self-mastery means that the free individual is an *autonomous* individual

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<sup>76</sup> Another fundamental notion or principle of the Enlightenment – *critical inquiry and critique* of everything and everyone – will be addressed further down in sub-section ‘Rational legitimacy’.

<sup>77</sup> Nonetheless, one should not confuse such independent reasoning with subjective or even opinionated reasoning. For example, for reasoning independently, individuals need (to attempt to gain and to use) *certain, universally true* knowledge as well as to apply ways and methods of reasoning that increase the likelihood that knowledge or claims are valid, can be falsified or verified/validated respectively.

<sup>78</sup> This would correspond with the highest level of moral development in Kohlberg’s ‘stages of moral development’ (Kohlberg 1973, 1976, Kohlberg & Hersh 1977, Kohlberg & Wasserman 1980), i.e. stage 5 and 6 at the post-conventional level of moral development (see sub-section ‘Politically free – but individually and socially unfree’ in introductory part, ‘Status quo and (the search for) a better society’).

<sup>79</sup> Berlin (1969/2006, p. 380) declared: ‘Freedom is self-mastery, the elimination of obstacles to my will, whatever these obstacles may be – the resistance of nature, of my ungoverned passions, of irrational institutions, of the opposing wills or behaviour of others.’

(Berlin 1969/2006, Feinberg 1980, Raz 1986/2009, Sartre 2011). An autonomous person governs itself and is not subjected to the will of another person (Raz 1986/2009, p. 155, Schweickart 1993, p. 180).<sup>80</sup> Feinberg (1980, p. 21) described autonomy succinctly as the idea ‘I am autonomous if I rule me, and no one else rules I.’ The free and autonomous individual has not only the necessary *capabilities* but the *rights* to govern itself.<sup>81</sup> In this sense, self-mastery means that the free and autonomous individual is entirely able – *and entitled* – to formulate its own will, to pursue its own interests, to make decisions, to act, to be, and to live its life as *it* deems right and appropriate.<sup>82</sup> As a consequence, the free and autonomous individual neither has, nor needs, any masters or leaders, orders or guidance.<sup>83</sup> Free and autonomous individuals or social systems make their own decisions and conduct their lives as *they* see fit, i.e. without interference, guidance or order from authorities that are outside/above them.

#### iv) Developed personal identity

Finally, how people are – and how they are treated – shapes their *identity*, i.e. how they see themselves (and how they are seen by others).<sup>84</sup> When it is about the individual *as such*, it is still not about social aspects that may or may not shape, if not determine people’s identity (*social* identity). But even

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<sup>80</sup> The French philosopher Jean-Paul Sartre (1905–1980) even proclaimed autonomy or self-mastery as the first principle of existentialism (Sartre 2011, p. 30) and argued that humans *are condemned* to be free. As he (Sartre 2011, pp. 37–38) explained: ‘For if indeed existence precedes essence, one will never be able to explain one’s action by reference to a given and specific human nature; in other words, there is no determinism – man is free, man is freedom. Nor, on the other hand, if God does not exist, are we provided with any values or commands that could legitimise our behaviour. Thus we have neither behind us, nor before us in a luminous realm of values, any means of justification or excuse. We are left alone, without excuse. That is what I mean when I say that man is condemned to be free. Condemned, because he did not create himself, yet is nevertheless at liberty, and from the moment that he is thrown into this world he is responsible for everything he does.’

<sup>81</sup> See the chapter below ‘Fitting free individuals and legitimate institutions’, in particular sections ‘People and their fundamental rights: *Human rights*’, ‘Free individuals and the institution of ownership’ and ‘The principle of subsidiarity: Subsidiarial authority’.

<sup>82</sup> In all cultures and societies, the right to govern oneself, the autonomy and free will of individuals, can be limited in principle, temporarily or permanently for good reasons. For instance, by law, cultural traditions, or by legal ruling, infants and minors (children and adolescents); temporarily intoxicated, distressed or otherwise incapacitated people (for example, through accident, drugs, psychological reasons such as distress or submissive dependency); or people with diminished cognitive capacities because of underlying medical conditions or severe illness (mental disorders or cognitive inabilities) can be limited in their autonomy, legal status and ability to make (legally binding) decisions, i.e. in expressing their free will. But the argument developed here is about individuals in a general sense and therefore it is not necessary to consider such exemptions every time it is about people’s general freedom or free will.

<sup>83</sup> The notion of ‘no masters’ (or ‘no gods, no kings, no masters’) goes back to the anarchists, in particular to Proudhon, who described this amazing and powerful idea in his *Idée generale de la revolution au XXe siècle* from 1851 (quoted in Guérin 1980/2005, p. 88) and explained: ‘I too want order, every bit as much as, and more than, those who breach it with their alleged government: but I want it to be a product of *my* will, a condition of *my* labor and a testimonial to *my* reason. I will never tolerate its coming from someone else’s will, foisted upon me with servitude and sacrifice as its preconditions.’

<sup>84</sup> And vice versa, i.e. a person’s (formal, personal and/or social) identity influences to a great extent how that person is treated, which status, positions, opportunities it is given, what it can do and how it can develop. But this is a different issue and is not addressed here (but in Part V, ‘A more equal, just and sustainable society’).



individual-specific features configure a person's identity (*personal identity*) to a great extent. More specifically, an individual's *intellectual sovereignty*, *enlightened morality* and *self-mastery* will provide an individual with the self-concept or personal identity of the free individual – with a *developed* personal identity. A *developed personal identity* means that an individual feels confident about itself (high self-esteem and self-efficacy), is comfortable with its personality traits (psychological well-being), and is as free as possible from mental restraints (mental health<sup>85</sup>).

A developed personal identity is a highly *personal* one. The German social psychologist Erich Fromm (1908–1980) argued that ‘the sense of self stems from the experience of myself as the subject of *my* experiences, *my* thought, *my* feeling, *my* decision, *my* judgment, *my* action. It presupposes that my experience is my own, and not an alienated one’ (Fromm 1956/1971, p. 143). And he explained further (p. 275) that ‘the mentally healthy person is the productive and unalienated person; the person who relates himself to the world lovingly, and who uses his reason to grasp reality objectively; who experiences himself as a unique individual entity, and at the same time feels one with his fellow man; who is not subject to irrational authority, and accepts willingly the rational authority of conscience and reason’. The Russian philosopher Isaiah Berlin eloquently wrapped up the idea of the free individual with a developed personal identity (quoted in Carter et al. 2007, p. 44):

The ‘positive’ sense of the word ‘liberty’ derives from the wish on the part of the individual to be his own master. I wish my life and decisions to depend on myself, not on external forces of whatever kind. I wish to be the instrument of my own, not of other men's, acts of will. I wish to be a subject, not an object; to be loved by reasons, by conscious purposes, which are my own, not by causes which affect me, as it were, from outside. I wish to be somebody, not nobody; a doer – deciding, not being decided for, self-directed and not acted upon external nature or by other men as if I were a thing, or an animal, or a slave incapable of playing a human role, that is, of conceiving goals and policies of my own and realising them. ... I wish, above all, to be conscious of myself as a thinking, willing, active being, bearing responsibility for my choices and able to explain them by reference to my own ideas and purposes.

To sum it up: In respect to the free individual *as such*, one can confidently say that the free individual is a highly and truly *autonomous* individual. It neither has, nor does it need, any masters or leaders, orders or guidance. The free individual is entirely able, and entitled, to:

- a) Think on its own (*Sapere aude!*), i.e. to reason independently on its own and to formulate its own will without the guidance or interference from external authorities according to its own capabilities, convictions and wishes (*intellectual sovereignty*);
- b) Judge any issues of concern on the basis of, and against universal, and universally justifiable, norms and values of right and wrong as *it* deems right and appropriate (*enlightened morality*);

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<sup>85</sup> ‘Mental health’ is not just about (the absence of) ‘mental illnesses’ but a rather *positive* concept that means or comprises, among other things, (perceived) autonomy, psychological and emotional competences (to cope with daily life, work and society), subjective well-being and/or self-actualisation of one's intellectual and emotional potential (Mental health 2018).

- c) Formulate its own will, to pursue its own interests, to make decisions, to act, to be, and to live its life as *it* deems right and appropriate (*self-mastery*); and
- d) Feel confident about itself (high self-esteem and self-efficacy), to be comfortable with its personality traits (psychological well-being), and to be as free as possible from mental restraints (mental health) (*developed personal identity*).

### **Social dimension: The individual among others**

‘Free and autonomous’ does not mean ‘isolated’. Usually, humans live among other humans, i.e. there is a *social* dimension of and to individuals – which means that the self evolves also out of relationships and interactions with others (Benello 1971, p. 39, Ostrom 1971/1987, p. 41, Walzer 1992, p. 97, Hogg et al. 1995, p. 255, Eberly 2000, p. 15). Thus, this section looks at how individuals can be free ‘among others’, i.e. in a social context.

#### i) Social competences

For being among others – and for interacting with others – people need *social competences* (or ‘social skills and competences’). Social competences enable people to communicate and to interact with other people, to initiate and maintain social relationships, to act in social situations and in the social sphere, as well as to make sense of anything social and to cope with it adequately (Monnier 2015, pp. 62, 67, 71). Basically, social competences can be differentiated into *cognitive*, *emotional* and *cultural* competences or intelligence. *Cognitive* intelligence means having the knowledge and skills to communicate and express oneself, and to think, act and interact rationally and purposefully in a social context (i.e. concepts and methods of reasoning, language, conversation, argumentation). In contrast, *emotional* intelligence is the ability to understand *people*, to show sensitivity to, and consideration for, the subjective views and feelings of others, to recognise emotions in oneself (self-awareness) and others, and to feel with and for others (empathy) (Goleman 1995, Berman & West 2008, pp. 742–743, Ybarra et al. 2014, p. 93, Monnier 2015, pp. 64–65). And *cultural* intelligence means the ability to understand and engage with people from different socio-cultural backgrounds, to realise culture-based values and attitudes, and to cope with social situations of cultural diversity, culturally diverse settings respectively (Solomon & Steyn 2017, pp. 69-72).

Obviously, how much cognitive, emotional and cultural intelligence someone has at their disposal depends on various factors, such as their disposition, personality, mental state and capacities, upbringing, education, personal experiences, social status and position, practice, career, values and convictions as well as the larger historical and socio-cultural context. Everyone must have at least *some* basic cognitive intelligence. But many people, even highly educated and/or successful ones, have only little emotional and/or cultural intelligence. The *less* someone has of any of these social competences, the more limited (usually also conservative, insecure, ignorant, and intolerant) they are among and towards others and in their behaviour in the social sphere. The *more* cognitive, emotional, and cultural intelligence someone has, the more competent, confident and freer they are. The free individual may have average to advanced cognitive intelligence, but relatively comprehensive and enhanced emotional and cultural intelligence because of its intellectual sovereignty and developed personal identity (see section above). With its

elaborated cognitive, emotional and cultural intelligence, the free individual can understand and interact with others appropriately and effectively. Psychologically, cognitively and morally developed individuals are aware of the social dimensions and implications of their reasoning and acting, i.e. that their thoughts, behaviour and actions are influenced by, and impact on others. They are more concerned about how they are seen and treated by others as well as how they see and treat others – and they would behave and act accordingly, i.e. in relatively considerate and moderate ways.

## ii) Social mastery

Enhanced *social competences* suggest enhanced *social mastery*. Social mastery means that an individual is not only willing and able to engage with others but to *govern* and to *manage* social interactions, social relationships, organisations, institutions, public and social life according to the fundamental principles of free individuals and democratic standards. Social mastery connotes that free individuals (can) govern themselves, their own affairs as well as the conditions of their existence in accordance with their own being, i.e. they use the whole range of self-governance and self-management, participative governance and management, representative governance and management as well as citizenship behaviour. They:

- Manage organisations, i.e. conduct the whole range of management functions (planning, organising, leading, and controlling) and make decisions in accordance with democratic principles and standards (*self-management*) and are actively involved in the governance and maintenance of their immediate (local and virtual) public spheres (neighbourhoods, communities) (*self-governance*);
- Participate in the management of organisations and organisational affairs (*participative management*) and participate in public authorities' decision-making processes, in particular in the formulation and implementation of policies or measures targeting matters of public concern (*participatory governance*);
- Establish and maintain democratic organisational institutions and management positions (boards, committees, councils, assemblies or individual management positions) that manage organisations and organisational affairs (*representative management*) and establish and maintain legitimate institutions of governance that govern social systems democratically on their behalf and for them (*representative democracy*);
- Display *citizenship behaviour* in the public sphere/in public in the form of demonstrating prosocial behaviour in non-political ways, performing officially permitted and accepted forms of political activities, showing self-determined, democratically legitimate political activism and protest behaviour and/or attempting to achieve fundamental systems change by lawful or even unlawful means.

Free individuals are in charge of conducting their lives among and with others, of managing institutions and organisations they are part of (via democratic self-management, participative management and representative management), and of governing social systems and common affairs (via democratic self-governance, participatory governance and representative democracy). In the social context, the individual is not only free because of its own social competences but also because of its social mastery.

### iii) Social identity

Moreover, in a social context people identify themselves – and are identified by others – via their social roles, functions and activities (Ashforth & Mael 1989, Hogg et al. 1995, p. 256), i.e. people's *social competences* and *social mastery* greatly form their *social identity*. Social identity can be defined as an individual's sense of self based on their belonging to (a) certain group(s) and social system(s), the status, position(s) and role(s) they hold within these groups and social systems, and the significance that is ascribed to these features (Tajfel 1978, p. 63, Tajfel & Turner 1979, Ashforth & Mael 1989, Gabriel 1999, Elstak & Van Riel 2005, Musson & Duberley 2007, Benkler 2012, p. 313, Diefenbach 2013, pp. 43–44). Social identity is an individual's self-concept within a social context.

Free individuals have an *advanced*, comprehensively developed, differentiated and robust social identity. They feel comfortable with their social statuses and positions, the roles and functions they perform and the life they live as members of various social systems because they *chose* to be and live like that and they are the masters of their own destiny. Usually, they have relatively high self-esteem and self-efficacy. The advanced social identity of the free individual is *to stand tall*: Evolution has provided humans with a large brain so that they can think on their own and with a spine so that they can walk upright and stand tall – and are not on their knees and do not bow in front of someone, *anyone*. To bow or to go down onto your knees in front of someone is not about showing respect or appreciation. In order to show someone respect or appreciate someone you need *words*, you need to say and explain why and how you respect or appreciate them. To bow or to go down onto your knees is simply a gesture of obedience, subordination, even surrender. All that you do in that moment is to make yourself small, vulnerable – and the other dominant and superior, i.e. you (re-)establish and (re-)confirm a superior–subordinate relationship. *Free individuals do not bow or go down onto their knees* – and we must not have, and do not need, any social systems, cultures or societies that expect, even force, people to make themselves small and vulnerable. Free individuals are *not* small and vulnerable – and they *do not make* themselves small and vulnerable. Ever.

### iv) Prosocial orientation

Because of its advanced and broadly developed social identity the free individual also behaves differently in a social context. It neither is, nor needs to be, an asocial or anti-social egoist and profit-maximiser, or a spineless and obedient opportunist. Instead, the free individual has a social, even *prosocial orientation*. According to Grant and Berg (2010, p. 1), a prosocial motivation means 'the desire to have a positive impact on other people or social collectives'. It signifies 'a concern for others, not a concern for others at the expense of self-interest' (p. 5). The free individual cares about itself *and* others also on the basis of, and following, prosocial principles and strives for social relationships, interaction and social systems that correspond with such prosocial principles (Yitshaki & Kropp 2016, pp. 547, 559–560). Free individuals demonstrate largely corresponding behaviour, such as cooperative (instead of competitive) behaviour, community orientation and local embeddedness, patterns and networks of cooperation, decent business practices, responsible and ethical behaviour.<sup>86</sup>

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<sup>86</sup> How people demonstrate a (pro)social orientation and cooperative behaviour will be shown in more detail in Part II, 'Democratic organisations', section 'People: (Pro)social orientation and behaviour', and in Part III, 'A

All in all, regarding the social dimension, it can be said that within a social context the free individual:

- a) Has, or can gain and develop, elaborated cognitive, emotional and cultural intelligence enabling it to communicate and interact with others, to manage social relationships and to cope with different types of social situations appropriately and effectively (*social competences*);
- b) Is willing and able to engage with others and to *govern* and *manage* social interactions, social relationships, organisations, institutions, public and social life according to the fundamental principles of free individuals and democratic standards (*social mastery*);
- c) Has a comprehensively developed, differentiated and robust social identity. It feels comfortable with its own social statuses and positions, the roles and functions it performs and the life it lives as a member of various social systems because it *chooses* to be and live like that and is the master of its own destiny (*advanced social identity*); and
- d) Cares about itself *and* others also on the basis of, and following, prosocial principles and strives for social relationships, interaction and social systems that correspond with such prosocial principles (*prosocial orientation*).

#### **Environmental dimension: The individual and the environment**

And then there is the environment, in particular the natural environment. Humans' relationship with the natural environment has been always problematic. Humans strive to free themselves from the forces and necessities of nature, even (try to) govern nature. In a similar vein, 'civilisation' is understood as organised, planned and managed society, settlements and nature. Humans' attempts to free themselves from the forces and necessities of nature mean:

##### i) Environmental mastery

In contrast to all other living beings, that also live in, use and influence their environment, humans are the only species that *deliberately* and *purposefully* (attempts to) influence, control, shape and change the environment they exist in – for better or worse. This might be called 'environmental mastery'. It means that individuals exist in, experience, interact with, in particular make use of, influence and manage (protect, preserve, nurture, shape, modify, grow, develop, reduce, exploit, damage, destroy) the natural environment according to their own essence, needs and interests.

Environmental mastery implies that regarding the natural environment humans are (seemingly) free to do what they want (within the constraints of what is factually possible and humans' capabilities) like no other species. But this is a kind of *unreflective* mastery. Moreover, it could be understood in a normative sense of what humans *should* do, how they *should* see themselves, nature and their relation to the natural environment. Especially some Western religious (Judeo-Christian) and philosophical traditions (from Ancient Greek philosophers to neo-classical economists) put human beings above anything else ('Humans are the crown of creation') and, therefore, propagate humans' rule *over* nature (Purser et al. 1995, p. 1057, Talukder 2010, pp. 81, 84, 90). Human beings, and *only* human beings, are set apart from the

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democratic market economy', section 'Cooperative actions and interactions between market participants'.

rest of nature and anything else is placed further down the pecking order (Purser et al. 1995, p. 1057). Corresponding with such a ranking approach, purposes and *instrumental* values are ascribed to things, the natural environment and species in line with their usefulness for humans and their position in that ranking. The ‘humans and nature’ relationship was turned from horizontal coexistence into vertical dominance, subordination and exploitation. This ‘human exceptionalism, superiority, and rule’ claim is *the key characteristic of a normative, ‘strong’ or ‘radical’ form of anthropocentrism.*<sup>87</sup>

Strong anthropocentrism shapes human beings’ attitude toward nature considerably (Talukder 2010, p. 81); human activities are conducted not only *by* people but *for* people – *primarily*, if not *only* for people at the expense of, even against, nature – with all the devastating consequences human activities may cause to the environment and species directly or indirectly, such as: climate change, destruction of ecosystems and natural habitats, reduction of biodiversity, extinction of species, deforestation, air, soil and water pollution, animal cruelty – overall a massive and unprecedented deterioration of the ecological state and regenerative capacity of Planet Earth.<sup>88</sup>

## ii) Environmental anthropocentrism

These consequences come back to bite humans. Hence, a strong anthropocentrism liberates and empowers people only in a rather narrow sense, in the short term and on the surface. A methodological, ‘weak’ or ‘moderate’ anthropocentrism is different. ‘Weak anthropocentrism’ means that things and nature are seen, valued and approached by humans and from a human perspective – but humans are not placed in the centre, or on top, of everything.<sup>89</sup> Such a more enlightened form of anthropocentrism acknowledges the intrinsic value of everything, including and especially all of nature (Smith 2003, pp. 12-13). In this sense, ‘weak anthropocentrism’ could also be called *environmental anthropocentrism*. Environmental anthropocentrism means that the individual sees humans and human activity as a part of nature and is aware of nature’s instrumental *and* intrinsic values. According to such an understanding and identity, humans are not being privileged over the rest of nature. Attention, and human conduct, go beyond human concerns; ‘even if certain things possessed no instrumental value for human beings ... they should nonetheless still be protected and preserved for their own sake’ (Connelly et al. 2012, p. 32). Hence, environmental anthropocentrism reduces the liberties of humans to do whatever they want regarding nature or species. At the same time, it actually *increases* the freedom of people. It increases humans’ responsibility for nature and their obligations to act accordingly, i.e. to manage ecosystems responsibly (Purser et al. 1995, pp. 1075–1077, Raymond et al. 2013, p. 540). Responsibility liberates and empowers people.

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<sup>87</sup> For a comprehensive and well-founded criticism of (strong and normative) anthropocentrism as a technocratic, egocentric, functionalistic and utilitarian orientation see Purser et al. (1995).

<sup>88</sup> See sub-section ‘Economic activities and human-caused changes of the natural environment’ in the introductory part, ‘Status quo and (the search for) a better society’.

<sup>89</sup> Weak anthropocentrism and intrinsic value theory are even compatible with ecocentrism, radical environmentalism or ‘deep ecology’ (Purser et al. 1995, pp. 1075–1077, Smith 2003, pp. 2, 8–10, Talukder 2010, p. 82, Connelly et al. 2012, pp. 29–32) that put *nature* first (and humans second).

### iii) Pro-environmental orientation

Following a ‘weak anthropocentrism’ or environmental anthropocentrism, free individuals are also more likely to develop a higher environmental awareness,<sup>90</sup> *pro*-environmental orientation and *pro*-environmental behaviour. Kollmuss and Agyeman (2002, p. 240) defined pro-environmental behaviour as a ‘behaviour that consciously seeks to minimise the negative impact of one’s actions on the natural world’. The more individuals feel an emotional connection with, and environmental concerns about, nature the higher will be their pro-environmental orientation and the more pro-environmental behaviour they will demonstrate (Stern & Dietz 1994, pp. 70–72, Kollmuss & Agyeman 2002, p. 254, Geng et al. 2015, p. 3, Lumber et al. 2017, p. 1).<sup>91</sup> Altogether, it can be said that the free individual has a high degree of environmental awareness, i.e. is sensitive and compassionate about nature and environmental issues, has strong concerns about the (negative) impacts of human activities on nature, is convinced of the need to preserve, protect and nurture the natural environment, and demonstrates such convictions in its acting within and towards the natural environment and species, i.e. it shows high levels of pro-environmental orientation and behaviour.

### iv) Environmental competences

Finally, in order to demonstrate pro-environmental behaviour, even to develop a pro-environmental orientation, people need to know about the environment and environmental issues, and they need to know what to do about them (Jensen 2002, pp. 329–331). According to Gifford and Nilsson (2014, p. 142), ‘One is unlikely to knowingly be concerned about the environment or deliberately act in pro-environmental ways if one knows nothing about the problem or potential positive actions. These two factors were among the strongest predictors of responsible environmental behaviour ... making informed pro-environmental choices is difficult if one has incorrect or no knowledge. Fortunately, correct knowledge has been shown to predict behaviour. ... Education is also important. In several countries, individuals with more education in general are more concerned about the environment’. The knowing about environmental issues and possible measures to tackle them can be called *environmental competences*. Environmental competences mean that an individual has, or can acquire, the education, knowledge, technical skills and expertise to align economic, social and environmental goals and performance, to conduct human activities, to develop and apply appropriate technology and to use and manage the environment in efficient, balanced and sustainable ways. The more developed its environmental competences are, the freer is an individual in respect to the natural environment.

Altogether, in respect to the relationship between the free individual and the environment, it can be said that the free individual engages with the environment consciously and actively, i.e. it:

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<sup>90</sup> Other terms are ‘environmental sensitivity’, ‘emotional involvement’ or ‘affective relationship to the natural world’ (Kollmuss & Agyeman 2002, p. 251), ‘sense of connectivity with nature’ (Dutcher et al. 2007, p. 474), ‘emotional affinity toward nature’ (Dutcher et al. 2007, p. 477) or ‘biophilic values’ (Lumber et al. 2017, p. 19).

<sup>91</sup> For all the factors and variables explaining pro-environmental behaviour, see Kollmuss & Agyeman (2002, pp. 246–248), Schultz et al. (2005, pp. 458, 470–471), Gifford & Nilsson (2014, pp. 141–144), or McDonald (2014, pp. 297).

- a) Exists in, experiences, interacts with, in particular makes use of, influences and manages (protects, preserves, nurtures, shapes, modifies, grows, develops, reduces, exploits, damages, destroys) the natural environment according to its own essence, needs and interests (*environmental mastery*);
- b) Sees humans and human activity as a part of nature and is aware of nature's instrumental and intrinsic values (*environmental anthropocentrism*);
- c) Has a high degree of environmental awareness, i.e. is sensitive and compassionate about nature and environmental issues, has strong concerns about the (negative) impacts of human activities on nature, is convinced of the need to preserve, protect and nurture the natural environment, and demonstrates such convictions in its actions within and towards the natural environment and species (*pro-environmental orientation*); and
- d) Has, or can acquire, the education, knowledge, technical skills and expertise to align economic, social and environmental goals and performance, to develop and apply appropriate technology and to manage, use and develop the environment in efficient, sufficient, balanced and sustainable ways (*environmental competences*).

### **The free individual**

This part has demonstrated that the individual can - and should - be as free as possible as such (individual dimension), among others (social dimension), and concerning the environment (environmental dimension). In each of the three dimensions the free individual shows advanced competences, elevated moral development, mastery and comprehensive identities that make it truly free and autonomous. Altogether, the free individual is characterised by:

1. *Competences*: It reasons independently without interference from external authorities and reflects critically on everything and everyone according to its own convictions and liking (*intellectual sovereignty*); has, or can acquire, the social skills and the cognitive, emotional and cultural intelligence necessary to communicate and to interact with others effectively (*social competences*); and it has, or can acquire, the education, knowledge, technical skills and expertise to align economic, social and environmental goals and performance, to develop and apply appropriate technology, and to manage, use and develop the environment in efficient, balanced and sustainable ways (*environmental competences*).
2. *Moral development*: It appreciates and judges everything and everyone on the basis of, and against universal, and universally justifiable, norms and values (*enlightened morality*); cares about itself and others also on the basis of, and following, prosocial principles and strives for social relationships, interaction and social systems that correspond with such prosocial principles and with the ideas of the free individual (*prosocial orientation*); and it has a high degree of environmental awareness, i.e. is sensitive and compassionate about nature and environmental issues, has relatively strong concerns about the (negative) impacts of human activities on nature, is convinced of the need to preserve, protect and nurture the natural environment, and demonstrates such convictions in its actions within and towards the natural environment and species (*pro-environmental orientation*).



3. *Mastery*: It formulates its own will, pursues its own interests, and conduct its life as *it* deems right and appropriate (*self-mastery*); is willing and able to manage and maintain social interactions, social relationships and institutions according to the notion of the free individual (*social mastery*); and exists in, makes use of, influences and manages the natural environment according to its own essence, needs and interests (*environmental mastery*).
4. *Identities*: It feels confident about itself, is comfortable with its personality traits, and is as free as possible from mental restraints (*developed personal identity*); is keen and capable to see itself as an autonomous individual in respect to any social context and situation, others, institutions and social systems that are relevant for it, and is able to manage its social statuses and positions, the roles and functions it performs, and the life it lives as a member of social systems as it deems right and appropriate (*advanced social identity*); and sees humans and human activity as a part of nature and is aware of nature's instrumental *and* intrinsic values (*anthropocentric environmentalism*).

The table below presents the concepts a free individual features in the three dimensions and four categories.

<b>Dimension</b> <i>Category</i>	<b>Individual dimension</b>	<b>Social dimension</b>	<b>Environmental dimension</b>
<i>Competences (reasoning, knowledge)</i>	Intellectual sovereignty	Social competences	Environmental competences
<i>Moral development (values)</i>	Enlightened morality	Prosocial orientation	Pro-environmental orientation
<i>Mastery (being, doing)</i>	Self-mastery	Social mastery	Environmental mastery
<i>Identities (images, perspectives)</i>	Developed personal identity	Advanced social identity	Environmental anthropocentrism

Table 2: Dimensions and categories of the free individual.

Evidently, the free individual – like every individual – is a highly complex person. The free individual is able to take into account and to address all three dimensions of its existence appropriately, i.e. regarding any issue it is able to consider and to balance individual, social, and environmental aspects and dimensions. And it can do so, and does so, independently via its *own* reasoning, judgment, actions and being.<sup>92</sup> The free individual is a fully autonomous, potent and powerful individual. In every respect, the

<sup>92</sup> According to Fromm (1956/1971, p. 272) 'Man is a unit; his thinking, feeling, and his practice of life are inseparably connected. He cannot be free in his thought when he is not free emotionally; and he cannot be free

free individual is *in charge*.

Nonetheless, a point or two of caution would be useful. The free individual, as conceptualised here, is *not* a (Weberian) ideal *typus* or an ideologically defined and inspired image of humans that is unrealistic and unachievable in reality (like the neo-classical *homo oeconomicus*). The free individual is a *realistic* model or concept of humans.<sup>93</sup> Granted, the cognitive competences, moral development, existential mastery and multidimensional identities of free individuals (potentially) are more developed and advanced, at least more complex and differentiated than those of most of us.<sup>94</sup> But the free individual is *not* a cognitive, moral, psychological, social or economic superhuman. The free individual is not a 'perfect' human. There are still 'smart' and 'dumb', 'good' and 'bad' free individuals, i.e. free individuals show the whole range of human capabilities and frailties, attitudes and behaviour.

The concept of the free individual outlines how people *can* or *could* be, how they *should* be in certain respects. In past and present societies only a small minority of people have managed to become free individuals. It requires the right socio-cultural background, social and economic context and resources, socialisation and education, democratic institutions, equal opportunities, the right conditions and possibilities for personal development, and some fitting psychological dispositions and personality traits to become, and to be, a (fully) free individual. Free individuals require particular institutions and a particular society in order to be and to strive. Free individuals need the *right conditions*. This book argues – and will demonstrate this comprehensively and in detail – that Pentoutopia would provide the right institutions, context and conditions so that *all* people can be free, as free as possible respectively. A good society like Pentoutopia would arrange for these necessary, fundamentally different institutions and conditions that help people to reach higher levels of development and to develop into free individuals that show advanced attitudes and behaviour, conduct business, govern society and live their lives in better ways than we see today. The following chapter (and the other parts of the book) will show what kind of institutions (can) offer these right conditions so that people can be free individuals. It will show how institutions need to be designed and function so that they (can) cope with all sorts of people adequately and legitimately.

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emotionally if he is dependent and unfree in his practice of life, in his economic and social relations.' From a psychological perspective, Fromm (1956/1971, p. 275) described the free individual (he called it 'the mentally healthy person') as 'the productive and unalienated person; the person who relates himself to the world lovingly, and who uses his reason to grasp reality objectively; who experiences himself as a unique individual entity, and at the same time feels one with his fellow man; who is not subject to irrational authority, and accepts willingly the rational authority of conscience and reason'.

<sup>93</sup> That also Pentoutopia as a whole is (very) realistic and achievable, and not an unrealistically 'perfect' utopia will become apparent in the following parts and will be discussed in the concluding part, 'Summary and conclusions'.

<sup>94</sup> For the best part of my life I have tried to be, or to become, a free individual – to little avail.

## Institutions – *legitimate* institutions

This chapter focuses on *institutions*. It first provides a comprehensive definition of institutions and elaborates on their meaning(s) and functions. Moreover, and crucially, it argues that institutions need to be *legitimate*. It then discusses systematically and in detail the legitimacy of institutions. For this, a *typology of legitimacy* is developed that comprises five types – *formal, procedural, substantive, perceived* and *rational* legitimacy. Each of these types of legitimacy is described and explained in detail. At the hand of these types the legitimacy of any social system or phenomenon can be established thoroughly and unambiguously.

### Institutions and (their) legitimacy

Besides *people* it is *institutions* that constitute and maintain social systems. An ‘institution’ is a prevailing and longer lasting standard of meaning with regulatory functions for a particular social system and its members that is commonly known, accepted and followed and is enforced and reinforced via positive and negative sanctions (DiMaggio & Powell 1991, pp. 2–11, O’Donnell 1996, p. 38, Bellah 2000, p. 75, Hechter & Opp 2001, p. xiii, Mantzavinos 2004, p. 83, Dequech 2006, p. 473, Tost 2011, p. 687, and Diefenbach 2013, pp. 60–71). Such a ‘prevailing and longer lasting standard of meaning with regulatory functions’ can be *anything* that over a longer period of time provides some dominant meaning for a particular social system and its members. It can be explicit or implicit and can emerge and persist in any form and shape: It can be created, written or expressed verbally (artefacts, signs or symbols, words, terms, stories, information, knowledge, culture, tradition, belief systems, ideologies, privileges and entitlements, norms and values, rights and duties, laws, rules and regulations, policies), it can be behavioural (gestures, acts, rites, rituals, ceremonies, customs, attitudes, behaviour, actions and interaction), or organisational (formal or informal entities/‘organisations’, structures and processes). These are all ‘institutions’.

An institution sets certain standards of and for people’s reasoning, feeling, judging, behaving, acting and interacting. An institution is *institutionalised* meaning – *powerful* meaning. Members of the social system are expected to comply with the institution and the standard(s) it sets, i.e. to reason, feel, judge, behave, act and interact as ‘approved’, ‘expected’ and ‘appropriate’ – and to avoid anything that is ‘disapproved’, ‘unwelcomed’ and deemed ‘inappropriate’ by the institution. Institutions indicate how and what people ought to think and what people should/must – or should not/must not – do under specific circumstances, under *any* circumstances. In this sense, institutions *normalise* and *routinise* people’s reasoning and behaviour; they encourage and enforce ‘appropriate’, and discourage and weaken ‘inappropriate’, reasoning and behaviour via positive and negative sanctions. In so doing, they make reasoning and behaviour sanctioned by them look ‘right’ and ‘normal’, and deviating reasoning and behaviour look ‘wrong’ and ‘unnatural’. In this way, institutions define, create and handle conformity and deviance through ideological, political, legal, formal, administrative, social and/or psychological principles, mechanisms, control and means.

Where there are humans there will be institutions. Institutions will *always* emerge as soon and as long as there are at least two people around, interacting with each other. Whether institutions have emerged unplanned or are drafted and maintained carefully and consciously; there is an unavoidability and people have to come to terms with the fact that there are institutions that are relevant for them. Institutions are a matter of fact. They represent conditions as well as means and shape people's reasoning, identity, attitudes, behaviour and actions to some extent, often considerably. Usually, an institution is commonly and widely known by people, accepted (though not necessarily approved) as 'that's just the way it is', practised and, at the same time, reinforced by most members of the social system as customs and routine behaviour (and if not, then members will be informed, educated and trained, receive positive or negative feedback and might be even punished so that they will understand and comply with the institution in question).

Hence, the question is not only how institutions have emerged and what they are, but also what they mean and what they do – what they mean and do *to whom*. Because of their meaning and effects, *institutions must be justified*. Any entity or phenomenon created, maintained and/or caused by humans must be justified as to why it exists, why it is designed and operates the way(s) it is designed and operates, which outcomes and consequences it causes, and what it means for, and does to, whom. Viewed in this way, the emergence, existence, functions, performance and justification(s) of institutions – *any* institution – is a matter of *legitimacy*. Institutions *must* be *legitimate* because of what they mean and what they do, because of their relevance for a whole social system and/or parts of it, for members of that social system as well as for everything the institution, social system and its members cause.

*Legitimacy* means that an entity or phenomenon corresponds in key characteristics with a relevant point of reference that is seen as *a* – or even *the* – right standard(s) and criteria. For instance, a government is regarded as legitimate only if it is a democratic government, i.e. if it was established and rules in line with democratic standards and procedures. In this sense, legitimacy is not an *absolute* but a *relative* and *relational* concept. Hence, in order to establish the legitimacy of an entity or phenomenon it is crucial to determine the right standard or point of reference that offers a measure of legitimacy and how/in what ways an entity or phenomenon relates to that point of reference, standards and criteria respectively.

## **Types of legitimacy**

There is not one 'legitimacy' but various types of legitimacy depending on which (right) standard or point of reference they refer to. The most general types – or standards – of legitimacy are: *formal*, *procedural*, *substantive*, *perceived* and *rational* legitimacy. The following sub-sections address each of these types of legitimacy in turn and will demonstrate in which ways institutions are legitimate – or can be regarded as legitimate – according to each type of legitimacy. A final section will summarise this fundamental and comprehensive typology of legitimacy.

### *Formal legitimacy*

The most basic form of legitimacy is *formal legitimacy*. Formal legitimacy means that an institution is consistent with its external and internal environment(s), i.e. formal legitimacy can be differentiated into *external* and *internal* formal legitimacy.

*External* formal legitimacy implies that the meaning(s), purpose(s) and design of an institution, the way(s) it operates and functions and the outcomes and impacts it causes fit to the social system and society the institution is part of, i.e. are consistent with the relevant prevailing constitutional, legal, governmental and administrative laws, policies, rules and regulations as well as social and cultural norms and values. Every social system has such standards that members have to comply with (and policies and mechanisms to enforce compliance). For example, according to the new institutionalism in organisation theory (Meyer & Rowan 1977, DiMaggio & Powell 1983, 1991), organisations are perceived as legitimate when they bear a (high) resemblance to other accepted and appreciated organisations, when their design, workings and behaviour looks similar to others and are consistent with the social norms, laws and regulations that define their relevant institutional environment (Deephouse 1996, p. 1033, Tost 2011, p. 688). Such a congruence – or conformity – of an institution with its legal, political, social, cultural and economic environment(s) is called ‘isomorphism’ (or institutional or organisational isomorphism). An institution’s or organisation’s isomorphism establishes and substantially increases its external formal legitimacy.

Moreover, the purposes, design and functioning of an institution should also be consistent, and correspond, with its *own* claims, i.e. it should adhere to its own official and formal positions and policies, rules and regulations, norms and values (*internal* formal legitimacy). Internal formal legitimacy is all about *credibility*. The old (German) adage aimed at Catholic priests ‘Preaching water and drinking wine!’ (in German: ‘Wasser predigen und Wein trinken!’) succinctly encapsulates this notion of (lack of) credibility, and internal formal legitimacy.

In order to be deemed legitimate, any institution *must* have both external *and* internal formal legitimacy, i.e. it must be formally consistent with its institutional environments (isomorphism) and with its own claims (credibility). However, formal legitimacy means just what it is – and nothing else; a purely formalist definition and understanding of the legitimacy of an institution (Rose 2004, p. 459, Rule of law 2021). It means (required) compliance with prevailing norms and values, the law, rules and regulations per se – *any* norms and values, laws, rules and regulations, *whatever* their *actual* meaning or content.<sup>95</sup> (Internal and external) formal legitimacy is of essential and principled importance for an institution and its existence – but only a necessary and not sufficient condition for an institution’s (full) legitimacy.

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<sup>95</sup> For instance, even – and especially – autocratic regimes have (draconian) rules and regulations that members have to comply with. In *this* sense, such regimes provide ‘law and order’ – and probably even *more* law and order than fully fledged libertarian and democratic systems. If an organisation complies with an autocratic regime’s ‘law and order’ (or is itself a hierarchical and/or autocratic regime) it has formal legitimacy. In respect to the formal legitimacy of the rule of law, Raz (1979, p. 211) argued in a similar vein ‘that the rule of law is just one of the virtues which a legal system may possess and by which it is to be judged. It is not to be confused with democracy, justice, equality (before the law or otherwise), human rights of any kind or respect for persons or for the dignity of man. A non-democratic legal system, based on the denial of human rights, on extensive poverty, on racial segregation, sexual inequalities and religious persecution may, in principle, conform to the requirements of the rule of law better than any of the legal systems of the more enlightened Western democracies. This does not mean that it will be better than those Western democracies. It will be an immeasurably worse legal system but it will excel in one respect: in its conformity to the rule of law.’

### *Procedural legitimacy*

Legitimacy also means that rules are actually *applied*. The application of rules in accordance with their formal meaning can be called ‘procedural legitimacy’. Procedural legitimacy means that formal rules are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways. In this sense it is equivalent to ‘procedural justice’ (Konow 2003, p. 1230).

The notion, and meticulous application, of the ‘rule of law’ is probably the best example of procedural justice or procedural legitimacy.<sup>96</sup> The ‘rule of law’ means two things (Raz 1979, pp. 212, 225–226, Arts & van der Veen 1992, p. 167, Rose 2004, p. 458, Stimson 2008, p. 319, Rothstein 2014, p. 148, Rule of law 2021):

1. Supremacy of the law and legal authority. The law rules, it is applied and enforced regardless of any other purposes. General rules prevail, are applied to everyone impartially and people ought to obey the law and comply with it.
2. No individual is above the law. Everyone (i.e. all persons, private and public institutions and entities) is subject to the law and jurisdiction, even government and public authorities (‘the state’) have no arbitrary or discretionary power in legal matters but are bound by the law and are accountable to the law.

An institution’s diligent application of prevailing norms and values, the law, rules and regulations, features the following criteria (Rule of law 2021):

- *Certainty*: The law, rules and regulations, policies and procedures are pre-established, announced, publicised, transparent and knowable. They are clear, stable, are not subjected to sudden and unpredictable changes and thus provide clarity, predictability and security. Legal and administrative policies, rules and regulations are consistent, and applied consistently, across equivalent cases (‘Treat like cases alike and different cases differently’).
- *Impartiality*: The legal system, i.e. the judiciary, legal profession, administration and law enforcement are independent, impartial and incorruptible.
- *Equality*: All are equal before the law. The law, rules and regulations are applied to all equally. everyone is formally and procedurally treated equally. Everyone has the same formal and factual legal rights and duties, entitlements and opportunities to access and to use the legal system, to pursue their legal interests, and to engage with adjudicators, judges, judicial officers or legal representatives (lawyers, attorneys).
- *Fairness*: Everyone is treated in the same judicial, administrative and procedural ways without favouritism or discrimination. Procedures are fair (for example, the right to a fair trial) and the law is enacted, administered and enforced fairly and efficiently.

These criteria characterise procedural legitimacy especially regarding the institution(s) of the law or legal system. Similar criteria would apply, for example, to the institution(s) of the political system (e.g.

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<sup>96</sup> Also ‘due process’, ‘due diligence’ or ‘legal authority’ (also called ‘rational-legal authority’ or ‘bureaucratic authority’) that the great German sociologist Max Weber (1864–1920) famously established as one of the three types of legitimate rule (Weber 1921/1980).

criteria of robust democratic institutions such as parliament and government, independent political parties, equal political rights, free and fair elections) or to the institution(s) of civil society (e.g. criteria of democratic governance of the public sphere, free and independent media and civil society organisations, people with equal rights as citizens, free speech and other civil rights).

Overall, procedural legitimacy (or procedural justice) indicates how diligently an institution acts and how it treats people ‘technically’. Nevertheless, as in the case with formal legitimacy, one also needs to be clear about what procedural legitimacy is – and what it is not. In 1894, the French journalist and socialist Anatole France quipped (quoted in Gillespie 1971, p. 88): ‘The law in its majestic equality forbids the poor as well as the rich to sleep under bridges, to beg, and to steal food.’ To treat people legally alike is necessary for establishing *procedural* legitimacy (and procedural justice) – but it clearly isn’t enough to give any *factual* legitimacy (or justice). Procedural legitimacy only provides legitimacy for how an institution *processes* things (and people), but not for what it actually does or *achieves*. Like formal legitimacy, procedural legitimacy is of essential and principled importance – but it too has its limitations and is only a necessary but not sufficient condition for the overall legitimacy of an institution.

### *Substantive legitimacy*

Institutions’ legitimacy also depends on what they actually *do*, *cause* and *achieve*, especially how they treat things and people, what they do to things and people, how they are designed and function, why and how they exist, and what they are – or should be – good for. For instance, institutions can be based on, function according to, and realise universal principles or rather specific and narrow-minded ideologies. They can liberate or imprison people, educate them or not, unite or divide them, make people equal or turn them into superiors and subordinates, empower or disempower them, privilege and disadvantage people or treat them fairly and equally, provide and guarantee justice or commit the most horrendous injustices and atrocities.

All these fundamental aspects of an institution, i.e. what an institution *actually* means and does, might be subsumed under the term *substantive legitimacy*. Substantive legitimacy means that an institution is designed, managed and maintained, that it operates and produces outcomes and consequences in accordance with universal rights and principles (such as the fundamental principles of freedom, democracy, equality, justice and sustainability, people’s human, democratic and civil rights) and that it propagates, enables, protects and strengthens these universal rights and principles (Buchanan 2002, pp. 703–712, O’Donnell 2004, pp. 32–38, Rule of law 2021).

For instance, the institution of employment/the standard employment contract,<sup>97</sup> i.e. that one person is employed *by* another (natural or legal) person and works *for* that other person, is a fundamentally and principled unequal, oppressive and exploitative social relationship (i.e. a superior–subordinate relationship) that systematically and practically privileges and advantages one person (the employer or owner) at the expense of another person (the employee or worker), provides the former with all (property) rights and freedoms and withholds fundamental human, democratic and civil rights and freedoms from the latter (Diefenbach 2021). The institution of employment, the standard employment contract, might have

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<sup>97</sup> See sub-section ‘The employment contract as contract-based exploitation’ in the introductory part, ‘Status quo and (the search for) a better society’.

formal, procedural and (some) rational – even widely perceived – legitimacy, but no substantive legitimacy whatsoever.

Institutions that do have substantive legitimacy are a small minority in contemporary societies. The chances for institutions with substantive legitimacy are greater in fully fledged free and democratic societies that have very modern value systems and vibrant civil societies. But even those societies still have *many* institutions (for instance, conservative value and belief systems, orthodox norms and legal constructs, hierarchical organisations, minimally functioning political systems) that treat people unfairly, make and keep them unfree, and create highly inegalitarian, oppressive and unjust conditions.

### *Perceived legitimacy*

Whether it is legal, political, social or economic issues or systems; procedural and substantive legitimacy (or procedural and substantive justice) increase not only the overall legitimacy of an institution but also people's opinion about, and compliance with, that institution. Hence, an institution also has to correspond with what people *think* about it. Legitimacy is, so to speak, 'a status conferred by social actors' (Deephouse 1996, p. 1025). Suchman (1995, p. 574) defined such legitimacy as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions'. Legitimacy understood in such a way might be called *perceived legitimacy*. Perceived legitimacy means that people perceive an institution as a whole or in its parts (i.e. its purposes and meanings, design, structures and processes, policies, rules and regulations, the ways it operates and functions, its performances and the outcomes and impacts it causes) as legitimate or illegitimate (Gilley 2006, pp. 499–500, Deephouse & Suchman 2008, p. 52, Tost 2011, pp. 688–689, Considine & Afzal 2013, pp. 370–371).<sup>98</sup>

(Having) perceived legitimacy is quite important, in particular for the institution. It increases its image and acceptance noticeably. (Most) people are willing to accept and to freely submit to an order if they perceive this order as legitimate (Stillman 1974, p. 33, Gilley 2006, p. 502, Tost 2011, p. 689). Perceived legitimacy creates a sense of obligation or willingness to obey authorities that then translates into actual compliance with an institution and its implications (Levi et al. 2009, p. 356). For instance, regarding the attraction of democratic government, Buchanan (2002, p. 714) argued that 'the fact that a rule is the product of democratic decision making itself gives each citizen a reason to comply with it. Thus democracy achieves authoritativeness: the fact that a law was produced by democratic processes is itself a reason for compliance'. In a similar vein, Rothstein (2009, p. 313) described (the worth of) democracy primarily as 'a process in which legitimacy is attained by the enactment of procedural constitutional representative democracy. On this view, people will accept a political authority because they have been given the right to take part in free and fair elections, resulting in a government that represents the majority of citizens. ... Those who are not part of the majority will still perceive the system as legitimate because they stand a fair chance of becoming the majority in the next election. This procedural package comes with a bundle of other rights for articulating interests, such as the right to stand for office, the right to organize, freedom of expression, and so forth'.

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<sup>98</sup> Whereas internal formal legitimacy is about a *factual* concordance of an institution's words and deeds, perceived legitimacy is about people's perceptions of, or opinion about, an institution's legitimacy.



Moreover, it is not only the institution as such that people deem legitimate or not legitimate but especially what it does (*to them or for them*). Legitimacy is linked to an institution's *output* that is compatible with people's expectations and the value pattern of society (Stillman 1974, p. 39, Rothstein 2009, pp. 324–325). For example, Rothstein (2009, p. 313) argued that 'legitimacy is created, maintained, and destroyed not by the input but by the output side of the political system. In brief, political legitimacy depends on the quality of government, not the quality of elections or political representation'. There is a high correlation between good governance, political stability, absence of corruption and discrimination, protected civil liberties, social trust, increased citizen welfare and poverty reduction delivered and guaranteed by a government on the one hand, and citizens' satisfaction with their government and democracy in general and the (perceived) legitimacy of the state on the other hand (Gilley 2006, p. 519, Levi et al. 2009, pp. 356–357, Rothstein 2009, pp. 324–325). Concerning the perceived legitimacy of government, factual performance is more important than an abstract ideal of democracy.

As crucial as perceived legitimacy is for an institution, one must also see its limitations. People's perceptions are precarious. Especially in regard to prevailing institutions, perceived legitimacy can simply mean a bias towards the dominant and existing, i.e. rather conservative and orthodox positions. Institutions are simply perceived as legitimate because they have been around for quite some time. This is especially the case in respect to social and cultural norms and values, traditions, artefacts and attitudes, but it could also concern a particular form of government (like a monarchy or any other form of autocratic or oligarchic regime). And rulers everywhere in the world go to great lengths to portray the institutions that hold and support their power as 'legitimate'. Perceived legitimacy is often the result of socialisation, indoctrination, demagoguery and ideology. In fact, most perceived legitimacy of prevailing institutions is, to some extent, the result of socio-cultural conditioning.

### *Rational legitimacy*

Especially the last point with regard to the limits or weaknesses of perceived legitimacy highlights the fact that one needs to be careful when it is about establishing the quality and legitimacy of institutions. Institutions are not 'perfect' (however this is defined and understood). Actually, nothing is perfect – and nothing is, or should be, sacrosanct and immune from scrutiny in respect of its perfections or imperfections. As the great French philosopher Denis Diderot (1713–1784) outlined in the preface to the famous *Encyclopédie* from 1752 which he had edited (cited in Kramnick 1995, p. 18): 'All things must be examined, debated, investigated without exception and without regard for anyone's feelings.' In this sense, beside *independent reasoning* ('*Sapere aude!*'), Enlightenment also includes *critical thinking* as a second fundamental principle and notion, i.e. the ability to examine *critically*, to criticise and to challenge *everything and everyone*, including oneself, but also and particularly institutions such as prevailing norms and values, the status quo and authorities (Freire 1970/1996, Brookfield 2005, Bristow 2017).<sup>99</sup> Critical thinking means that everything has to be scrutinised and is accepted only if it is found to be valid (either because of theoretical validity or empirical evidence) – and that everything will be rejected if there is no good reason for it and replaced by something that is more valid. Critical thinking takes place at various levels and in various forms, with different focuses:

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<sup>99</sup> Bristow (2017, no page numbers) even talked about Enlightenment philosophers' *suspicion* and *hostility* towards all forms of authority that cannot stand the test of intellectual or rational scrutiny (such as tradition, superstition, prejudice, myth and miracles, or ideology).

Level	Focus
6	Search for, and (attempted) realisation of better social systems, i.e. democratic, sustainable, fair and just organisations, economies and societies, where people – <i>all</i> people – are truly free and equal.
5	Contribution to the improvement of the societal conditions and individual situation and perspectives of people, particularly of the exploited and disadvantaged.
4	Critique of, and actions against, illegitimate and unfair systems and practices, in particular anti-libertarian, anti-democratic and/or inegalitarian institutions, organisations and societies, privileges and prerogatives, power and control, oppression and exploitation.
3	Thorough critical analysis of the intended and unintended outcomes and consequences of institutions, concepts and practices.
2	Revelation and challenge of individual and group interests behind institutions, theoretical concepts and empirical phenomena.
1	Identification and scrutiny of explicit and implicit assumptions of and behind institutions, in particular concepts (beliefs, ideologies, theories, models) and practices (people's ways of reasoning, attitudes, behaviour, actions and interactions, conduct of business).

Table 3: Levels and focuses of critical thinking.

In this sense, critical thinking means the notion of critical inquiry and critique of everything and everyone, the dismissal of any irrational, unprovable and dogmatic ideas and authority, rejection of uncritical acceptance or blind following of any such authority, the enhancement of independent reason and people's autonomy, the empowerment of people and change of society to become open, fully free and democratic – and that institutions are compatible and comply with these notions.

Following this spirit of critical thinking of the (European) Age of Enlightenment, one can also see the legitimacy of institutions in how much, and how far, they are able to be scrutinised, criticised and how well they do in this critique or critical investigation. This might be called *rational legitimacy*. Rational legitimacy means that an institution resembles in its entirety as well as in all its parts with rationality and reason, is open to scrutiny and can be criticised, challenged and altered if there are good reasons. The opportunity to scrutinise (and alter) an institution in regard to its rationality can be seen in the tradition of critical theory and critical thinking. An institution is only legitimate if it allows for being scrutinised and withstands critique.

One would actually expect that institutions are fairly rational in the sense that they are established, designed, maintained and function according to *reason* – and that they can be criticised and changed on reason. Institutions should – *must* – have a high degree of rational legitimacy. An institution that cannot be scrutinised via critical thinking is an *ideology*. An ideology might be understood as a set of related assumptions that cannot be validated (either verified or falsified) theoretically or empirically. For

example, most belief systems (i.e. esoteric or religious concepts), philosophical, moral or political concepts are (made) immune against any form of inquiry or critique. Also many cultural institutions, norms and values, cannot – and *should not* – be criticised and are, therefore, ideologies. As ideologies, or ideologically protected concepts, such institutions don't have rational legitimacy.<sup>100</sup> Such institutions are *not* legitimate – and it is not necessary to accept (or comply with) institutions that do not have rational legitimacy. Only institutions that are explicitly based on, and open to, critical theory and critical thinking have rational legitimacy – are legitimate.

### **The legitimacy of institutions**

As noted, the most general types – or standards – of legitimacy are: *formal*, *procedural*, *substantive*, *perceived* and *rational*. Together, these represent a comprehensive and complete typology of legitimacy, i.e. all standards and criteria against which the legitimacy of any (human-made or human-caused) entity or phenomenon can be established and adequately assessed. Accordingly, an institution is a *legitimate* institution if, and *only if*:

1. The institution is consistent with its external and internal environment(s), i.e. that the meaning(s), purpose(s) and design of the institution, the way(s) it operates and functions and the outcomes and impacts it causes: i) fit with the social system and society the institution is part of, i.e. are consistent, and comply with the relevant prevailing constitutional, legal, governmental and administrative laws, policies, rules and regulations as well as social and cultural norms and values; and ii) are consistent and correspond with its own claims, and adhere to its own formal policies, rules and regulations (*formal legitimacy*).
2. Formal rules are applied to issues and to everyone in the same consistent, non-discriminatory and transparent ways (*procedural legitimacy*).
3. The institution is designed, managed and maintained, operates and produces outcomes and consequences in accordance with universal rights and principles (such as the fundamental principles of freedom, democracy, equality, justice and sustainability, people's human, democratic and civil rights), and propagates, enables, protects and strengthens these universal rights and principles (*substantive legitimacy*).
4. People perceive an institution as a whole or in its parts (i.e. its purpose and meaning, design, structures and processes, policies, rules and regulations, the way it operates, its performance, and its outcomes and impacts) as legitimate (*perceived legitimacy*).
5. In its entirety as well as in all its parts the institution adheres to rationality and reason, is up for scrutiny and can be criticised, challenged and altered on the basis of good reasons (*rational legitimacy*).

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<sup>100</sup> Though they might have formal and procedural legitimacy. In fact, 'the worst' (i.e. the most radical and orthodox) ideologies often score very high, especially in procedural legitimacy. Procedural legitimacy (in the sense of 'obedience to rules' and 'unconditional belief in, and strict following of, the "truths"' revealed by the ideology) is a core part of ideology.

*Only* institutions that accomplish *all* five types of legitimacy are legitimate institutions. For example, fully fledged free and democratic societies, democratic market economies, democratic organisations, heterarchical social relationships, fair contracts or agreements, and libertarian norms and values are legitimate institutions, comprise legitimate institutions respectively. In contrast, autocracies, oligarchies, military regimes, monarchies, kleptocracies, one-party states, caste systems, class systems, stratified societies; unregulated or poorly regulated industries and markets; terrorist organisations, criminal organisations, faith-based organisations, profit-maximising organisations and/or hierarchical organisations; superior–subordinate relationships, unequal/exploitative contracts or agreements; anti-libertarian, anti-democratic and/or inegalitarian customs and traditions, norms or values are *not* legitimate institutions. They are *illegitimate* institutions.

Generally speaking, legitimate institutions should be propagated, established and maintained as much as possible, and illegitimate institutions should not only be declared illegitimate, but outlawed and terminated (or prevented from emerging in the first place). The more legitimate – and the less illegitimate – the institutions of a society, the more it is a good society.

## Fitting free individuals and legitimate institutions

After having examined free individuals and legitimate institutions as such, and independently from each other, this chapter now analyses how the two relate to each other. For this, it first will be established how the relationship between free individuals and legitimate institutions can be understood conceptually and it will be shown in detail which legitimate institutions enable individuals in what ways to be as free as possible on their own, among others, and in a particular environment. The following three sections then provide specific examples of institutions that enable individuals' freedom. The sections illustrate how people's freedom is accommodated via their fundamental human, democratic and civil rights; how individuals' freedom and autonomy is established and maintained via the institution of ownership; and how free individuals and legitimate institutions can be linked organisationally via the principle and concept of subsidiarity/subsidiarial authority.

### (The relationships between) free individuals and legitimate institutions

The previous two chapters addressed individuals and institutions separately. However, people do not, and cannot, exist without institutions – and institutions do not, and cannot, exist without people.<sup>101</sup> People need institutions in order to exist (as human beings) – and institutions need people in order to be meaningful. Together, people and institutions constitute social systems – from dyads, groups and organisations of all shapes and sizes to whole societies.

Now, the idea is not only to have *a* society (that is constituted and maintained by people and institutions) but to have a *good* society. A society is a good society (or any social system is a good social system) if: 1) *all* of its members are *free* individuals and 2) *all* of its institutions are *legitimate* institutions. Or, more pithily: *A good society like Pentoutopia is constituted and maintained by free individuals and legitimate institutions.*<sup>102</sup> With their (individual, social and environmental) competences, moral development, mastery and identities, *free* individuals accept, establish and maintain only *certain* types of institutions, only institutions that make and keep them free, i.e. *legitimate* institutions – and legitimate institutions require and enable *free* individuals. Free individuals and legitimate institutions are not only consistent with each other, but they necessitate each other. Legitimate institutions are established, designed, maintained and

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<sup>101</sup> A person without any institutions would not be a human being but just a living organism (even Robinson Crusoe was full of societal institutions, such as internalised norms and values, when he existed alone on his island – and as soon as another person arrived on the island Robinson Crusoe could not think of anything better than to establish the very institutions that had made him) – and institutions without any people around are meaningless and senseless. To aliens, the King or Queen of England's crown means the same as a potty – *nothing*. Aliens would not know, and would not care about, the meaning and functions of a crown or a potty – and if they found any use for these items, they'd probably deem the potty much more useful than a crown because a potty is lighter and can contain more sh\*t without leaking.

<sup>102</sup> One could also formulate this principle or theorem – the theorem of the good society – as a hypothesis: If you have *free* individuals and *legitimate* institutions then you will have a *good* society.

function in order to enable and support individuals to be as free as possible. Legitimate institutions protect and empower people and provide them with as much freedom and equality as possible – and free individuals are interested in establishing and maintaining legitimate institutions in principle and in practical terms. In Pentoutopia, individuals are free *because of* legitimate institutions in several ways, along various dimensions:<sup>103</sup>

- 1) *Individual dimension*: Individuals as such are in charge of, and managing, themselves and their own affairs thanks to the institutions of self-ownership (and the related inalienable rights), (self-)governance and (self-)management.
- 2) *Social dimension*: Among others, within a social context, individuals are in charge of conducting their lives thanks to libertarian, egalitarian and democratic values, rules and regulations, constitutional rights, human, democratic and civil rights. Individuals are also in charge of (governing and managing) institutions they own (as owners, owner-managers) or belong to (as members) because of the institution of private ownership and related property rights. Individuals also participate in governing and managing common affairs/the whole thanks to the institutions of democratic governance (self-governance, co-governance and representative governance), management and regulations. They are free to demonstrate the whole range of citizenship behaviour.
- 3) *Environmental dimension*: In (respect to) its physical, virtual and/or natural environment, the individual manages material or immaterial things it owns, has access or relates to, influences the natural environment it lives in, and copes with, or even manages, natural things and phenomena thanks to the notions and institutions of private (individual and collective) ownership, the commons, principle of sustainability and stakeholder concepts.

The table below provides an overview of the main forms of the relationship between free individuals and legitimate institutions.

Defining characteristics of the free individual	Legitimate institutions that enable and support free individuals	Consequences (status, orientation and/or activities of the free individual)
<i>1) Individual dimension: Individual as such, as a free and autonomous individual, as its 'own master' (existentialism, self-mastery)</i>		
a) The individual is in charge of, and manages, itself  b) The individual is in charge of, and manages, its own affairs	Self-ownership, inalienable rights  (Self-)governance and (self-)management	Sense of self/'I', own will/making decisions, acting on its own/(psychological and factual) empowerment/personal development, self-actualisation  Governing and managing one's own affairs; self-governance, self-management and self-regulation, in particular making decisions about issues, institutions, structures and processes

<sup>103</sup> See section above, 'Dimensions and categories of the free individual'.

<p>2) <i>Social dimension: Individual among/with others, as a member of a social system, as a 'person' (individualism, social mastery)</i></p>		
<p>c) The individual is in charge of conducting its life among/with others</p>	<p>Libertarian, egalitarian, and democratic values, rules and regulations/constitutional rights/human, democratic and civil rights/rule of law</p>	<p>Equal rights, social and political status, power and opportunities, equal(ising) empowerment (formal and social empowerment and disempowerment)</p>
<p>d) The individual is in charge of governing and managing institutions it owns (as an owner) or belongs to (as a member)</p>	<p>Private (individual and collective) ownership, property rights, membership</p>	<p>Actual governance and management of institutions individuals own or belong to (e.g. democratic organisations)</p>
<p>e) The individual participates in governing and managing common affairs/the whole (as a citizen)</p>	<p>Democratic governance (self-governance, co-governance and representative governance), management and regulation  Chain of delegation, representation, and accountability</p>	<p>Actual democratic governance (self-governance, co-governance and representative governance), management, and regulation (democratic market economy, civil governance). Establishing and maintaining a fully fledged democracy and civil society</p>
<p>f) The individual demonstrates citizenship behaviour</p>	<p>Status of citizen</p>	<p>Whole range of citizenship behaviour (proto-political, basic political, advanced and/or radical citizenship behaviour)</p>
<p>3) <i>Environmental dimension: Individual and the physical, virtual and/or natural environment, 'humans and nature' (environmental anthropocentrism, environmental mastery)</i></p>		
<p>g) The individual is in charge of, and manages, material or immaterial things it owns, has access to, or relates to</p>	<p>Private (individual and collective) ownership, property rights, the commons</p>	<p>Creating, using, transforming, managing, making decisions about material or immaterial things (environmental mastery)</p>
<p>h) The individual influences the natural environment it lives in and copes with, or even manages, natural things and phenomena</p>	<p>Principle of sustainability  Conceptual, political and legal ownership and stakeholder concepts in respect to the preservation, use, and development of the natural environment in general and specific elements</p>	<p>Sustainable management and use of the natural environment in general and/or of specific elements</p>

Table 4: The relationships between free individuals and legitimate institutions.

In a good society like Pentoutopia, *every* individual is a free and autonomous individual, i.e. *every* individual has the institutionalised status of being its own master in an existential sense, an owner (of things) in a legal and managerial sense, a person in a legal sense, and a citizen in a constitutional, legal, political and social sense. The individual is *institutionally* free and autonomous regarding:

- 1) Itself via the concepts of self-ownership, self-governance and self-management (individual dimension);
- 2) Others and the whole via libertarian, egalitarian and democratic values, rules and regulations; constitutional rights, especially human, democratic and civil rights; the rule of law; and concepts of democratic governance (self-governance, co-governance and representative governance), management and regulation (social dimension);
- 3) Material and natural world via the concepts of (individual and collective) ownership and the idea of the commons; conceptual, political and legal concepts regarding the preservation, use and development of the natural environment (environmental dimension).

The freedom and authority of the individual, of each and every individual equally, is *institutionalised* freedom and authority. It is important to note that not only is the individual as free as possible as such but that the institutions of the social system(s) it belongs to are designed and maintained to enable and support individuals to be as free as possible. In a social system with legitimate institutions, *every* individual is *institutionally entitled and empowered* to govern and to manage itself, its own affairs, its life among/with others, institutions it owns or belongs to, common affairs/the whole, what it owns, has access or relates to, the natural environment in general as well as particular elements.

Legitimate institutions (shall) make individuals free. Of course, institutions also (need to) restrict and constrain people's individual freedom. In every society, and also in Pentoutopia, there are all sorts of people demonstrating all sorts of behaviour – and there always will be.<sup>104</sup> Pentoutopia and its institutions must be designed for this. Even if the majority of people regularly displayed decent, socially oriented behaviour that shows concern not only about their own interests but also about others' interests, social affairs and environmental issues, we nonetheless must assume moral minimalism (Shaw 1999) when we think about how institutions should be designed, set up, managed, maintained and function. Any design and management of social systems and institutions needs to be based on realistic assumptions about people's (possible) interests, orientations, attitudes and behaviour so that they cover and can cope with the whole range of human conduct (Epstein 1987/1998, p. 43). In other words: One should hope for the best in human beings and their behaviour but must fear the worst – always!<sup>105</sup>

In this sense, institutions need to be realistic (about humans and how they are or might be). This is why it is so important that institutions are *legitimate* institutions (i.e. that they are consistent and comply with *all* five types of legitimacy as outlined in the chapter 'Institutions – *legitimate* institutions' above) because only legitimate institutions restrict individuals' freedom as little as possible and in line with (their)

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<sup>104</sup> Bowles (2012, p. 137) talked about 'the irreducible heterogeneity of human motivations'.

<sup>105</sup> The great US political scientist Robert Alan Dahl (1915–2014) warned against the (naïve) assumption or hope that 'tomorrow's citizens [would be] more virtuous than human beings have ever been heretofore' and recommended that 'it seems wiser to design a government on the assumption that people will not always be virtuous and at times surely will be tempted to do evil' (both quotes Dahl 1970, p. 137).



universal rights. Legitimate institutions (shall) constrain individuals' freedom only insofar as such restriction:

- a) Is in accordance with humans' universal rights, the fundamental principles, and the formal *and* substantive rule of law;
- b) Supports and protects individuals and prevents (probable) harm to the individual or to others;
- c) Produces on balance more benefits than detriments for all people concerned and the public;
- d) Is appropriate and reasonable in scope, duration and intensity; and
- e) Is done in ways that respect and preserve people's (other) rights and dignity as much as possible.

Such limitations of individuals' freedom by legitimate institutions are, in fact, a protection of people's individual freedom since the institutions and their rules and regulations apply to *everyone* equally. If one recalls the earlier distinction between negative and positive freedom<sup>106</sup> then it becomes immediately clear that *legitimate* institutions protect and increase people's negative freedom – or, to put it in a slightly more differentiated way: legitimate institutions protect and increase the negative freedom especially of less powerful and/or socially oriented individuals – and they reduce the freedoms and possibilities of the strong and powerful, the rich and famous, those who have not developed or internalised prosocial values and who demonstrate anti-social behaviour – 'where there is no law, there is no freedom!', as the great English philosopher John Locke (1632–1704) said (quoted in Carter et al. 2007, p. 93).<sup>107</sup>

At the same time, legitimate institutions offer people opportunities, *endless* opportunities, to conduct their lives according to their own liking within and on the basis of the framework provided by the institutions. That is, legitimate institutions arrange for *positive freedom*<sup>108</sup> by granting and guaranteeing the broadest possible range of equal rights and individual freedom to everyone (in particular fundamental human, democratic and civil rights, social and civil liberties, democracy, equality and justice, but also the rights of and to ownership) and by enabling, protecting and actively supporting individuals to conduct their private, public and professional lives and affairs according to their own wishes (as long as

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<sup>106</sup> See section 'Freedom: 'Freedom' is the call' in introductory part, 'Status quo and (the search for) a better society'. *Negative freedom* was defined as that people 'are as free as possible from external, unreasonable or illegitimate interference, coercion or restraints'.

<sup>107</sup> Locke's full quote (in Carter et al. 2007, p. 93) states that '*the end of Law* is not to abolish or restrain, but to *preserve and enlarge Freedom*: For in all the states of created beings capable of Laws, *where there is no Law, there is no Freedom*. For *Liberty* is to be free from restraint and violence from others which cannot be, where there is no Law: But Freedom is not, as we are told, *A Liberty for every Man to do what he lists*: (For who could be free, when every other Man's Humour might domineer over him?) But a *Liberty* to dispose, and order, as he lists, his Person, Actions, Possessions, and his whole Property, within the Allowance of those Laws under which he is; and therein not to be subject to the arbitrary Will of another, but freely follow his own.'

<sup>108</sup> *Positive freedom* was defined as that people 'can be, feel, reason, decide, act and live their lives as freely as possible and according to their own will and liking (as long as they leave others the same right and don't cause harm)' (section 'Freedom: 'Freedom' is the call' in the introductory part, 'Status quo and (the search for) a better society'.

they leave others the same right and don't cause harm). In a social context, individuals *cannot* be free *without* legitimate institutions. The individual is free *on the basis of* – and *thanks to* – legitimate institutions.

All in all, legitimate institutions constrain *and* enable free individuals. Free individuals are limited by legitimate institutions to *some* extent, but are protected and empowered by legitimate institutions to a (much) *greater* extent. On balance, there is (much) *more* freedom *because of* legitimate institutions restricting and enabling free individuals. *Legitimate* institutions – and *only* legitimate institutions – make individuals free – and free individuals establish and maintain legitimate institutions! This dynamic relationship of free individuals and legitimate institutions lays the foundations for the establishment and workings of a very different kind of society, a *good* society. How free individuals and legitimate institutions are related to each other is unique to Pentoutopia. It is a two-way and dynamic relationship; free individuals establish and maintain legitimate institutions that enable and support free individuals. Free individuals and legitimate institutions mutually support, strengthen and balance each other. There is a dynamic interplay, an interactive and dynamic relationship between both. In Pentoutopia there is, so to speak, a *dynamic homeostasis* between free individuals and legitimate institutions. These special 'people and institutions' relationships are exactly what form Pentoutopia – and make it work. The following three sections provide specific examples of the special relationship between free individuals and legitimate institutions.

### **People and their fundamental rights: *Human rights***

Every individual has *rights*, *natural rights* as a human being. Natural rights are the most fundamental institution, the most elemental *legitimate* institution of humankind. Humans' natural rights are axiomatic, universal, obligatory and inalienable:<sup>109</sup>

1. *Axiomatic* – Natural rights *pre-exist independently* from, and are beyond any specific constitution, law, rules and regulations, customs or social practices of a particular culture, society, political, legal, administrative or social system;
2. *Universal* – Natural rights are valid *everywhere*, under any circumstances and in every respect, and are equal, and equally valid, *for everyone*;
3. *Obligatory* – Natural rights are *obligatory* and binding unconditionally. They are valid whether or not they are acknowledged, granted and/or implemented by the political, legal or administrative system, government or officials of a particular country, political or social system;
4. *Inalienable* – Natural rights *cannot be taken away*, given away or transferred, either voluntarily via consent/contract or involuntarily.

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<sup>109</sup> This list of four criteria draws on Bray 1839/2013, pp. 32–36, Hart 1955, p. 175, Dahl 1985, p. 21, Nielsen 1985, p. 9, Miller 1976, pp. 52–82, Raz 1986/2009, pp. 165–192, Bell 1992, p. 118, Ingram 1994, p. 96, Donnelly 2013, pp. 10, 94, and Fagan 2021, no page numbers.

The most fundamental and universal natural rights are *human rights* – ‘human, democratic and civil rights’.<sup>110</sup> They comprise (adapted from United Nations 1948 and Beitz 2001/2006, p. 352):<sup>111</sup>

- a) *Rights of the person*: life, liberty and security of the person; privacy, freedom of movement; ownership of property; freedom of thought, conscience, religion.
- b) *Rights associated with the rule of law*: equal recognition before the law and equal protection of the law; equal legal and effective rights; impartial hearing and trial; presumption of innocence.
- c) *Political rights*: freedom of expression, assembly and association; the right to take part in government; periodic democratic elections.
- d) *Economic and social rights*: free choice of and to work; just remuneration; labour laws; education; adequate standard of living, social security and social welfare; personal well-being.

Every individual has the same range of axiomatic, universal, obligatory and inalienable *human, democratic and civil rights* that protect and enable the individual as a person and human being, its freedom, life, well-being and dignity and that define the individual’s legal, political, economic, social and environmental rights and entitlements categorically and in principle.<sup>112</sup> Human rights not only define humans’ fundamental rights and essential interests but the institutional minimum conditions under which humans should be able to live a dignified life and how humans have to be treated so that they are, and can be, truly free individuals (Donnelly 2013, pp. 16, 97, Fagan 2021, no page numbers). It is the institution of human, democratic and civil rights that makes *everyone* free. The more a society (and its

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<sup>110</sup> Throughout this book I mostly call human rights ‘human, democratic and civil rights’ in order to highlight the fact that these rights are more than just rights of a natural person as such.

<sup>111</sup> The UN Declaration of Human Rights / United Nations Universal Declaration of Human Rights from 1948 is not a complete categorial system of human rights but an approximative outline, a ‘work in progress’, so to speak. Since their formulation, the UN Human Rights have been complemented by various other concepts, such as the International Covenant on Civil and Political Rights (ICCPR), the International Covenant on Economic, Social and Cultural Rights (ICESCR), or region-specific legal frameworks like the European Convention on Human Rights (ECHR) or the European Social Charter (Donnelly 2013, p. 18). For a comprehensive list of all internationally recognised human rights, see Donnelly (2013, p. 27). Nonetheless, the UN Declaration (with its various additions and further developments) is the best we’ve got and most societies and social realities are still miles away from even that incomplete list. Donnelly (2013, p. 16) argued that ‘even wealthy and powerful countries regularly fall far short of these requirements. As we have seen, though, this is precisely when, and perhaps even why, having human rights is so important: they demand, as a matter of entitlement (rights), the social changes required to realize the underlying moral vision of human nature’.

<sup>112</sup> This means that ‘the environment’ is also included in human rights. It is usually assumed that ‘the environment’ does not have rights and interests as such because it cannot have rights and interests (since it is not a person) – but humans can have rights to a safe and healthy natural environment, and they definitely have a principled interest in such an environment (Smith 2003, p. 105). So, although human rights do not formally encompass the environment as a bearer of rights, they can, and do, comprise *humans’ rights of and to a clean and healthy environment* (Fiorletta Leroy 2006, p. 66, Boyle 2012, pp. 613–614, 641–642). For example, in its famous report *Our Common Future* that established the notion of sustainability, the Brundtland Commission stated explicitly that ‘All human beings have the fundamental right to an environment adequate for their health and well-being’ (World Commission on Environment and Development 1987, p. 348). Thus, ‘the environment’ – i.e. environmental issues – can be legitimately represented and pursued by humans as its stakeholders (Haigh & Griffiths 2007, pp. 349–350, Bondy & Matten 2012, pp. 523–524).

institutions) appreciates, propagates, upholds, protects and pursues people's human, democratic and civil rights the freer are people and the better is that society.

## Free individuals and the institution of ownership

### *Self-ownership and inalienable rights*

The rights of free individuals about and to themselves are also encapsulated in the fundamental idea and institution of *self-ownership*. The notion of self-ownership is one of the cornerstones of libertarian thinking and goes back to John Locke's (1632–1704) famous proviso put forward in 1689 in his *Second Treatise* (Locke 1689/1998, p. 123).<sup>113</sup> It begins: 'Every man has a property in his own person. This nobody has any right to but himself.' 'To own oneself' is one of the fundamental ideas of the concept of the free individual, a principle shared by proponents of left-libertarianism (e.g. Gerald Allan Cohen, Michael Otsuka, Hillel Steiner, Peter Vallentyne and Phillippe Van Parijs) as well as right-libertarianism (e.g. Milton Friedman, Friedrich Hayek and Robert Nozick).<sup>114</sup> Self-ownership clarifies that the individual is the owner of itself – and no one else! Being free means that *everyone is their own master only* (Pateman 1970, p. 26).

Self-ownership means that individuals have certain fundamental *rights* in themselves simply because they are humans, or individuals.<sup>115</sup> Following such an understanding, the individual, first and foremost, owns itself, i.e. it basically owns all that biologically belongs to the individual and what constitutes human beings as individuals or persons. That is, the individual owns its body and mind. 'Body' means all the tangible parts of a human being, whereas 'mind' means the whole range of intangible essentials that define humans, or their being and existence as humans: an individual's personality and individuality as well as the mental (cognitive, psychological, emotional and intellectual) competencies and abilities to feel, think, behave, make decisions, act and bear responsibility for their actions or inactions.

Concerning every single aspect of its mind, the individual has sole rights (of self-ownership). Crucially, these rights are *inalienable*, i.e. they are rights that cannot be transferred even if one wanted to. Inalienable rights cannot be taken away from an individual because they are *essential* criteria that define and constitute the individual. People *cannot* give away or sell their mind, heart or soul (only metaphorically or in fiction can they lose their heart or sell their soul). Hence, self-ownership is justified by an

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<sup>113</sup> It can be traced back even further, at least to the English Leveller (freedom fighter) Richard Overton (1599?–1664?). In two pamphlets published in 1646 and 1647, Overton put forward the idea of 'self-propriety', i.e. that every individual owns itself and has certain inalienable rights (Mill 1859/1998, pp. 121–122 and Watner 1980, pp. 410–411, who provide some key quotes from those pamphlets). Nonetheless, Locke's proviso is usually considered the starting point and point of reference for libertarian reasoning.

<sup>114</sup> Though the two strands differ considerably in how strongly self-ownership should be understood and how it relates to other principles such as equality, fairness and (distributive) justice (Fried 2004, p. 67, Arneson 2010, pp. 171, 182–183, Russell 2010, p. 138).

<sup>115</sup> 'Ownership' should not be understood as a mere legal or economic term but in a much broader sense. Otsuka (2003, p. 15, footnote 14) suggested that if 'property in persons' or 'self-ownership' sound too 'commercial', these terms could be replaced with 'rights' (i.e. 'rights in persons' or 'self-rights'). Nonetheless, I use the term 'self-ownership' as 'property in persons' because of its closeness to the term 'private ownership' (see next sub-section) that covers all (private) 'property in things'.

existential, non-consequentialist argument; humans have inalienable rights in themselves (i.e. their heart, mind, soul, competencies and capabilities) because this is what constitutes them as humans. People cannot transfer or be without those rights in themselves because otherwise they would cease to exist as humans – as individuals. That they can neither transfer those rights to someone else nor leave them ‘at the front door’ when they join and enter an organisation means that every institution and organisation that respects individuals as individuals *must* acknowledge their inalienable rights of and to self-ownership – and the institutions or organisations must be designed and maintained accordingly.

### *Private ownership and property rights*

Evidently, the free individual owns itself (and it is not owned or rented by anyone else) and has natural and inalienable rights about and to itself. But how about *things* (whether tangible or material things, or intangible things such as property rights, legal titles, or an organisation as a legal entity) – the *right of ownership* of things? Traditionally, the right of ownership (‘private property’) has been established and justified as a natural right (Mack 2010). The right of ownership – beside life and liberty (which could be seen as the right of self-ownership) – was seen as one of the fundamental rights that cannot be surrendered in the social contract (Boaz 1998, Reno 2009, Kekes 2010). In his *Discourse on the Origin of Inequality* (1755), Jean-Jacques Rousseau (cited in Kramnick 1995, p. 424) stated apodictically that ‘to be possible for each to have something’ was the first rule of justice. And the libertarian and socialist political economist Thomas Hodgskin (1787–1869) made an important distinction between ‘natural’ and ‘artificial’ property rights whereby the former is defined as (cited in Carson 2008, p. 412) ‘the right of individuals, to have and to own, for their own separate and selfish use and enjoyment, the produce of their own industry, with power freely to dispose of the whole of that in the manner most agreeable to themselves, as essential to the welfare and even to the continued existence of society’.

However, ownership of *things* (private ownership) is *not* an inalienable right of individuals like the ownership of *oneself* (self-ownership). Tangible or intangible identifiable things *can* be transferred and people *can* live and work without *owning* things (for example, in a collectivist society, organisation or group without private ownership, when they work for others as employees or they rent or lease property). Members of a social system can agree upon and decide whether private ownership of things and property rights exists as a legal fiction – but they cannot decide whether self-ownership and the related inalienable rights of individuals in themselves exist and matter. The inalienable rights of individuals *always* exist and matter, even in situations or contexts where they are ignored. Nevertheless, there are at least two arguments for seeing private ownership of things as a fundamental right of free individuals: a consequentialist and a non-consequentialist one.

The consequentialist argument draws attention to the fact that private ownership of things (and the possession of related property rights, see the list below) clearly makes a *big* difference for people if and when ownership matters – for their social status; their self-image and the image others hold of them; their identity and dignity; their material, psychological and social well-being; their motivation and performance; and their opportunities and personal development. Concerning *all* of these aspects, individuals *with* private ownership in general fare considerably and decisively better than individuals *without* ownership. People who own the things they need for their daily life and who own the means for their work (be it physical tools, materials, machinery, land, property, capital, legal titles or entities such as

organisations) are in a *much* better position than people who do not have or do not own those means. Private ownership makes a *fundamental, existential* difference for people – as everyone can tell you who owns things as well as everyone who doesn't own things.

It should be noted that the statement that private ownership of things (and possession of the related property rights) is good for people is conditional, i.e. the statement is only valid regarding situations or social systems where private ownership matters. This means that individuals, or groups of people, can either individually or collectively decide that no property rights whatsoever (will) play a role. For instance, there are religious, spiritual or political concepts suggesting that it actually is better for people *not* to have private ownership of things, i.e. to live without any, or minimal, material possessions ('worldly goods' or 'worldly possessions') in order to find inner peace, harmony, enlightenment and freedom, or to establish a 'better' society. People do *not have to* own things if they don't want to – and this might be good for those people and they (may) find what they were searching for *because* of abstaining from (almost) all material things and possessions (the crucial condition in such cases, though, is that *all* individuals involved have decided *freely* and *consciously* that ownership (rights) do not exist and do not matter and that *all* individuals involved also follow and practise this maxim).

In a similar vein, the right of private ownership of things does not mean or suggest that people have to have *more and more* things. Making the case for private ownership and property as *rights* of people (and making the case that these rights make people more free when ownership matters) does not mean making the case for *consumerism*, i.e. the idea – or marketing ideology – that people can find happiness, develop themselves and become free (only) by buying and possessing certain products or services, especially by buying and owning more and more stuff (that they don't need).

Hence, the statement that private ownership of things (and related property rights) is good for people is meant only as a qualified statement about a fundamental and principled right or entitlement regarding situations where individuals engage in economic, social or private activities where they (have to) use tangible or intangible things *and* where private ownership and property rights (explicitly or implicitly) *matter*, i.e. where private ownership and property rights are not excluded (by voluntary consent of everyone involved).

Besides this consequentialist argument for private ownership of things (its factual advantages and what it means for people), there is also a non-consequentialist argument. Private ownership comprises and implies a whole range of rights – *property rights*. Property rights based on private ownership are some of the most meaningful and strongest rights one can find in private law (particularly in contract law, property law, business law and succession law). They comprise (Honoré 1961, Arnold 1994, p. 44, Christman 1994, p. 227, Ingram 1994, p. 30, Learmount & Roberts 2006, p. 146):<sup>116</sup>

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<sup>116</sup> This categorisation of property rights is based on the article 'Ownership' by the British lawyer and jurist A. M. Honoré (1961). According to Fried (2004, p. 72), the first modern categorisation of property rights can be traced back even further to the works of the American jurist Wesley Hohfeld (1879–1918), who differentiated various types of property rights in two articles in the early 20th century: 'Some fundamental legal conceptions as applied in judicial reasoning' (1913) and 'Fundamental legal conceptions as applied in judicial reasoning' (1917).

1. The right to possess a thing – that is, the right to exclusive physical control and non-interference;
2. The right to use the thing owned to personal use and enjoyment;
3. The right to manage the thing owned – that is, the right to decide who shall use the thing for which purpose(s);
4. The right to the income from the thing owned and used;
5. The right to the capital value of the thing;
6. The right to security – that is, immunity from expropriation or use without permission by others;
7. The right and power to transfer the thing to others by sale, as a gift or bequest;
8. Absence of term (temporal limitations) on the possession of any of these rights, liberties, etc.;
9. Prohibition of harmful use – that is, a duty to refrain from using the thing in a way that harms others or violates the rights of others;
10. Liability to execution – that is, liability to judgment debt, insolvency or taxation;
11. Residuary character – that is, a right to the residue, to the return of all rights in a thing held by others when their term is up or they are forfeit for any reason.

These property rights establish, guarantee and protect fundamentally and in principle the interests of free individuals concerning material and immaterial things as well as concerning others (persons or institutional actors). Only private ownership provides these rights. In a socio-economic context where there is private ownership, ownership rights – or property rights – are crucial; they entitle as well as enable people to make decisions (concerning the things they own, i.e. their ‘property’), to act (for instance, to use the things they own as they deem right), and to bear the consequences of their decisions and actions (for example, to earn an income and to enjoy the fruits of their labour). Consequently, in a situation or context where ownership and property rights matter, individuals *must* own (individually or collectively) what they use in order to conduct their life and work, since without such rights (the full range of property rights) individuals are not entitled to make decisions about those things and, therefore, they are not (entirely) free and sovereign. When it comes to conducting one’s life or work (i.e. conducting private, social or economic activities for which things are used), it is paramount for individuals to be in possession of the relevant property rights for the things they use (i.e. to own those things). Hence, besides *self*-ownership, there must also be *private* ownership of things. In other words: For free individuals, *self*-ownership constitutes *private* ownership. Self-ownership *of* everyone constitutes private ownership *for* everyone.

### **The principle of subsidiarity: Subsidiarial authority**

In Pentoutopia, individuals – *all* individuals – are institutionally authorised, empowered, enabled and supported to make decisions, to govern and to manage – which means that in a social system decisions

will be made *at the lowest possible level*.<sup>117</sup> Or, to put it slightly differently: In a legitimate social system the authority (and responsibility) to make decisions, to govern and to manage starts at the lowest possible level of the social system.<sup>118</sup>

This principle is called ‘subsidiarity’ or ‘subsidiarial authority’. Subsidiarial authority is a *relational* concept, i.e. it defines and shapes the relationship between elements and institutions of a social system, in particular between ‘lower’ and ‘higher’ formal positions or levels within a social system. The principle of subsidiarity means that not only are decisions made as much as possible at the lowest possible level of a social system, but that the legal, formal and actual power and authority, legal and managerial responsibilities, means and resources, oversight and control (rights) are located at the lowest possible level as much as possible. In this sense, the principle of subsidiarity and subsidiarial authority is exactly the opposite to hierarchy and the principle of autocratic rule or line authority (all power and decision-making are allocated at the top of a hierarchical system and delegated downwards only for specifying and/or executing orders made at a higher level). Hierarchical order is turned on its head.

Subsidiarity is good for people *and* for institutions; it empowers people and it makes institutions more robust and more democratic (if people/members of a social system are free individuals then all institutions of that social system *must* be democratic – and they *will* by necessity be democratic). Moreover, and crucially, the principle of subsidiarial authority is relevant for, and applicable to, any social system, be it an organisation, a market or economy, or a political system. For example, according to the principle of subsidiarity:

- Organisations would not be hierarchical but *democratic* organisations, i.e. they would have a libertarian constitution, democratic governance, democratic management and organisational structures and processes that allow and enable all members of the organisation to make decisions/to participate in decision-making (see Part II, ‘Democratic organisations’).
- The economy would not only be a market economy, but a *democratic* market economy, i.e. markets would be constituted, institutionalised and would function so that *all* market participants were equally free and able to make decisions, to demonstrate considerate economic behaviour, to regulate themselves and to participate in various forms of co-regulation (see Part III, ‘A democratic market economy’).
- The governance of the public sphere and society would not only be a minimal representative democracy but a fully fledged civil democracy where people – *citizens* – would govern themselves via various institutions of democratic self-governance, participatory governance and civil society and where people can demonstrate the whole range of citizenship behaviour and political activism (see Part IV, ‘Civil democracy’).

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<sup>117</sup> One could also formulate this as a theorem: A social system is legitimate if decision-making happens first and foremost at the lowest possible level.

<sup>118</sup> Only when decisions can’t be made at the lowest possible level – for example, when it is technically/practically not possible because of size, time or location; when it is about common affairs or issues of common interest, issues that are relevant for the whole, for everyone and/or the general public – will they be delegated to the next higher level (i.e. to representatives, delegates or institutions of collective or representative decision-making).



The three sections above have shown that it is legitimate institutions such as human, democratic and civil rights; ownership (self-ownership and private ownership and related inalienable rights and property rights); and the principle of subsidiarial authority that make people truly free. The following parts will demonstrate how to establish and maintain social systems that link free individuals and legitimate institutions, i.e. *democratic organisations* (Part II), a *democratic market economy* (Part III), and a *civil democracy* (Part IV).

## Part II: Democratic organisations<sup>119</sup>

### The idea of and for an alternative organisation

To date, almost all organisations people work for are fairly orthodox, hierarchical, anti-democratic, oppressive, unfair and unjust. They divide people into owners and workers, managers and employees, forcing especially the latter group in each of these two pairs to obey, and to behave and function well within a managerial pecking order.

However, there is no natural law that suggests the existence (or need) for such organisations – not in market economies and definitely not in modern democratic societies. And, of course, there *are* alternatives to the orthodox organisation – for instance, cooperatives, partnerships, associations, worker- or employee-owned firms, collectivist organisations, utopian communities, participative organisations, democratic corporations, social enterprises, civil society organisations, heterarchies, network-like organisations and commons-based peer production.

All these types of organisation, as different as they may be, have some features in common that differentiate them fundamentally from the orthodox organisation. These features, when identified properly and put together coherently, establish not only an *alternative* but also a *better* type of organisation. Although there have been some excellent descriptions of individual alternative organisations, as well as empirical success stories and partial models, so far there has been no comprehensive development of a complete and detailed conceptual model of such an alternative type of organisation and all its key features.

This Part II develops such a conceptual model – that is, a comprehensive, thorough and detailed *general model of the democratic organisation*.<sup>120</sup> In particular, it presents and describes the democratic organisation's fundamental principles and values, governance and management, and structures and processes, as well as the way(s) it functions and operates both within the organisation and towards others and the environment. Furthermore, it shows how the people of the democratic organisation – its owners and members – reason and act within and on the basis of the organisation's institutions.

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<sup>119</sup> This Part II is based on my book *The Democratic Organisation* (Diefenbach 2020), and in particular its Introduction and Chapters 1–7.

<sup>120</sup> I first introduced the term 'democratic organisation' in 2009 in my book *Management and the Dominance of Managers* as follows (Diefenbach 2009a, p. 237): 'Throughout the whole period of capitalism, there have been alternatives and there are many examples of successful alternative businesses out there. For example, types of organisations such as the "*democratic organisation*" (e.g. partnerships, co-operatives, employee-owned companies) take the idea of empowerment and workplace democracy very seriously. They comprise ideas like worker participation in strategic and operational decision-making, autonomous work groups, profit-sharing, co-partnership, and shared ownership ... Democratic organisations provide convincing solutions to the problems of managerial dominance, excesses in hierarchical decision-making processes, and the prevalence of managerial ideology and rhetoric. They also resist the exploitation, conditioning, and de-motivation of employees. Democratic organisations are a *real as well as realistic alternative to managerial organisations*.'

The democratic organisation is a social system of *free* individuals and legitimate *democratic* institutions<sup>121</sup> – both mutually reinforcing and necessitating each other. Every formal social system that claims to enable and protect the freedom of individuals *must* be based on, and function according to, *democratic* principles and standards that provide *all* members of the social system (1) with the same fundamental rights, responsibilities and opportunities (2) to govern the social system and themselves either directly or through representatives accountable to everyone, (3) to organise and to manage all work and issues individually or collectively in collaborative and democratic ways, (4) to be equally empowered, and (5) to conduct business in considerate and decent ways. Accordingly, the democratic organisation’s main features are as shown in the table:

<p><b>Main features of the democratic organisation:</b></p> <ol style="list-style-type: none"> <li>1. <i>A libertarian constitution</i> that appreciates and protects all members’ inalienable rights of self-ownership as well as private ownership and corresponding equal rights, responsibilities and legal entitlements;</li> <li>2. <i>Democratic governance</i> (based on democratic institutions of governance, legitimate authoritative sources, democratic governing and ‘good governance’) that allows all members of the organisation to participate in democratic decision-making and to decide the policies and direction of the organisation;</li> <li>3. <i>Democratic management</i> (in the form of self-management, representative management and participative management) that enables all members of the organisation to manage their work and the conditions of their work themselves, and to manage organisational affairs and the organisation either individually or collectively;</li> <li>4. <i>Equalising empowerment</i>, i.e. all members of the organisation are formally, psychologically and socially empowered to participate equally in decision-making, to pursue legitimate individual and collective interests, and to further their personal development;</li> <li>5. <i>Considerate conduct of business</i>, i.e. the democratic organisation and its members conduct their activities (including providing goods and services) both within the organisation and towards others and the environment in ways that are moderate, balanced, decent, ethical, fair and just, and that are consistent with a social orientation, pro-environmental behaviour and sustainable economic performance.</li> </ol>
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Table 5: Main features of the democratic organisation.

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<sup>121</sup> As outlined in Part I, ‘Free individuals and legitimate institutions’.

The idea of an alternative (e.g. cooperative, participative, collective and democratic) organisation is definitely *not* new. On the contrary, since the early 19th century, *associations*, *cooperatives* and (*professional*) *partnerships* have become fairly well-established forms of organisation in many industries (Tocqueville 1835–1840/2003, Hirst 1994, Fung 2003, Barley & Kunda 2006, Empson & Chapman 2006, Adler et al. 2008, Restakis 2010, Von Nordenflycht 2010, International Cooperative Alliance 2013, Webb & Cheney 2014). In the second half of the 19th century, the notions of *worker-managed companies*, *employee-owned companies* and even *worker-managed economies* became attractive (Bowles et al. 1993). And the 1970s and 1980s saw the emergence of some of the most radical forms of alternative organisation, such as *participatory democracy*, *participative organisations*, the *self-managed firm* and the *collectivist organisation* (Pateman 1970, Dahl 1971, Rothschild-Whitt 1976, 1979, Jones & Svejnar 1982, Rothschild-Whitt & Lindenfeld 1982, Hodgson 1984, Rothschild & Whitt 1986), followed by some more moderate models of *economic democracy* in the 1990s (Dahl 1985, Bachrach & Botwinick 1992, Ellerman 1992, Arnold 1994, Hirst 1994, Archer 1995). Since the 2000s, a whole range of long-established alternative organisations – such as self-help groups, exchange networks, community-based organisations, social and political movements, not-for-profit or non-profit organisations, non-governmental organisations, social enterprises, micro-financed businesses and fairtrade organisations – have been subsumed under the term *Social and Solidarity Economy* (Vakil 1997, Defourny & Delvetere 1999, Fournier 2002, United Nations 2003, Teegen et al. 2004, Willetts 2006, Allard & Matthaei 2008, Solidarity Economic Working Group for USSF 2007 2008, Kerlin & Gagnaire 2009, Nyssens 2009, Kelly 2012, Smith & Teasdale 2012, Haque 2013, Lans 2013, Krishna 2014, Lewis 2014, Wallimann 2014, Ould Ahmed 2015, Utting 2015, Vilchez 2017, North & Cato 2018).<sup>122</sup>

Each of these forms of organisation is successful and compelling in its own right. With its purposes, principles, design and functioning, the democratic organisation can be seen in the tradition of these alternative and progressive concepts of organisations. But the model of the democratic organisation does not only refer to or utilise ideas from these concepts. The democratic organisation is a *representation* of the most fundamental principles and features of these alternative types of organisation. It resembles and represents the key features of these alternative organisations in a single systematically and deductively developed, comprehensive, consistent, thorough and detailed *general model*. Such a general model has never been attempted before in the way it has been done here. In this sense, the democratic organisation is a *novelty*. This Part II develops the model of the democratic organisation and its main features step by step and shows how this novel type of organisation works.

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<sup>122</sup> All these, and some other types of democratic organisation are listed in Table 6 below.

## Alternative types of organisations – *democratic organisations*

This chapter shows that there is a whole range of viable alternatives to the most prevalent type of organisation (the orthodox, hierarchical or managerial organisation) – for example associations, cooperatives, partnerships, worker-owned companies, collectivist organisations or Social and Solidarity Economy (SSE) organisations. They can all be subsumed under the term ‘democratic organisation’. The most prominent types of democratic organisations will be described in some detail. Moreover, it will be shown that all these alternative organisations have some crucial characteristics in common. These common characteristics represent the key features or criteria of the democratic organisation.

### **Viable alternatives: Democratic organisations**

There have already been various ideas for types of organisations that are *fundamentally* different from the orthodox, hierarchical, profit-oriented organisation (Parker et al. 2014). These alternative types of organisations put people first and are (potentially) democratic in their governance and management, are non-hierarchical and participative in their organisational structures and processes, and use multidimensional objectives in the pursuit and conduct of their business. Together, they might be called *democratic organisations*.

These alternatives are not just theoretical concepts but real, productive and highly successful types of organisations that have proven their viability for decades, if not centuries. To some extent they vary depending on the purpose(s) for which they were established and are maintained. For instance, some democratic organisations are established by people who want to pursue certain (political, social or economic) interests together with other like-minded people (e.g. associations, cooperatives and partnerships). Other democratic organisations are established in the first place in order to enable people to own and manage their work, as well as the organisational, material and immaterial means of their work, individually and collectively (e.g. worker-managed companies, employee-owned companies and collectivist organisations). And then there are democratic organisations that are established first and foremost to tackle social, environmental or economic problems (i.e. SSE organisations). Table 6 below gives an overview of the most prominent types of democratic organisations.

In the following section some of these alternative/democratic organisations are described in detail (associations, cooperatives, partnerships, worker-owned companies, collectivist organisations and SSE organisations) in order to provide some understanding of what democratic organisations are, and what they are about.

- Associations (Tocqueville 1835/1840/2003, Hirst 1994, Fung 2003);
- Cooperatives (Restakis 2010, International Cooperative Alliance 2013);
- Partnerships (Barley & Kunda 2006, Empson & Chapman 2006, Adler et al. 2008, von Nordenflycht 2010);
- Worker-managed companies, employee-owned companies (Bowles et al. 1993);
- Participatory democracy, participatory and self-managed firms (Pateman 1970, Jones & Svejnar 1982, Hodgson 1984, Bachrach & Botwinick 1992);
- Collectivist organisations, democratic workplaces (Rothschild-Whitt 1976, 1979, Rothschild-Whitt & Lindenfeld 1982, Rothschild & Whitt 1986);
- Shared governance (Srivastva & Cooperrider 1986);
- Democratic corporation/circular organisation (Ackoff 1994);
- Social and Solidarity Economy (SSE) organisations (self-help groups, creative commons licensing, barter or exchange networks, time banks, local currencies, neighbourhood organisations, community projects, community land trusts, community-based organisations, community development organisations, activist groups, social and political movements, volunteer groups, private voluntary organisations (PVOs), foundations, charities, not-for-profit or non-profit organisations (NPOs), non-governmental organisations (NGOs), social enterprises, ethical businesses, fair trade organisations, micro-financed businesses (Vakil 1997, Defourny & Delveterre 1999, Sandel 2000, Fournier 2002, United Nations 2003, Hutter & O'Mahony 2004, Teegen et al. 2004, Willetts 2006, Powell 2007, Allard & Matthaehi 2008, Solidarity Economic Working Group for USSF 2007 2008, Kerlin & Gagnaire 2009, Nyssens 2009, Edwards 2011, Warren 2011, Kelly 2012, Smith & Teasdale 2012, Haque 2013, Lans 2013, Krishna 2014, Lewis 2014, Wallimann 2014, Ould Ahmed 2015, Utting 2015, Vilchez 2017, North & Cato 2018).

Table 6: Types of democratic organisations.

### Prominent types of democratic organisations

#### *Associations: The organisational schools of democracy*

As early as the late 18th and early 19th centuries – i.e. well before (early) capitalism propelled the orthodox organisation to its unprecedented rise and dominance – a type of organisation emerged that offered free and equal people the opportunity to organise and pursue their common interests: the *association*. Because of this historical relevance, this sub-section allows some scholars from around that time to provide first-hand accounts.

- On his extensive travels across parts of the US in 1831, the French historian and political philosopher Alexis de Tocqueville (1805–1859) realised the advantages associations provide for individuals as well as communities and society as a whole. He concluded (Tocqueville 1835/1840/2003, pp. 224–

225): ‘The most natural freedom open to man after that of acting on his own is that of joining forces with his fellows and acting in common. The right of association appears to me, by nature, almost as inalienable as individual liberty.’

- In his *Principles of Political Economy* (1848), the great British philosopher and political economist John Stuart Mill (1806–1873) highlighted the important role associations (would) play in organising economic activities in an equal manner and in achieving and maintaining equality of, and among, free people (quoted in Erdal 2011, p. 147): ‘The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves.’
- At roughly the same time, the French social philosopher and politician Pierre-Joseph Proudhon (1809–1865) also argued for an economic system based on associations (Proudhon 1851/2012, p. 49): ‘In cases in which production requires great division of labor, and a considerable collective force, it is necessary to form an ASSOCIATION among the workers in this industry. ... Every industry, operation or enterprise, which by its nature requires the employment of a large number of workmen of different specialties, is destined to become a society or a company of workers.’
- Two decades later, the Swiss-French political anarchist and philosopher James Guillaume (1844–1916) argued in a similar vein in his *Ideas on Social Organization* (1876; quoted in Guérin 1980/2005, p. 252): ‘Every workshop, every factory will therefore represent a workers’ association which will remain at liberty to administer itself howsoever it may see fit, as long as the rights of the individual are safeguarded and the principle of equality and justice put into practice.’

Just from these few original quotes one can get a good idea of the libertarian, democratic and egalitarian spirit that shapes and suffuses the association as an organisational form and that thereby makes it fundamentally different from the feudalistic as well as the capitalist orthodox organisation. It makes it different because an association first and foremost is an organisation of *equals*, i.e. it is voluntarily established, jointly owned, and collectively and democratically managed and maintained by free and equal people in order to pursue their common goals and interests (Proudhon 1851/2012, pp. 49, 54–56, Hirst 1994, p. 44, Berger & Neuhaus 2000, p. 171). All members have equal rights and responsibilities, in particular equal property and employment rights and equal formal status. In other words, an association is without either hierarchy or superior–subordinate relationships. Many associations work at a local level. They are examples of small, local self-organising groups and are part of (the voluntary self-governance of) communes and communities so that decisions are made democratically by those who will be affected by them (Fournier 2002, pp. 202–209, Reedy 2002, p. 181).

Clearly, associations are good for people; they protect people’s individual human, civil and democratic rights; enhance freedom, democracy, equality and justice;<sup>123</sup> and develop people’s social and political

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<sup>123</sup> Fung (2003, p. 515) pointed out that ‘associations enhance democracy in at least six ways: through the intrinsic value of associative life, fostering civic virtues and teaching political skills, offering resistance to power and checking government, improving the quality and equality of representation, facilitating public deliberation, and creating opportunities for citizens and groups to participate directly in governance’.

attitudes, civic skills, and democratic norms, values and behaviours. As Fung (2003, p. 520) states, ‘such virtues include attention to the public good, habits of cooperation, toleration, respect for others, respect for the rule of law, willingness to participate in public life, self-confidence, and efficacy’. Tocqueville (1835–1840/2003) called associations ‘schools of democracy’ since they teach their members how to organise themselves, pursue common goods and interests, debate, make decisions collectively, and uphold the common institutions of government and governance. In this sense, the association represents a prototype of the democratic organisation – as well as the organisational and governmental foundations of a free and democratic society.<sup>124</sup>

#### *Cooperatives: Pursuing commercial purposes the social way*

A second type of democratic organisation fairly similar to the association – and of equal historical relevance and standing – is the *cooperative*.<sup>125</sup> Like associations, cooperatives are organisations established and maintained voluntarily by individuals on the basis of equal rights and responsibilities, participation and democratic decision-making (Hoover 2008, p. 240, Doran 2013, pp. 87–88). In contrast to associations (which have primarily social or political purposes), cooperatives primarily have commercial, economic and financial purposes (e.g. farming, housing, utility supply, consumer or banking cooperatives; credit unions; and mutual insurance companies) – although in pursuing those purposes they also serve social purposes.

According to the International Cooperative Alliance (2013, p. 8), cooperatives are based on seven principles (see also CICOPA 2004, p. 3, Iuviene et al. 2010, p. 6, Macdonald 2013, p. 4):

1. *Voluntary and open membership*: People are free to join and to leave.
2. *Democratic member control*: Control through democratic processes on the basis of one member, one vote.
3. *Members’ economic participation*: Members contribute capital and control its use and investments collectively.
4. *Autonomy and independence*: Especially in economic and financial matters the cooperative operates independently from banks or external investors.

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<sup>124</sup> The focus here is only on associations as a particular type of organisation. But associations are actually much more – they are one of the most compelling forms and concepts of political and economic self-governance and participative governance of economic and social affairs at local and societal levels (see Hirst 1994, Cohen & Rogers 1995, or Fung 2003). How such ‘associationalism’ (or ‘associative democracy’) works will be shown in Part III, ‘A democratic market economy’, in particular in respect to the (self-)regulation of markets and market participants (see sub-section ‘Main functions business associations provide’ there) and in Part IV, ‘Civil democracy’, regarding the democratic self-governance of local public spheres (see sub-section ‘Associations’ contributions to the democratic self-governance of public spheres’ there).

<sup>125</sup> For a brief overview of the history of (the idea of) cooperatives see Restakis (2010, pp. 27–54) or Mills (2013). For a good description (of the main characteristics or advantages) of cooperatives see Gregory (2013), Harrison (2013), International Cooperative Alliance (2013), or Webb and Cheney (2014). For data and numbers about cooperatives see International Cooperative Alliance (2010), Restakis (2010, p. 3), Altmann (2014, p. 177), Birchall (2014, p. 5), Webb and Novkovic (2014, p. 3), or Millstone (2015, pp. 88–90).



5. *Education of members*: The cooperative provides constant education, training and information for its members.
6. *Cooperation between cooperatives*: Cooperatives do business and cooperate largely with other cooperatives, individuals and alternative types of organisations.
7. *Concern for community*: Cooperatives are locally embedded and contribute to local social and economic developments.

Cooperatives are democratic economy in action (Nadeau 2012, p. 1). Probably the best known (and most widely researched) cooperative is Mondragón. The Mondragón cooperative (formally known as the Mondragón Corporation) was founded in 1956 and has grown into a federation of about 250 worker cooperatives in the Basque Country with around 75,000 employees ('Mondragon Corporation' 2019; for a good description of Mondragón see Azevedo & Gitahy 2013). Agirre et al. (2014, p. 389) give an excellent description of Mondragón's governance model:

[The Mondragón cooperative] is founded on a firm commitment to solidarity and uses democratic governance methods, fosters participation (involvement of people in the management, profits and ownership of their companies) developing a shared project which unites social, business and personal progress and fosters training and innovation through the development of human and technological skills. Democratic governance is considered key to greater organizational effectiveness ... and is imperative for achieving higher levels of innovation and performance. ... Organizational democracy applies to substantial democratic structures, where employees have the possibility of exercising influence over critical decision-making concerning tactical and strategic issues in the organization. This means that employee participation in decision-making is mandatory and is institutionalized in direct and indirect forms (general assembly, employee representation on the board, safety committees, etc.). Additionally, employees often hold shares in their organization's equity capital. ... The conception of democracy in Mondragon includes aspects derived from the 'power to the people' idea, whereby organizational democracy is conceived as 'one worker, one vote, regardless of the share of capital owned'.

The 'labour-owned, labour-managed' cooperative, where workers hire capital and manage the enterprise collectively as its legal owners, is a commercially efficient and effective way of doing business and a valid alternative to the capitalist company (Meade 1993, p. 85, Arnold 1994, p. 49, International Cooperative Alliance 2013, p. 2, Novkovic & Webb 2014, p. 285). Like associations, cooperatives represent and nurture the principles and values of freedom, democracy, equality and justice. In line with their primarily commercial and economic purposes, they also propagate and support self-help, social responsibility and solidarity (International Cooperative Alliance 2013). 'Co-operatives develop individual participation, can build personal self-confidence and resilience, and create social capital. Cooperative institutions create long-term security; they are long-lasting, sustainable and successful' (International Cooperative Alliance 2013, p. 2). Cooperatives in general are *very* good at doing business – *and* they are very good for people (Crowe 2013, p. 76, Ellwood 2013, p. 34, Murray 2013, p. 26).

### *Partnerships: Perfect and imperfect partnerships*

A third type of alternative organisation, the *partnership or professional service firm (PSF)*, can be considered alongside associations and cooperatives, although its democratic credentials are not as clear-cut as those of the other two, especially in regard to the crucial aspects of equality and democratic governance – as we will see in a moment. Like a cooperative, a partnership is an enterprise that is established, managed and controlled jointly by those who own it (in this case, partners) for the pursuit of their common professional *and* economic interests. The main idea of a partnership is to provide and apply professionals' specialist knowledge as customised solutions to clients and their specific problems (Empson et al. 2015, pp. 4–8). Partnerships are founded by practitioners of the same or very similar professions. Examples include law firms, management consultancies, accounting consultancies, marketing firms, medical centres, private hospitals, architectural firms and engineering consultancies (Barley & Kunda 2006, p. 51, Von Nordenflycht 2010, pp. 166, 391).

A professional partnership could, and would be a *democratic* organisation if *all* who worked for the partnership were partners and all the partners were equals, i.e. all partners had equal (legal, formal and managerial) rights and responsibilities, power and authority were widely distributed among the partners, and decisions were made collegially, democratically and consensually (Brock 2006, p. 160, Malhotra et al. 2006, p. 174, Von Nordenflycht 2007, pp. 430–431, Harlacher & Reihlen 2014, p. 143).<sup>126</sup>

However, the conceptual and empirical reality of many partnerships – or professions – is quite distinct from the perfect partnership. Most partnerships are thoroughly hierarchical and oligarchic. Their organisational structure is based on the so-called *Cravath model* (Gand 2010, Leblebici & Sherer 2015, p. 196), which differentiates between senior partners, junior partners and non-partners and places them in a hierarchical relationship according to principles based on formal and chronological seniority. The superiority of (senior) partners is based on a professional's (certified) expertise and years spent in the firm. Only senior partners have the right and privilege to govern, manage and make crucial decisions. Moreover, only some of the people who work for a partnership are partners. Partner status, or *owner* status, is confined to an exclusive circle of professionals within the firm (Empson & Chapman 2006, p. 142). Often, most people who work for a partnership actually are not partners but ordinary employees who are employed by the partnership/the partners on the basis of the common standard employment contract and are (therefore) excluded from all rights, perks and privileges partners are entitled to.

Such 'governance by senior partners only' is not only an example of the classical hierarchical division of labour but also fairly oligarchic and elitist (Suddaby & Muzio 2015, pp. 27–28, 33). In addition, partnerships have become increasingly *managerial* – i.e. some professionals create and fill management positions and make decisions about running the business single-handedly. For example, Leblebici and Sherer (2015, p. 189) raised the following criticism: 'Consider governance in a fairly typical larger Professional Service Firm (PSF). While the firm was once governed like a partnership in which partners all had a say in firm matters, it now behaves more like a corporation in the way that it carries on business.' And, just as in a corporation, higher status members (senior partners) extract rents from other professionals and staff lower down in the division of labour (Barley & Kunda 2006, p. 51, Suddaby & Muzio 2015, p. 33). The professional partnership can be quite an oppressive and exploitative institution.

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<sup>126</sup> Malhotra et al. (2006, p. 174) noted that a 'partnership as a governance form embodies three beliefs: the fusion of ownership and control; a form of representative democracy for purposes of strategic and operational decision-making; and the non-separation of professional and managerial tasks'.

Thus, differentiated and nuanced judgement is required when it comes to assessing whether a given partnership constitutes a democratic organisation. A *perfect* partnership (in which *all* members are partners with equal rights and responsibilities) is based on democratic principles, has democratic governance and management structures and processes in place, and thus could be considered a democratic organisation. In contrast, a *hybrid* or *imperfect* partnership (in which only *some* members are partners with various degrees of rights and status) has an exclusive hierarchical order and is only good for *some* (mainly senior) partners, but not for many others (e.g. junior partners, administrative and technical staff). In this respect it is nothing but an ordinary orthodox organisation.<sup>127</sup>

#### *Worker-owned companies, collectivist organisations*

Another type of democratic organisation is very specific that everyone who works for the organisation owns, manages and controls it – ‘worker-owned companies’, also called ‘worker-managed companies’, ‘workers’ self-management’, ‘employee-owned companies’, or ‘self-managing organisations’. Worker-owned companies have traditionally emerged in certain industries (manufacturing, construction or maintenance in the widest sense) and are established mostly by blue-collar workers. As their names indicate, there is no legal or formal differentiation between ‘capital’ and ‘labour’ or between ‘managers’ and ‘employees’ in such organisations; as both the theoretical concepts of and the empirical evidence for worker-owned companies show, all governance, management, and control rights as well as *de facto* control are with ‘the workers’, i.e. with *everyone* who works for or is a member of that type of democratic organisation (Bowles et al. 1993, Lee & Edmondson 2017).<sup>128</sup>

In this sense, worker-owned companies resemble a *participatory democracy* (Pateman 1970, Jones & Svejnar 1982, Hodgson 1984, Bachrach & Botwinick 1992). Bachrach and Botwinick (1992, p. 2) argued that ‘in the workplace, participatory democracy is a political system in which all members of a firm, together with representatives of the community, participate equally in setting agendas and determining policy decisions for the firm’. Participatory democracy means *full* participation (according to Arnstein’s 1969 ‘ladder of participation’<sup>129</sup>); all members of the organisation not only are informed and consulted but also have equal formal rights and opportunities to participate actively in joint decision-making and execute complete control over the organisation, organisational affairs, and those who fulfil functional roles and positions that might involve making decisions. When this is the case, a democratic organisation is fully functioning and delivering on its promises.

A formally similar type of democratic organisation, but with a different socio-cultural touch and background, is the ‘collectivist organisation’. With her *collectivist organisation*, the widely recognised

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<sup>127</sup> Associations and cooperatives – and indeed *any* type of democratic organisation – can also be, or become, quite hierarchical and oligarchic, and can turn into fairly orthodox organisations (the problem of ‘oligarchisation’). However, whereas associations and cooperatives may become hierarchies or oligarchies *accidentally*, partnerships can be hierarchical, oligarchic and elitist *by design*.

<sup>128</sup> For example, Hunnius (1971) described how workers’ self-management functioned in the former Yugoslav economy, and Kokkinidis (2012) analysed South American (particularly Argentinean) ‘worker-recovered enterprises’ (*empresas recuperadas por sus trabajadores*, or ERTs).

<sup>129</sup> See section ‘Participative management: From information given to full control’ in chapter ‘Democratic management’ below for a more detailed discussion of the concept of participation.

American sociologist Joyce Rothschild (also known as Rothschild-Witt) provided one of the best and most comprehensively developed concepts of the democratic–collectivist organisation, self-management and the democratic workplace (Rothschild-Whitt 1976, 1979, Rothschild-Whitt & Lindenfeld 1982, Rothschild & Whitt 1986). The main idea of the collectivist organisation is that it is an organisation without hierarchy; *all* members of the collectivist organisation have the right to full and equal participation, to debate and decide organisational affairs collectively and democratically (Rothschild-Whitt 1979, p. 512). Rothschild-Whitt and Lindenfeld (1982, p. 6) explained the idea in detail:

Democratic workplaces are united in their attempt to break down the division between management and labor, planners and workers, so that all who do the work of the organization have an equal voice in its management and a fair share of the fruits of their labor. What they are seeking to alter, then, is nothing short of the structure of power in organizations. The aim is not the simple *transference* of power from one official to another; it is the *abolition* of the pyramid *in toto*. It is an attempt to accomplish organizational tasks cooperatively and democratically, without recourse to hierarchal authority structures or the stratification systems that accompany them.

The concept of the collectivist organisation comprises various principles that are consistent with and mutually reinforce each other (Rothschild-Whitt & Lindenfeld 1982, pp. 6–7):

1. Full worker participation in decision-making exists at all levels of the organization. Enterprises are controlled by those who work in them. In small organizations, decisions are generally made by the entire collective in frequent meetings. Larger organizations have some kind of management positions, but managers are elected on the basis of one person, one vote and can be recalled by the members; the workforce as a whole retains ultimate authority.
2. All who work in an organization share in its net income and decide democratically how income and surplus should be distributed. The tendency is toward equality. ...
3. The means of production (land, buildings, machinery) are socially owned and kept in trust as community assets. They may be owned either directly by a firm's workers, or by a trust controlled by them, or leased from community organizations or government.
4. The main purpose of each firm is not the maximization of profit, but the maximization of community well-being. This includes fair income for those who work in the enterprise and workers' control of their own work, ... Community well-being also includes providing goods or services that are socially useful, of high quality, and ecologically sound. ...
5. Profit, or surplus after paying overhead and wages, belongs to all who worked to create it. It may be shared in the form of bonuses, or, it may be used for social and community purposes such as education, health clinics, or day-care centers. A vital use of the surplus is for reinvestment within the firm or in other worker-managed enterprises ...
6. In democratically managed enterprises, labor hires capital. As long as capital is scarce there may have to be interest paid for its use, but suppliers of capital (e.g., banks) do not exercise control over the enterprise and usually do not share the profits.

Some years later, Romme (1999) developed the concept of *self-determination*, which elaborates further how ownership-oriented or collectivist democratic organisations function. Following Romme (1999, p. 804), self-determination means the capacity of people to act autonomously either as individuals or as a group. They establish a formal organisation – and thus their formal relationship, rights and responsibilities – on the basis of shared ownership and a partnership contract, i.e. as equals who share authority between themselves. Correspondingly, the organisational structures and processes are heterarchical, i.e. cooperation is based on equivalence, mutual adjustment, horizontal communication and collective self-regulation.

Kokkinidis (2012, p. 244) provided some telling evidence that worker-owned companies and collectivist democratic organisations actually work: ‘Therefore, the case of the Argentinean ERTs [*empresas recuperadas por sus trabajadores* – ‘worker-recovered enterprises’], albeit small, is interesting because their egalitarian and self-management practices, with their emphasis on horizontality and direct democracy, constitute a social experiment of organizing work differently. These experiments nicely illustrate the workers’ capacity to take control of their working lives and that coordination of collective action within an organisation, but also within a network of organisations, is possible without representatives and hierarchical forms of governance. They also address in creative ways the well-known ‘iron law’ of Michels according to which there is a natural tendency in the most democratic of organisations towards hierarchism; and they do so by giving emphasis on horizontality and participatory democracy which undermines any member’s attempt to centralise power at the expense of the group.’

#### *Social and Solidarity Economy (SSE) organisations*

Besides democratic organisations that are primarily set up and maintained to serve their members’ individual and common interests or to grant equal rights of ownership, property rights and corresponding responsibilities for all who work for them, there are also types of democratic organisation that are first and foremost oriented towards achieving specific social, political, societal, socio-economic and/or environmental purposes – and *then* (also) catering for their members’ immediate interests or addressing ownership rights. They offer, and actively aim for, economic and social paradigms and ways of doing business that represent real alternatives to capitalist market economies and orthodox organisations.

These alternatives can be subsumed under the term *Social and Solidarity Economy*.<sup>130</sup> As Table 6 showed, the SSE comprises a whole range of democratically run local and regional organisations of various types and legal forms, in particular: self-help groups, creative commons licensing, barter or exchange networks, time banks, local currencies, neighbourhood organisations, community projects,

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<sup>130</sup> Alternative terms are ‘solidarity economy’ (Allard & Matthaei 2008, Allard et al. 2008), ‘social economy’ (Defourny & Develtere 1999, Smith & Teasdale 2012, Lans 2013, Krishna 2014, Wallimann 2014, Utting 2015), and, especially in Latin America, *economía popular y solidaria* (popular and solidarity economy, or PSE) (Vilchez 2017, p. 253). For definitions of these terms see Vilchez (2017, pp. 254–256). Then there are various terms for more individual concepts within SSE, such as ‘generative economy’ (Kelly 2012) or ‘LowGrow model’ (Victor 2014, pp. 104–112). Finally, there are alternative economic models in the global justice movement (Park 2013), such as ‘eco-capitalist globalisation model’, ‘alternative regionalism of solidarity economy model’, ‘nation-state centric localisation model’, ‘de-growth subsistence economy model’, ‘eco-socialist model’ and ‘anarcho-communist model’. For a good analysis and overview of the concept of solidarity economy and its distinctive traits see Ould Ahmed (2015).

community land trusts, community-based organisations, community development organisations, activist groups, social and political movements, volunteer groups, private voluntary organisations (PVOs), foundations, charities, not-for-profit or non-profit organisations (NPOs), non-governmental organisations (NGOs), social enterprises, ethical businesses, fair trade organisations, or micro-financed businesses.

As the term ‘Social and Solidarity Economy’ indicates, SSE organisations first and foremost pursue *social* goals in their orientation and activities. That is, they address and aim at reducing social problems and needs, and they serve and benefit individuals, groups of people, and/or (their) community by providing private or public goods and/or services to people and/or entities that need them. In doing so, they create social value, i.e. enhance individual and collective social and socio-economic wealth, welfare and well-being – and may bring about social, economic and even political change. As Eliasoph (2011, p. 222) explained: ‘Many of these organizations have a mission to “build community”, increase participation, promote diversity, and strengthen civic engagement – to bring governance “closer to the people” and “the people closer to each other”.’

The second principle – and objective – is *solidarity*. Very often, this term is mentioned without further specification or explanation. But by going through some of the SSE literature<sup>131</sup> one can gain an understanding of what the concept of ‘solidarity’ might represent and can operationalise it. Solidarity of SSE organisations with their stakeholders mainly means that (Solidarity Economic Working Group for USSF 2007 2008, p. 392):

- 1) Social and economic relationships are based on, and aim for, cooperation, mutual benefits and reciprocity, and the fair distribution and allocation of all costs and revenues (instead of competition, opportunism and egoistic rent-seeking);
- 2) Partnerships and cooperation are long term;
- 3) There is joint decision-making, transparency and knowledge-sharing among all participants;
- 4) There is a focus on capacity-building and local development; and
- 5) Solidarity is especially demonstrated with other SSE organisations (value-based solidarity); oppressed, disadvantaged and exploited individuals, groups of people, or even countries (anti-oppression solidarity); and people, organisations and movements that strive for social, economic, environmental and political development and change (vision-based solidarity).

In order to be fully consistent with their goal of providing a fundamentally different alternative to capitalist or neo-liberal modes of economic activity and orthodox organisations, SSE organisations must apply these social values and the notion of solidarity to themselves, i.e. to their organisational design, structures and processes; how they function and operate internally; how their members are treated and treat each other; and how they manage and collaborate. SSE organisations should be structured, operate and function in line with the social goals they pursue and the principle of solidarity they practise towards others (Defourny & Delveterre 1999, p. 16, Moulaert & Nussbaumer 2005, p. 2079, Allard & Matthaëi 2008, p. 6, Lans 2013, pp. 166–167, Laville 2015, pp. 48–49, Utting 2015, p. 2). That is, SSE organisations are (or should be):

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<sup>131</sup> For example, Salamon and Anheier (1998, p. 216), Neamtan (2005, n.p.), Lewis and Swinney (2008, p. 31), Smith and Teasdale (2012, p. 156), Lans (2013, p. 168), Ould Ahmed (2015, p. 428), Reed (2015, pp. 105–106), Saguier and Brent (2017, p. 264).

- Jointly owned and controlled by all their members (and other relevant stakeholders),
- Governed and managed collectively in participatory and democratic ways,
- Treating, enabling and empowering all their members equally,
- Upholding and following in their internal practices and external activities the principles and values of individual and collective responsibility, freedom, democracy, equality, justice and sustainability.

If they meet these principles, then SSE organisations are, or come close to, fairly typical fully fledged democratic organisations. Nonetheless, many SSE organisations are *not* owned by their members, are *not* participatory and egalitarian but instead hierarchical with autocratic or oligarchic decision-making structures and processes (e.g. radical activist groups, conservative or even extremist groups and communities, larger NGOs, organisations of faith, trade unions, the professions, centralised associations and autocratic family businesses or social enterprises) (Hutter & O’Mahony 2004, p. 3, Lewis 2014, pp. 23–25). Despite pursuing very honourable goals, demonstrating social values and solidarity towards others and doing many good deeds, such SSE organisations resemble more orthodox, or even radical or totalitarian, organisations with all their faults and weaknesses. *Doing good* (or *claiming* to do good) does not mean that someone *is* good. SSE organisations *can* be democratic organisations – but only if they live up to their principles in their external *and* internal orientations and operations.

### **Key criteria of democratic organisations**

As the examples above show, democratic organisations can pursue multiple purposes, serve several interests of their founders and members, have quite diverse organisational structures and processes (of governance and management) in place, and differ in what kinds of activities they conduct in what way(s). Nevertheless, (in their ideal-typical manifestation) *all* democratic organisations have various things in common, key criteria that define them as democratic organisations, in particular (Vanek 1971, pp. 1, 8–9, Rothschild-Whitt 1979, p. 512, Jones & Svejnar 1982, Rosen 1984, pp. 313–316, Bachrach & Botwinick 1992, p. 2, Bowles et al. 1993, p. 129, Ulrich 1993, pp. 412–442, Archer 1995, pp. 31–32, Poole 1996, Melman 2001, p. 272, Caspary 2004, pp. 239–240, Kelly 2012, pp. 141–142, Diefenbach 2019, p. 553):

1. *Individual and collective ownership*: Members own the organisation, have ownership status and corresponding equal rights, responsibilities and legal entitlements (e.g. rights of information, participation in decision-making, management and control of the organisation, profit-sharing).
2. *Democratic governance and decision-making*: All members have equal formal rights as well as actual opportunities to participate in strategic and operational decision-making (either directly or via democratically elected representatives), and to decide the policies and direction of the organisation (‘shared governance’, ‘workplace democracy’).
3. *Non-hierarchical modes of organisation and management*: There is no hierarchy in the sense of top-down ‘order and control’, no superior–subordinate relationships, but heterarchical relationships between formal positions and people. Managers are democratically elected and controlled representatives, management is provided individually or

collectively as transparent, interactive and collective processes and shared activities ('self-management', 'participative management' and 'full participation').

4. *Empowerment: All* members of the organisation are equally empowered, i.e. they have the same formal rights as well as factual opportunities to decide their work and the conditions of their work, to pursue their individual and collective interests, and to personal development.
5. *Multiple purposes and considerate conduct of business:* The democratic organisation provides goods and services, and conducts its activities, in ways that are consistent with a social orientation, pro-environmental behaviour and sustainable economic performance ('people, planet, profit').

Following these criteria, the democratic organisation can be defined as a non-hierarchical organisation that pursues and serves multidimensional (social, political, legal, economic and/or environmental) purposes in considerate, balanced and sustainable ways and that is owned, managed and controlled individually, collectively and democratically by all of its members, who have equal rights, and are equally empowered, to participate fully in the governance and management of the organisation, organisational affairs and activities.

In order to show how a fully fledged democratic organisation could, or even should, look, the following chapters systematically develop a *general* model of the democratic organisation.



## Libertarian constitution and democratic governance

This chapter is about the constitutional foundations and governance of the democratic organisation. It will be argued that only a *libertarian constitution* of organisations (materialised in the form of a *partnership agreement*) is appropriate. This chapter then interrogates how *governance – democratic governance* – can be designed for, and conducted in, the democratic organisation. First, the organisational institutions of governance are described – the *democratic institutions of governance* an organisation needs in order to be democratic. The discussion especially focuses on three features or principles: ‘checks and balances’, separation of powers and subsidiarity. The following sections then identify *legitimate authoritative sources* on which any governance must be built, and how *democratic governing* (democratic decision-making based on transparency and accountability) can happen. Next, the notion of ‘*good governance*’ is introduced and it is argued that only democratic governance is ‘good governance’. The concluding section of this chapter provides an overview and summary of the complete concept and virtuous circle of democratic governance. It is shown how all of these elements and principles – i.e. democratic institutions of governance, legitimate authoritative sources, democratic governing, and ‘good governance’ – together establish *democratic governance* of the democratic organisation.

### Partnership agreement

Earlier<sup>132</sup> it was established that all individuals have equal inalienable rights stemming from the institution and concept of *self-ownership* (i.e. their right to their cognitive, psychological, emotional and intellectual competencies and abilities to feel, think, behave, make decisions, act and bear responsibility for their actions or inactions) *and* they (ought to) have equal property rights stemming from the institution and concept of *private ownership* (i.e. the right to possess, use, manage or transfer things they own, and the right to the income from, capital value and residue of the things they own).

This raises the question of what kind of (formal or contractual) agreement free individuals can – or must – reach when they want to organise themselves or their activities in a formally established social system (such as a social relationship, continuous economic exchange, an organisation or nation-state) so that the agreement is in line with, and simultaneously accommodates, their rights as free individuals, in particular their human, democratic and civil rights and their rights of and to self-ownership and private ownership.

Evidently, when individuals *agree* to engage with others, the underlying – and necessary! – condition is that individuals are *free* – free to form, to formulate and to realise their will, and to enter, maintain and exit the kinds of agreements and relations they have chosen. Individuals’ *own free will* – as well as their ability to show and practise their free will – is *essential*.<sup>133</sup> Agreements and social relationships are only

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<sup>132</sup> See section ‘Free individuals and the institution of ownership’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>133</sup> The notion of individual free will is well established and protected as a philosophical, moral and legal fiction

voluntary and legitimate if individuals are able to express and exercise their free will (Friedman 1962/1982, pp. 13–14, 22–23, Jensen & Meckling 1976, Vanberg 2004, p. 6, Peel 2011, p. 448).<sup>134</sup> Hence, if an agreement or a social system is to be legitimate, it *must* be constituted, based on and maintained according to the free will of its founders and members – *all* its founders and members.

In order to be able to express and pursue their free will, *all* individuals involved in the establishment of a formally agreed social system (such as a social relationship, economic exchange, organisation or nation state) *must* be of *equal* formal and legal status and *must* have *equal* rights and responsibilities. Individuals must have a legal status that accommodates their rights of and to self-ownership and private ownership as well as the inalienable and property rights related to them – *all* people involved in (the constitution and maintenance of) the social system, like an organisation, must have these *equal* rights. It follows that *all* founders and members of an organisation that appreciates individuals' freedom and inalienable rights of and to self-ownership and private ownership *must* have *individual and joint legal ownership of the organisation*.<sup>135</sup> They *must* own the organisation and its assets, *especially* when they work for it.<sup>136</sup> Any other contract or agreement would go against individuals' inalienable rights of and to self-ownership and private ownership. Hence, any agreement to formally establish a *legitimate* organisation must meet the following criteria:

1. *All* individuals involved in establishing the formally agreed organisation and who become its members *must* have *equal* formal and legal status and *must* have *equal* rights and responsibilities.
2. In order to have *equal* rights and responsibilities, *all* founders and members of the organisation *must* be its (individual and collective) *owners* since otherwise they could not have and enjoy the same whole range of their inalienable rights of and to self-ownership and private ownership.
3. So that all owners of the organisation can make full use of and enact their rights and

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by various philosophical concepts as well as by constitutions, the law and institutions of (fully fledged) democratic societies. The idea that people have – or ought to have! – free will has been deeply embedded in philosophical and legal theorising throughout the ages. It can be traced back to ancient Greek and Roman philosophers (for example, Socrates or Seneca), leading thinkers of the Enlightenment (such as John Locke, Voltaire, Jean-Jacques Rousseau and Immanuel Kant), early socialists (e.g. Pierre-Joseph Proudhon), classical economists (like Adam Smith and John Stuart Mill), and neo-liberal economists (for instance, Milton Friedman).

<sup>134</sup> This is also evidenced by the fact that contracts usually are deemed to be not only illegitimate but also null and void or even illegal when the free will of one or both parties was missing or severely hampered when the contract was signed (e.g. because of deception, duress, undue influence, coercion or lack of explicit or implicit consent).

<sup>135</sup> For example, Empson and Chapman (2006, p. 144) argued in the same vein: 'A property rights perspective emphasises that when key income-generating assets are proprietary to individuals, they should share jointly in the ownership of the firm and participate directly in decision-making ... This decision-making authority should extend far beyond the basic control of operational issues to include fundamental strategic issues.'

<sup>136</sup> As Fournier (2002, p. 203) rightly pointed out: 'Self-governance requires free access to, and control over, the means of production, and therefore the elimination of the division between owners of capital (be it land, tools, or raw material) and labour.' One could also say that everyone who works individually or jointly with others in a formalised way owns, decides, manages and controls legally and collectively the properties, activities and results of this enterprise. People who own, manage and control an enterprise together are (legal) *partners*.

responsibilities, they also need to manage and work for it. Hence, *each* member of the organisation is simultaneously owner, manager and employee.

4. Since all members of the organisation make use of their rights simultaneously, they own, manage and control the organisation they work for *together*, i.e. individually *and* collectively. They are *all partners* in a legal, formal and organisational sense.

The legal and contractual form that best meets these criteria is a *partnership agreement*.<sup>137</sup> It (therefore) is the most appropriate legal form to constitute the collaboration of free individuals and corresponding organisation. A *partnership agreement* is a formal or contractual agreement that is in line with, and simultaneously accommodates, the rights of and to self-ownership and private ownership of free individuals organising themselves and/or their activities voluntarily on a formal basis. The basic notion of a partnership agreement is that everyone who works individually or jointly with others in a formalised way individually and collectively owns, manages and controls the properties, activities and results of this enterprise and has the same rights and responsibilities. A partnership agreement specifies at least the following aspects (NI Direct 2015):

- a) Monetary and non-monetary contributions to the partnership;
- b) Shares and distribution of profits (and losses), deposits and draws;
- c) Partners' rights, responsibilities and authorities, management duties, participation in the governance and management of the enterprise and collective decision-making;
- d) Labour rights, such as regular remuneration, minimum wage, contributions to national social insurance, working hours, rest breaks, health and safety standards, paid annual leave, pension entitlements, labour protection rights (in particular the right not to be unfairly dismissed or discriminated unlawfully), legal redundancy pay, statutory sick pay, maternity, adoption and paternity leave and pay);
- e) Entrance and exit of partners;
- f) Dispute resolution.

There is quite some leeway around the design of these issues and the specific terms of a partnership agreement, but the *fundamental* notion is clear: it is about *free* people cooperating and engaging with others via a binding partnership agreement on the basis of self-ownership and private ownership (and the inalienable rights and property rights related to these), and these people have *equal* legal and formal status, rights and responsibilities as partners. Only in such a partnership agreement of equal and joint individual and collective rights and responsibilities can individuals' inalienable rights of self-ownership and private ownership be appreciated and preserved.

Such a partnership agreement also acknowledges and confirms that partners working for the common enterprise have – besides their status as owners and managers – employment status (and therefore enjoy

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<sup>137</sup> It is important to note that proposing a partnership agreement as the contractual basis for the democratic organisation does not mean that only (the legal entity of) partnerships are deemed a suitable type of democratic organisation. A partnership agreement as described or referred to here is meant only in its most general meaning and as an exemplary form of contract that is able to provide the contractual basis for a whole range of different types of democratic organisations as listed in Table 6.

all the associated labour rights) in the sense that their work is fully integrated into the business (Weir 2003, pp. 450–451, Turner 2013, pp. 83–95, NI Direct 2015, Employment Rights Act 1996 2019). But they are *not* regarded as employees in the sense of working for someone else, being told what to do and directed by another person, and being subject to detailed control by that person; partners work *with* others, not *for* others! Thus, such a partnership agreement relating to formally organised cooperation between free individuals overcomes the division between owners of capital and labour and between employer and employees (Fournier 2002, p. 203), and guarantees all members their equal and inalienable rights and responsibilities.

This *collaboration of equals* established by a partnership agreement is *democracy* realised and practised in the economic and social sphere. *Demos kratos* – power or government of the people, by the people, for the people – is the logical foundation and continuation of the idea of free individuals cooperating with each other voluntarily in formal and institutionalised ways on the basis of and via a partnership agreement (or social contract). It is the *only* form of agreement (as well as of government and governance) that accommodates free individuals and their inalienable rights. Accordingly, the political theorist Robert Dahl (1985, pp. 56–57) concluded that ‘the process of government should as far as possible meet democratic criteria, because people involved in this kind of association possess a *right*, an inalienable right to govern themselves by the democratic process’. It is the inalienable right of people – stemming from their status as free individuals and their self-ownership – to govern and rule themselves collectively and democratically (Cohen 1998, p. 185, Bevir 2006, p. 430, Canovan 2008, p. 353, Wright 2010, p. 180).

The idea of free people working together on the basis of a legitimate agreement such as a partnership agreement (Ellerman 1992, Schweickart 1993, p. 289, Howard 2003, p. 175) suggests, and even necessitates, a certain type of organisation: a jointly owned and controlled enterprise as stipulated by the partnership agreement – in short, a *democratic organisation*. The *democratic organisation* is the legal, formal and organisational institutionalisation and realisation of regular joint work and cooperation of free individuals based on the principles of self-ownership, private ownership, and a legally binding agreement (partnership agreement) that appreciates and protects the inalienable equal rights and responsibilities of all members of the organisation. Any organisation formally established and maintained by free individuals *must* be a democratic organisation since this is the *only* type of organisation that appreciates, enables, guarantees, accommodates, protects and promotes the status, inalienable rights and responsibilities of free individuals.

### **Libertarian constitution of the democratic organisation**

People’s rights and responsibilities are specified and reflected in a social system’s *constitutional foundations*. The constitutional foundations of an organisation are the first principles, conceptual ideas and concrete terms of how the organisation is designed and functions. They often come in the form of a written legal agreement or contract, but there can also be ‘implicit’ elements (such as underlying (shared) worldviews, values or propositions of the contracting parties). Therefore, if an organisation’s constitutional foundation shall be consistent with the notion of people’s free will and freedom, then it must be a *libertarian* constitution, i.e. a contractual agreement that appreciates, enables and protects peoples’ free will and freedoms. Together, the notions and concepts of *free individuals* and their free

will, *self-ownership* and people's inalienable rights related to it, *private ownership* and related property rights, and a *partnership agreement* providing all parties with the equal legal and formal status of partners and equal rights and responsibilities are *the libertarian constitution of the democratic organisation*. The whole argument about the constitutional foundations of the democratic organisation can be summarised as shown in the table below.

*Self-ownership and inalienable rights:*

1. The individual is the owner of itself (*self-ownership*) – and no one else! Everyone owns themselves, i.e. the whole range of essentials of their own personal existence: their personality and individuality; their mind, body and soul; the mental (cognitive, psychological and emotional) and bodily competences and capabilities to feel and to think, to make decisions, to behave and to act purposely and to bear responsibility for their actions or inactions.
2. The rights covered by one's self-ownership, i.e. one's personality and individuality, mind, body and soul, competences and capabilities are *inalienable* rights and *cannot* be transferred.
3. Every institution and organisation that respects individuals as individuals must explicitly acknowledge their inalienable right of and to self-ownership.

*Private ownership and property rights:*

4. Free individuals must own (individually or collectively) what they need and use to conduct their work and lives (*private ownership*).
5. The legal or formal relationship of an individual to a legal entity (such as an organisation or nation-state) must be consistent with its right of self-ownership and the inalienable rights stemming from it as well as private ownership and the property rights related to it.
6. In order to accommodate the notions of free individuals' self-ownership and private ownership *all* individuals involved in the establishment of a formally agreed social system (such as a social relationship, economic exchange, organisation or nation state) *must* have *equal* formal and legal status and must have *equal* rights and responsibilities.
7. *All* founders and members of an organisation that appreciates individuals' inalienable rights of self-ownership must have *legal ownership* of the organisation and the whole range of property rights, i.e. they must be its (individual and collective) owners.

*Free individuals and (their) free will:*

8. Social systems are established and function on the basis of, and represent, (explicit and/or implicit) *contractual and social relations* between free individuals.
9. The creation and maintenance of legitimate contractual and social relations necessitate *free will*. Only if individuals are able to express and exercise their free will are agreements and social relationships voluntary and legitimate.
10. *All* founders and members of an organisation that appreciates individuals' freedom and inalienable rights of and to self-ownership and private ownership *must* have *individual and joint legal ownership of the organisation*.

*Partnership agreement:*

11. Everyone who works individually or jointly with others in a formalised way owns, decides, manages, and controls legally and collectively the properties, activities and results of this enterprise. People who own, manage and control an enterprise together are (legal) *partners*.
12. The most appropriate legal form to constitute the collaboration of free individuals and corresponding organisation is the *partnership agreement*.

*Democratic organisation:*

13. The democratic organisation is the legal, formal and organisational institutionalisation and realisation of regular joint work and cooperation of free individuals based on the principles of self-ownership, private ownership and a legally binding agreement (partnership agreement) that specifies the inalienable equal rights and responsibilities of all members of the organisation.
14. Any organisation formally established and run by free individuals *must* be a democratic organisation since this is the *only* type of organisation that guarantees, accommodates, protects and enables the status, inalienable rights and responsibilities of free individuals.

Table 7: The libertarian constitution of the democratic organisation.

With such foundations, the democratic organisation grants the broadest possible range of equal rights for *all* its members. Later on it will become clear that this libertarian notion is crucial for the design and functioning of the democratic organisation, its members, and their status, relationships and behaviour; in a social system, a libertarian constitution suggests *democratic* governance and *democratic* management, equal rights and equal (social and political) power, and empowerment of all members of the social system as well as a particular considerate conduct of business *by necessity*.

Although the libertarian constitution is a particular approach to constituting the democratic organisation, it nonetheless is based on relatively general principles and assumptions that are of *universal* value and relevance (e.g. the notions of individual freedom(s) and free individuals, private property, equal rights and responsibilities, and democracy and democratic arrangements). It is therefore relatively open to, and compatible with, any approach, theory or model of social system that explicitly or implicitly promotes, or at least tolerates, these universal principles. The model or notion of the democratic organisation is not confined to one particular form or type of organisation. As indicated earlier (see Table 6), many types of organisation can be established, organised, managed and maintained as democratic organisations, namely cooperatives, professional partnerships, associations, worker-managed enterprises, employee-owned companies, community-based enterprises and community-based organisations, social enterprises, not-for-profit or non-profit organisations, non-governmental organisations, formally established networks of self-employed freelancers or contract workers – or any other type of organisation that is compatible with, and adheres to, the principles and the spirit of the democratic organisation.<sup>138</sup>

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<sup>138</sup> Chapter 'Legitimate and illegitimate participants in the free market' in Part III, 'A democratic market economy', discusses systematically and in detail which types of organisation are illegal, illegitimate, tolerable or legitimate

The following sections show how the democratic organisation can be governed so that it stays true to its principles and idea(l)s.

### **Governance – *democratic governance***

Every system to some degree functions according to *rules*.<sup>139</sup> To some extent, rules constitute, shape, enable and regulate the system, its functioning, and the behaviour of its members. In a social system, these rules can emerge unintended via routine behaviour and the daily actions and interactions of the members of the system. They can also be created and crafted deliberately by (some) members and/or formally drafted and institutionalised via formal institutions and procedures. This whole framework of rules and relevant institutions making and enforcing these rules and, in so doing, defining, steering and controlling the social system and its parts and elements to some extent, can be subsumed under the term *governance*.

‘Governance’ means that *institutions* or *actors* (e.g. government, governmental agencies, public regulators, assemblies, councils, associations, civil society organisations, citizens, audit firms, owners, boards or committees) *govern* (i.e. steer, regulate and control) particular entities (i.e. an entire social system, parts of it, or phenomena within it) on the basis of, and in accordance with, *authoritative sources* (i.e. a set of formal principles, norms, laws, rules, regulations, policies, guidelines, standards, codes of conduct, procedures and administrative practices along with a constitution) whereby the *conduct of governance* may be seen, assessed and judged against the criteria of ‘good governance’ (Weiss 2000, p. 797, who provided a whole collection of definitions of ‘governance’ from multiple international agencies, Boyte 2005, p. 536, Bevir 2013, Jessop 2013, Levi-Faur 2014, pp. 8–9, Schneider 2014, p. 130).

Governance is about *governing particular entities*. These entities can be a whole social system (e.g. a group of people, a community, an organisation, a network, markets, industry, an economy, a society, a nation-state, a region, or multinational or global entities), parts of a social system, certain members of a social system, or certain phenomena or issues (e.g. legal, political, social, economic, environmental, or technical issues, common affairs or collective goods). To govern means to set and to observe rules and standards; to steer or regulate the entity, phenomenon, or issue; to provide guidance; to shape, supervise and control preferences, choices and behaviour of members of the entity; and to provide feedback, incentives, awards, sanctions and punishment. These activities are done systematically and regularly. Because of its systematic and regular workings, governance results in (or at least contributes noticeably to) the emergence and continuation of legal, political, administrative and social systems.

Because of its functions, governance is of fundamental importance to a social system – especially when it is a formally established and institutionalised social system like an organisation.<sup>140</sup> There have been

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and consistent with the fundamental principles and values of freedom and democracy.

<sup>139</sup> The term ‘rules’ is not meant here literally but as a general placeholder for a whole range of regulators that shape and direct systems, people and their behaviour (see the examples of ‘authoritative sources’ in the next paragraph and then the discussion of ‘authoritative sources’ in section ‘Legitimate authoritative sources’ further down).

<sup>140</sup> When organisations are under discussion, the term ‘corporate governance’ is often used (Turnbull 1997, Jegers 2009). Although this term theoretically can be applied to *any* formal organisation, whether public or private, for-

times when scholars have written about and practitioners have attempted to implement organisations, networks, economies or whole societies and nation-states with as few (explicit) rules or governance as possible (Rothschild & Whitt 1986, Marshall 1993, Fenton 2002, Chartier & Johnson 2012). Such a notion might make sense and might work to some extent – for instance, in order to avoid or counterbalance overtly bureaucratic systems and/or to equip members of the system with the necessary space to make use of their freedom and creative potential. There definitely can be ‘too much’ and/or ‘bad’ governance (e.g. bureaucracy or totalitarian regimes). Nonetheless, no social system can do without governance; if there were no or little formal or explicit principles and regulations, then there surely would be informal or implicit ones – and probably worse than formal ones (e.g. the proverbial ‘law of the jungle’). Consequently, it is paramount for every formally established social system that its governance (including its institutions and workings) is designed and maintained as explicitly, considerately and diligently as possible.

How democratic governance of organisations and its key elements (i.e. democratic institutions of governance, legitimate authoritative sources, democratic governing and ‘good governance’) can look and function will be addressed and discussed in turn in the following sections.

## **Democratic institutions of governance**

### *Organisational institutions of governance*

Governance is provided by certain *institutions* or *actors*. These institutions or actors can be public authorities (e.g. government, governmental agencies, public regulators, or national, regional or local assemblies), private organisations (e.g. associations, civil society organisations or audit firms), individual actors (e.g. citizens), or institutions within organisations (e.g. boards, committees, councils or assemblies). In order to be, and to be perceived as, legitimate and effective, institutions of governance must fit the system(s) they will govern. In order for its governance to be consistent with its main purposes and constitutional foundations, a democratic social system (e.g. society, nation-state, organisation) *must* have *democratic governance* in place, i.e. a comprehensive and robust set of formal institutions and practices that define and outline how the system as a whole as well as in its parts is designed and functions according to democratic principles. If a social system is a *democracy* then it needs *democratic* governance. *Democratic* social systems necessitate *democratic* institutions of governance. Hence, a *democratic* organisation’s institutions of governance *must* themselves be *democratic* institutions – i.e. their structures, their composition and the way(s) they work and function must be in accordance with the very same principles they are designed to realise and to protect.

(Larger) democratic organisations have organisational institutions of governance such as boards, committees, councils or assemblies.<sup>141</sup> In order for these governing bodies to be democratic, they must fulfil

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profit or not-for-profit, usually it is only applied to corporations in very narrow, orthodox and instrumental terms (i.e. mostly focusing on external and internal control institutions and mechanisms, due diligence, management ethics, and codes of conduct). Hence, instead of ‘corporate governance’ I use the broader and more general term ‘governance’ (and later ‘democratic governance’), as described and defined here and throughout this part.

<sup>141</sup> In smaller organisations, governance is usually less formalised. For example, instead of formal and formalised governance bodies, such organisations might only have casual, semi-formal or informal (group) meetings where issues of governance are discussed. Nonetheless, such meetings should also adhere to the principles of democratic



the following formal conditions (Ostergaard & Halsey 1965, p. 26, Srivastva & Cooperrider 1986, pp. 707–708, Weisskopf 1993, pp. 6–7, Ackoff 1994, p. 118, Bowman & Stone 2004, p. 275, Upchurch et al. 2014, p. 49):

- a) They are democratically established and controlled by all members of the social system on the basis of legitimate authoritative sources;
- b) All members of these organisational institutions of democratic governance are elected by the members of the social system;
- c) Diverse membership in these organisational institutions is achieved via *democratic competition* (also called ‘competitive democracy’), i.e. different candidates or groups should openly compete to be elected or appointed to the formal positions;
- d) Elections or appointments to these institutions are free, transparent, competitive, democratic, regular and frequent;
- e) There are institutional safeguards in place to directly limit the power, responsibilities and authority of offices and office holders, such as regular turnovers in office, role rotation and limitations to the terms in office, and limitations on the number of board and committee memberships a person can hold;
- f) In the organisational institutions of democratic governance any issue can be, and is, addressed, discussed, deliberated and decided upon according to democratic rules, standards and procedures.

Measures such as those listed above are necessary in order to make and to keep organisational institutions of governance as democratic as possible. The organisational institutions of governance of the democratic organisation are fairly similar to some of the institutions of governance of a *fully fledged* and *fully functioning* democratic state.<sup>142</sup> As democratic institutions, these governing bodies add another truly democratic element to the democratic organisation (Lipset 1952/2010).

And they work. Actually, they work pretty well – also and especially within and for organisations:

- In his classical investigation of the American International Typographical Union, Lipset (1952/2010, pp. 9–14) identified several internal structures that prevented and counterbalanced tendencies of oligarchisation: There was significant membership participation and referenda were often held (p. 10), there were permanent, vigilant and active opposition groups, frequent secret elections of senior officials and administrators, and regular and frequent turnovers in office.
- Ostergaard and Halsey (1965, p. 26) found political (management and membership) committees and an elected representative assembly to be useful institutions for ‘stimulating membership participation and increasing the effectiveness of democratic control’.
- In regard to the widely known (and researched) Mondragón cooperative (in fact, a network of

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governance and decision-making.

<sup>142</sup> Although there are, of course, also differences. With respect to institutions of governance, the biggest differences between the democratic state and the democratic organisation are that there are no political parties, public administration or independent media within the latter.

hundreds of cooperatives mainly in northern Spain), Bowman and Stone (2004, p. 275) found: ‘Democracy is central and turns on membership. Ultimate control of production, income spread and board seats lies in the yearly general assembly. It elects the board of directors (*consejo rectoral*) which appoints management. The assembly elects a watchdog council (*consejo de vigilancia*) to monitor management and a social council (*consejo social*).’

- While analysing the institutions of economic democracy, Malleon (2013, p. 99) found that: ‘The co-ops that are the most successful at maintaining vibrant egalitarian democratic practices are ones that are successful at building three things: a structure of parliamentary democracy, a structure of participatory democracy, and a culture of participation. The co-ops that are the most successful at maintaining overarching parliamentary structures of democracy (general assemblies operating on the basis of one-person one-vote, transparency, availability of information, and so on) are the ones that develop mechanisms for maintaining healthy democratic competition in order to prevent the same clique from winning election after election. As in political democracy, workplace democracy works best with active internal opposition (a “loyal opposition”) so that dissatisfied people can form different groups and organize different platforms to ensure new ideas are heard and new leaders enter into management.’

Hence, not only are there good theoretical and conceptual reasons and arguments but there is also compelling empirical evidence for having *democratic* institutions of governance in the democratic organisation.

#### ‘Checks and balances’: Separation of powers and subsidiarity

##### i) ‘Checks and balances’

To institutionalise governance (actually, *any* institutionalisation) is to institutionalise *power* (Lukes 1974) – the power to make decisions that are relevant to others; formulate principles, norms and values; create laws, rules, regulations, policies and sanctions; enforce the law and control compliance; and praise and punish. However, a single institution of governance holding all of these powers would be an uncontrolled monopoly on power, a totalitarian regime – which, obviously, would be incompatible with the notion of the democratic organisation (or any democratic system).

Hence, every formally institutionalised social system that doesn’t want to be a totalitarian regime needs various institutions of governance – and these institutions of governance should be democratic if the social system is, or claims to be, democratic. Moreover, it is not only important that each and every institution of governance is democratic for and by *itself* but also that the various institutions of governance *relate* to each other in democratic ways. They need to *check and balance* each other. In his *The Spirit of Laws*, the French philosopher Montesquieu (1689–1755) (1748, quoted in Carter et al. 2007, p. 94) pinned down the main rationale of *checks and balances*: ‘So that one cannot abuse power, power must check power.’ And Dahl (1985, p. 8) explicitly (and quite rightly) stated that ‘a necessary condition for liberty is the existence of strong barriers to the exercise of power’. Checks and balances constitute a particularly strong institutional principle that contributes to restricting power by enabling and encouraging institutions of governance to mutually control and limit each other (Casella & Frey 1992, p. 641). All advanced and fully fledged democracies without exception are built and rely strongly on checks and balances between, but also within, the three branches of government. In the case of the democratic

organisation, this would mean that all organisational institutions of governance are constitutionally authorised – even obliged and factually enabled – to control (check, balance, hold accountable and sanction) other organisational institutions of governance.

That organisational institutions of governance control each other in the spirit of checks and balances can be done in two ways, via two tried-and-tested concepts respectively – via *separation of powers*, which provides *horizontal* balance and control between institutions, or via *subsidiarity*, which provides *vertical* balance and control.

## ii) Separation of powers

'*Separation of powers*' (*trias politica*) is a concept from political theory about keeping the three branches of a nation-state (legislative, executive and judicial) separate and independent of each other, and controlling each other, so as to ensure good governance (Sud & VanSandt 2011, p. 136). The general idea of separation of powers is that within any formalised, complex, democratic social system powers must be separated so that no formal position of authority or organisational institutions have a monopoly on power, no power is concentrated in the hands of individuals (autocracy) or groups of people (oligarchy), and the legitimate power and authority of those in office/with power is limited.

Fairtlough (2005, pp. 28–29) drew attention to the fact that the separation of powers is a type of *heterarchy* – i.e. a relation between elements of a system where none is dominant (like the children's game 'rock paper scissors'). The heterarchical organisation of a nation-state's main institutions of governance works pretty well. The political economist Vincent Ostrom argued in his *The Political Theory of a Compound Republic* (1971/1987) that the concept of separation of powers is a *necessary* element of any system of democratic governance and self-governance. So, what is good and works for nation-states is also good and works for organisations; organisations' institutions of governance should also be designed and function *heterarchically*, i.e. according to the principle of separation of powers. The fundamental idea is that no single unit (e.g. board of directors) or position (e.g. 'the owner' or CEO) in the organisation should ever have, or gain, a monopoly on power, influence or decision-making.<sup>143</sup> Instead, to apply the principle of separation of powers to (democratic) organisations would mean having *multiple, equally powerful* boards (of directors and other representatives) or committees that are responsible for different areas of governance and control each other. For instance, one board (the executive) manages the organisation and its daily affairs, and runs the business; another board (the judiciary) oversees and controls the organisation and the executive; and a third board (the legislature) is responsible for drafting authoritative sources such as the constitutional partnership agreement, policies, rules and regulations – and to have committees and a general assembly that mean further institutions of governance contributing to a separation and control of power.

All of these organisational institutions of governance need to be fully functioning on a permanent and regular basis, provided with the necessary resources and far-reaching powers thanks to the democratic organisation's constitution, and held accountable by all members of the organisation (the owners) on a regular basis. Having multiple, equally powerful (well-designed and well-functioning) institutions of

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<sup>143</sup> This idea, obviously, is exactly the opposite to what is found in any kind of orthodox, hierarchical organisation, where eventually all power is concentrated at the top in a single position and/or in a collective body.

governance in the organisation that focus on different areas and functions of governance contributes *considerably* to the democratic foundations and functioning of the organisation. Separation of powers is a very efficient instrument that can limit (the use of) power as well as reduce the possibility of abuse of power (Ostrom 1971/1987, p. 85, Epstein 1987/1998, pp. 44–47, Fairtlough 2005, p. 67, Sauser 2009, p. 157, Sud & VanSandt 2011, p. 136, Lynn 2014, p. 26).

### iii) Subsidiarity

Separation of powers and checks and balances confine power *horizontally*. But there is also a principle and concept that balances power *vertically* – *subsidiarity*. As was explained earlier, the principle of subsidiarity suggests that ‘in a legitimate social system the authority (and responsibility) to make decisions, to govern and to manage, starts at the lowest possible level of the social system’.<sup>144</sup> Or, to rephrase it: When institutions, agencies or formal positions are related vertically, any task that *can* be performed at a lower level *should* be performed at the lowest possible level (Dahl 1970, p. 102, Hirst 1994, p. 32, Eberly 2000, pp. 24–25, Wolff 2005, pp. 133–134).

Subsidiarity means that matters are governed and administered, that issues are addressed and solved (or attempts are made to solve them), where things happen and matter, or where the causes and consequences are relevant (i.e. in a local context or at operational levels in an organisation). Accordingly, people ‘on the ground’ are entitled and empowered to make decisions and are responsible for taking action where they are, i.e. in their neighbourhood or in the workplace. Practising subsidiarity helps ‘to make democratic governance locally more relevant, accountable and transparent, as well as more effective and efficient’ (Nauc ler 2005, p. 98).

The principle of subsidiarity can also be applied to organisations – *particularly* to organisations. It suggests that organisational institutions of governance should be located not (only) ‘at the top’ but also throughout and across the organisation; that they should be as open, inclusive and participative as possible; and that formal decision-making should take place (also) at the lowest possible levels.

Clearly, within an organisational context, the idea of *subsidiarity* is the direct opposite of the *chain of command* (‘line management’) principle, which claims that power (and key responsibilities and functions such as making decisions) should be allocated at the highest possible level, at the top, and communicated downwards. *Chain of command* is consistent with hierarchy, autocracy, oligarchy and an authoritarian, top-down approach to leadership, decision-making, management and control. In contrast, *subsidiarity* is consistent with heterarchy, democracy and a participative, bottom-up approach to leadership, decision-making, management and control. Viewed in this way, subsidiarity is consistent not only with the fundamental idea of the democratic organisation but also with the ideas of free individuals, participation and empowerment.

In sum, separation of powers is the means of horizontal checks and balances on power, whereas subsidiarity is the means of vertical checks and balances. For the democratic organisation, this means that its institutions of governance are all made as powerful as possible in order to conduct their constitutional

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<sup>144</sup> See section ‘The principle of subsidiarity: Subsidiarial authority’ in Part I, ‘Free individuals and legitimate organisations’.

tasks and responsibilities effectively, but at the same time their powers *are systematically limited by other institutions of governance and conferred to lower levels* so that they cannot overstep their legitimate authority or gain too much (or even absolute) power.

### **Legitimate authoritative sources**

Governance – *any* governance – is based on *authoritative sources*. Authoritative sources are compilations of text that offer fundamental and ample guidance and advice on how a system and its key parts should be designed, maintained and function; what is more and less preferable (or even ‘good’ and ‘bad’); how issues will be handled; and how people should behave – what they should and should not do. For example, a constitution, laws, rules and regulations, policies, standards, guidelines or codes of conduct are authoritative sources.

Because of their fundamental importance and character for the design and workings of institutions of governance as well as the behaviour of people, authoritative sources are kept in high regard. Usually, authoritative sources are explicit, carefully crafted, institutionalised and protected. They are meant to last for some time (even when altered) and to be as comprehensive, detailed and specific as possible. Nonetheless, even in the case of a very clear formulation, they often can be interpreted, understood and applied in various, rather different ways and their meaning(s) and way(s) of being applied and implemented can be contested.

Like any other formally institutionalised social system, the democratic organisation is based on various authoritative sources. For instance, the democratic organisation is constituted and maintained on the basis of a formal, legally binding *partnership agreement* that itself is based on certain business, labour and contract laws and regulations. A democratic organisation (of some size and age) might also have mission and vision statements, strategic and operational plans, policies, codes of conduct, principles of responsible management, and sustainable business, ethics and compliance statements. Further authoritative sources may outline more specifically the various tasks, functions, rights and responsibilities of governing bodies, units and committees; specify formal positions; allocate power and resources; and specify decision-making mechanisms, responsibilities and accountability within the democratic organisation.

All these authoritative sources bear meaning and relevance for the members of the organisation (as well as external stakeholders) and its governance – even if people do not know about them in detail or care about them. As official documents, they state and clarify what is relevant and not relevant, important and not important, expected and not expected, allowed and not allowed. They are used and referred to in order to establish and to shape reality, and they imply how reality ought to be seen, approached and shaped.

Because of their fundamental meaning and great relevance to the social system, its governance and its members, authoritative sources must be *legitimate*. As outlined earlier, having legitimacy – *all* five types of legitimacy – is of utmost importance for any institution. In this sense, in order to be legitimate, the authoritative sources of a democratic organisation must be:<sup>145</sup>

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<sup>145</sup> The five points are based on the five types of legitimacy as conceptualised in section ‘Types of legitimacy’ in

- 1) Consistent with their own claims and the formal policies, rules and regulations they propagate (internal formal legitimacy), must fit to the spirit and the notion of a democratic organisation, its purposes, design, and functioning, and must be consistent with the relevant legitimate constitutional, legal and judiciary laws, policies, rules and regulations (external formal legitimacy) (*formal legitimacy*). For example, the partnership agreement of a democratic organisation must grant in principle the same formal, procedural and fundamental institutions, rights and functions, like the legitimate constitution of the political system where the democratic organisation is based and operates.
- 2) Implemented and applied to issues and to every member of the organisation in the same consistent, non-discriminatory, democratic, participative, fair and just ways (*procedural legitimacy*). For instance, since all members of the democratic organisation have the same legal status as equal partners, they also have equal rights to participate in profit-sharing (and responsibilities to bear losses). Certainly, organisations can choose from various profit-sharing schemes that differ in how they calculate individuals' (monetary and non-monetary) contributions and how they distribute profits (among those individuals). But whatever scheme is decided by the partners, it must be applied to *all* partners in the same way.
- 3) Designed, managed and maintained, operate, and produce outcomes and consequences in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability, as well as people's inalienable human, civil and democratic rights, and they reflect, propagate, uphold, protect and strengthen these rights and values (*substantive legitimacy*). For example, in their partnership agreement, the owners of a democratic organisation must agree on, and adhere to, everyone's inalienable rights of and to self-ownership, private ownership and related property rights, their human, civil and democratic rights, principles of democratic governance and democratic management, equality and justice – and they must grant all partners or members of the democratic organisation these same rights, responsibilities and opportunities.
- 4) Seen and accepted by all members of the organisation as legitimate in principle (*perceived legitimacy*). Members of the democratic organisation do not need to like and support all policies, rules and regulations that are put in place in the democratic organisation – but they must accept authoritative sources that meet all the criteria of legitimacy and comply with them accordingly.
- 5) Produced, deliberated and decided upon democratically in transparent and participative ways (i.e. by the relevant organisational institutions as well as all members of the democratic organisation), and can be scrutinised, contested and altered for good reasons (*rational legitimacy*). For instance, all members of the organisation must be involved in developing the organisation's strategy, must have opportunities to participate throughout the whole process of strategy development (i.e. during strategy analysis, formulation and implementation), and must also be involved in finally deciding the strategy (either directly or via a general assembly or committees) and implementing it at strategic and operational levels.

## Democratic governing

By applying legitimate authoritative sources to issues and people, democratic institutions of governance *govern* the social system (or parts of it) and public affairs just as they were set up to do. What kind of governance these (institutional) actors offer depends largely on their own nature, design and functioning – the reasons and purposes for which they were set up; their structures (e.g. autocratic, oligarchic, democratic, hierarchical or heterarchical); the institutions' and actors' (actual or perceived) duties, rights, responsibilities and relationships; and the processes and mechanisms of agenda-setting, policy-making, decision-making (decentralised or centralised, individually or collectively, formally or informally), control and compliance – as well as the people who serve in these institutions of governance and the members of the social system.

Again, the mode of governing must fit the social system and its institutions of governance. In the case of a *democratic* social system and *democratic* institutions, this governance must be *democratic*. The following sub-sections elaborate on what democratic governing means and what it should look like. They particularly focus on democratic decision-making, transparency and accountability as key elements and characteristics of democratic governing.

### *Democratic decision-making*

A key part of governing an organisation is making decisions about its fundamental principles, design, structures, processes and workings. Crucially, the question is *who makes what kinds of decisions and in what way(s)?*

From a governance perspective, the way(s) decisions are made is important because decision-making processes must fit the type of social system. Evidently, in an autocracy decisions are made by a single person in an authoritarian style, in an oligarchy decisions are made by a few people 'behind closed doors', and in a democracy decisions are made 'by all' either via direct participation or via representatives. Whereas decision-making processes within the democratic organisation can vary based on the type of decision to be made and other factors, these organisations nonetheless share the basic notion of being as democratic, open, inclusive, fair and transparent as possible. In probably the best academic paper ever written on democratic, participative or egalitarian organisations, Srivastva and Cooperrider (1986, p. 697) explained the central idea and nature of democratic or collective decision-making within organisations:

Amplifying the theme of inclusion, the consensus ideal premises that: (1) organizational decisions, plans, or rules become morally binding to the extent that they emerge from a process where all relevant stakeholders have access to full, active, and mutual involvement in their determination, (2) the ultimate basis of authority does not rest with any one individual (or set of individuals) based on ownership, formal position, or expertise; rather, it is based on the dynamic consent of the group, and (3) there is not authority that can unilaterally command obedience nor any tradition that can demand conformity without seeking to elicit voluntary agreement on the basis of dialogue, persuasion, or negotiation, i.e., use of logic, facts, or appeal to values.

From a legal point of view, it is relatively clear who should make the decisions in democratic organisations. As owners of the democratic organisation, *all* members have a *legal right* ('property right'<sup>146</sup>) to participate fully in decision-making (Vanek 1971, pp. 8–9, Rothschild-Whitt 1979, p. 512, Bachrach & Botwinick 1992, p. 106, Bowles et al. 1993, p. 129, Archer 1995, pp. 31–32, Caspary 2004, pp. 239–240).<sup>147</sup> Moreover, in a democratic social system, *everyone* is *equally* entitled to be involved in decision-making systematically and regularly simply because of the general idea of democracy (Dahl 1979/2006, p. 109, called this 'the criterion of political equality'). This understanding of participation in democratic decision-making as a *political* right is the cornerstone of *participatory democracy* (Rothschild & Whitt 1986, p. 2). Hence, in the democratic organisation – and *only* in the democratic organisation – legal rights (property rights) and political rights (political equality) converge; *all* members of the democratic organisation are entitled to be involved in all types of decision. Sargent (2008, p. 270) gives a good example of how decisions can be made democratically within the daily reality of organisations, based on her own experience as an activist who worked for a cooperative publisher:

We were also able to be 'efficient' by making adjustments in our voting procedure. We mainly used one person/one vote, majority rules, with attention to a strong minority. This system worked extremely well. We didn't want trying [sic] to achieve consensus to hold up producing books; we also wanted to know what kinds of disagreements there were in the group. Utilizing a strong minority was a good check on decisions, as well. If a few people felt strongly enough to hold up a decision and argue their case, then perhaps we were making a hasty decision. As it turned out, the strong minority reversed many decisions and promoted some of the best discussions.

One might say that all decisions that are about constitutional, strategic or operational issues (and not purely about functional tasks conducted by individuals) should be made democratically and in accordance with democratic standards, i.e. by all members of the organisation or by its relevant parts (direct or participative democracy), by elected or appointed representatives, or by office holders who are controlled, are held accountable, and can be removed from office by democratic means (representative democracy).

### *Transparency and transparent decision-making*

It is crucial to assess the quality and conduct of governance. Democratic governance, especially, is inherently based on and linked to full and far-reaching *transparency* (Grimond 1971, p. 93, Romme 1999, p. 811, Caspary 2004, p. 240, Bevir 2006, p. 434, Greenwood 2007, pp. 356–357, Tolbert & Hiatt 2009,

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<sup>146</sup> It should be reiterated that property rights entitle owners to make decisions *only* in regard to *property* (i.e. material or immaterial assets or 'things') and *not* in regard to *people*. As the discussion about individuals' free will revealed (see chapter 'Individuals: *Free* individuals' in Part I, 'Free individuals and legitimate institutions'), making decisions about people is only possible in a discursive way and with their consent (see also the following chapter 'Democratic management'), i.e. by acknowledging self-ownership and people's inalienable rights related to it. Only in the democratic organisation do property rights and self-ownership rights coincide.

<sup>147</sup> Though the actual decision-making can be delegated to representatives who are held accountable by the members of the electorate. This topic will be addressed further down in the section 'Representative management via individual positions or organisational institutions'.



Breindl 2010, p. 45, Erdal 2011, pp. 180–182). Table 8 shows what transparency means and how it can be realised in regard to the democratic governance of organisations.

- All members of the organisation have the right to free and equal access to all non-confidential data and information.
- The organisational policies, rules and regulations of governance, in particular for making decisions, are explicit and publicly available, adhere to democratic standards and can be contested and changed within the framework of democratic standards.
- Formal knowledge about how decisions are made, administrative expertise and procedural know-how is made available to all members of the organisation.
- It is clear who is involved in the decision-making, in which function and based on which criteria.
- All members involved in a particular decision-making process or event (e.g. a meeting) are automatically informed about the topic and agenda, issues and procedural aspects to be discussed and decided well before the event takes place.
- Relevant information is made available to all people involved in the decision-making well before the issue is debated and decisions are made.
- Formal decision-making events are open to every member of the organisation (either as a participant or as an observer).
- The actual process of decision-making takes place in democratic, fair and transparent ways, and decision-making happens openly and according to the formal rules and good practices of democratic debate and decision-making.
- Minutes are taken during decision-making processes, are kept and made accessible to everyone.
- All members of the organisation are automatically informed about constitutional or strategic decisions that have been, or are to be, made.

Table 8: Rules of transparency and transparent decision-making within democratic organisations.

Within an organisational context, transparency means that all members of the organisation have free and equal access to, and are automatically provided with, all relevant non-confidential information about the formal organisational policies, rules and regulations of governance; the procedures for making decisions; and specific information relevant to the particular decision-making they are involved in.

### *Multi-dimensional, top-down and bottom-up accountability*

Transparency enables *accountability* (and accountability necessitates transparency). Accountability is not only highly relevant as an *ex post* measure to hold actors responsible for their actions or inactions but also as an *ex ante* measure to influence actors (trying) to meet prescribed standards and to act as expected. *Accountability* means the obligation of an individual, group or institution to give account (to report, provide information, answer, explain and justify, assume responsibility) about their actions (decisions, activities, behaviour, conduct and performance) to some other individual, group or institution that has the right, duty and means to control the former, to hold them accountable, and to impose possible consequences (sanctions, rewards or punishment) on the former for what they have done, assessed against some predefined criteria (standards, expected behaviour or outcomes). It means that every institution and office holder: a) can be called upon at any time by anyone to explain and to justify the conduct of their office, in particular about decisions made (or not made) and consequences caused, b) has to assume responsibility for their actions or inactions, and c) may face positive or negative consequences for their actions or inactions.

Based on various definitions in the literature (Ostrom 1971/1987, p. 140, Chisolm 1995, p. 141, Scott 2000, p. 39, Ebrahim 2003, pp. 813–814, Keohane 2003/2006, p. 701, Morlino 2004, pp. 17–18, Bovens 2006, p. 9, Brown 2006, p. 210, Müller et al. 2006, p. 4, Strøm, without year, p. 8, Strøm 2006, p. 62, Esmark 2008, p. 276, Schillemans 2008, pp. 176–177, Considine & Afzal 2013, p. 372), the specific responsibilities of the actors involved in accountability may be defined as:

- The *duty* and *obligation* of an agent
- To give account, to answer for one's actions and the conduct of one's office (i.e. decisions made, activities performed, behaviour demonstrated, outcomes or performance achieved)
- By providing (the required) information, explanations and justifications
- To a principal who has the *rights* and *duty*
- To oversee, check and control the actor, their actions and conduct of office,
- To demand information, explanations and justifications from the actor,
- To assess and judge the actor's performance against predefined criteria (goals, standards, expected behaviour and/or outcomes),
- To hold the actor accountable for their conduct of office, their decisions, actions or inactions, behaviour, outcomes and performance, and
- To impose positive or negative consequences or sanctions on the actor for their satisfactory or unsatisfactory conduct and performance (e.g. rewards or punishment such as blocking or amending decisions made by the agent, imposing penalties, constraining the authority and/or responsibilities of the agent, revoking the mandate or removing the agent from office).

'Who is accountable to whom about what?' is the question at the centre of accountability. It indicates that (at least) two actors (individuals, groups of people or institutional actors) are in a particular relationship with each other where one is being held accountable and the other is holding accountable. Accountability may be required of an individual, group or institution at a *higher* level ('upwards accountability', e.g. subordinate to superior, employee to manager), at the *same* level ('horizontal

accountability', e.g. individual to peers, organisation to stakeholders), or at a *lower* level ('downwards accountability', e.g. delegate to electorate) (Scott 2000, p. 42, Morlino 2004, pp. 17–18, Schillemans 2008, pp. 175–176).

Traditionally (i.e. in classical hierarchical superior–subordinate relationships, centralised nation-states and stratified societies), accountability has largely occurred *upwards*: a lower actor must give account to a higher or more powerful actor and is controlled and sanctioned by that actor. In a democratic system it is *exactly the opposite*: accountability occurs primarily *downwards*, i.e. the higher or more powerful actor must give account to the lower actor (and is controlled and sanctioned by that actor). Accountability understood in such a way means democratic control of office and office holders to limit the power and authority of those in office or with power. Hence, in the democratic organisation, and in *any* social system that is based on the principles and values of democracy, accountability reflects democratic principles and values. For example, Maleson (2014, p. 41) pointed out that large cooperatives 'still have order-givers and order-takers. But those who give orders are now fundamentally accountable to those who take them. This is what makes a co-op a democracy and not a hierarchy'. It is a spirit of *democratic accountability* (Bowles & Gintis 1993, p. 82) that grants all members of a social system with equal opportunities to control office holders, their conduct of office and decision-making.

For the democratic organisation, this means a *system of multidimensional accountability* with at the same time horizontal, top-down *and* bottom-up accountability (Keohane 2003/2006, p. 701). Horizontal accountability is performed and achieved via checks and balances between organisational institutions of governance on the basis of separation of powers; top-down accountability via democratically elected or appointed boards, committees and office holders, which hold accountable those units and members of the organisation for whom they are responsible; and bottom-up accountability via all members of the organisation holding accountable their elected or appointed representatives and office holders.

### **'Good governance'**

Besides its formal design, one of the most important questions about governance is *how* it is done, i.e. how institutions of governance *actually* govern on the basis of legitimate authoritative sources. To some extent this is about the technical functioning of governance, i.e. whether institutional actors are sufficiently enabled, competent and willing to provide efficient and effective governance. But how governance is conducted is even more a *qualitative* issue; it requires assessment and judgement of how *well* governance is functioning and happening. It is about how *good* governance is – and *for whom*.

People expect, or at least hope for, 'good' governance. 'Good governance' has even become an established term and concept used by international and national institutions of governance, auditing, and economic and social development; governing bodies such as the United Nations, the World Bank and the International Monetary Fund; and other public and private organisations. The concept of 'good governance' not only tries to describe and analyse how well institutions of governance actually govern but also attempts to identify the causes of 'good governance' – the underlying (necessary) aspects that enable and even produce 'good governance'.

The concept of 'good governance' is relatively broad and multidimensional, comprising mainly political, socio-philosophical, ethical and social parameters. The aspects identified and included in a particular concept of 'good governance' vary with its purpose, the area where it is applied and the convictions

and worldviews of those who use such concepts. But if one focuses on the most widely mentioned concepts (Bovaird & Löffler 2009, p. 10, United Nations Economic and Social Commission for Asia and the Pacific 2009, Kneuer 2012, pp. 879–880), it is possible to identify the key elements and even various levels of ‘good governance’ as shown in Table 9 below.

Level	Elements
1) Basic functions of government and governing ( <i>formal administration</i> )	<ul style="list-style-type: none"> <li>– Strong and stable governmental institutions (government and governmental agencies)</li> <li>– Functional administration (efficiency, effectiveness, productivity, performance and sustainability)</li> <li>– <i>Formal</i> ‘rule of law’</li> <li>– Upward accountability, top-down control</li> </ul>
2) Fully fledged, and fully functioning democratic political system ( <i>democracy</i> )	<ul style="list-style-type: none"> <li>– Legitimate authoritative sources</li> <li>– Democratic institutions of governance</li> <li>– Separation of powers; strong and independent legislative; strong and independent judiciary (non-discriminatory laws and impartial judicial processes); regulated executive</li> <li>– Subsidiarity (decentralisation, devolution of resources and decision-making to lower levels)</li> <li>– Political system (multiple independent political parties, regular, free and fair elections, and elected office holders)</li> <li>– Democratic decision-making (inclusiveness, full participation), transparency, upward, downward and horizontal accountability</li> </ul>
3) Promotion of universal values, human rights and civil rights ( <i>civil society</i> )	<ul style="list-style-type: none"> <li>– Universal protection and promotion of all human, civil and democratic rights</li> <li>– <i>Substantive</i> ‘rule of law’</li> <li>– No corruption</li> <li>– Cherishing the fundamental values of freedom, democracy, equality and justice</li> <li>– Freedom of expression (voice), free and independent media, public debates and deliberation</li> <li>– Freedom of association (voluntary and independent interest groups, civil society organisations and political parties)</li> </ul>

Table 9: Three levels and elements of ‘good governance’.

The basic governance functions (*formal administration*) are provided by *any* type of institution or political system, i.e. by autocratic, oligarchic or democratic states and by hierarchical or heterarchical

organisations. Even the most totalitarian, autocratic or oligarchic regimes (which often claim to be ‘democracies’) provide all of the basic functions of governance, potentially in somewhat broad, robust and intensive forms (which is one of the factors that makes them oppressive police or surveillance states). Some even might call this ‘good governance’ (usually the proponents of such regimes). In such instances, however, the ‘good’ of ‘good governance’ should not be understood as a value judgement implying ‘quality’ but rather as a marker *only* indicating that governance is formally consistent with the logic of the system it governs (e.g. an authoritarian regime has authoritarian and draconian laws, very strong and powerful governmental institutions, a fully functioning administration and administrative apparatus, comprehensive accountability, control and surveillance, and widespread use of the ‘rule of law’).

In their governance, authoritarian regimes and hierarchical organisations will not – and *cannot!* – go beyond the basic functions of government, governance and formal administration (level 1). A fully functioning political system and democracy (level 2) and the promotion of civil society (level 3) via governance is – and *can* be – provided *only* by fully fledged democratic nation-states, institutions or organisations – and only *this* is real ‘good governance’. In this case, governance is not only *formally* consistent with the social system in question (a democratic society, nation-state, institution or organisation) but also *substantively* consistent; ‘good governance’ is good (i.e. ‘good’ as a value judgement) because it enables and provides democracy and civil society. It is democratic governance in democratic ways. ‘Good governance’ needs democracy – and democracy needs ‘good governance’. Hence, governance *must* be democratic in order to be good and legitimate. In the case of the democratic organisation, ‘good governance’ thus means that democratic institutions of governance (i.e. organisational institutions of governance based on the principles of separation of powers or checks and balances, and subsidiarity) govern the organisation democratically (i.e. via democratic decision-making, transparency and accountability) on the basis of legitimate authoritative sources that appreciate and protect the fundamental human, civil and legal rights of all members of the democratic organisation. That is, ‘good governance’ of the democratic organisations works on all three levels<sup>148</sup> – and only with comprehensively developed and successfully implemented ‘good governance’ is a democratic organisation indeed a *democratic* organisation.

### **Democratic governance of the democratic organisation**

As the investigation in this chapter has revealed, it is possible to have full, comprehensive democratic governance in and of organisations – to have organisations that are governed democratically. The key elements in the democratic governance of organisations are:

1. *Democratic institutions of governance*: The democratic organisation’s institutions of governance (e.g. boards, committees, councils or assemblies) are themselves *democratic* institutions. Their structures and composition, i.e. the way(s) they operate and function, are democratic. This means that they are designed, maintained and function according to the very same democratic principles and standards they are designed to realise and to protect. In order to avoid an undemocratic concentration of power, sufficient institutional safeguards are in place – *checks and balances*, especially in

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<sup>148</sup> A few elements of ‘good governance’ are not relevant or applicable to organisations or the internal governance of democratic organisations (e.g. a strong and independent judiciary, fully fledged and fully functioning political system or political parties, and free and independent media). But, besides those exceptions, ‘good governance’ of democratic organisations comprises all the other elements.

the form of, and via, *separation of power* (powers are separated and mutually control each other) and *subsidiarity* (tasks or functions that *can* be performed at a lower level *shall* be performed at the lowest possible level).

2. *Legitimate authoritative sources*: Democratic institutions of governance are based on, and function according to, legitimate authoritative sources. In order to be legitimate, authoritative sources must be: 1) consistent with their own claims and the formal policies, rules and regulations they propagate, must fit to the spirit and the notion of a democratic organisation, its purposes, design and functioning, and must be consistent with the relevant legitimate constitutional, legal and judiciary laws, policies, rules and regulations (*formal legitimacy*); 2) produced, deliberated and decided upon democratically in transparent and participative ways (i.e. by the relevant organisational institutions as well as all members of the democratic organisation), and can be scrutinised, contested and altered if there are good reasons to do so (*rational legitimacy*); 3) implemented and applied to issues and to every member of the organisation in the same, consistent, non-discriminatory, democratic, participative, fair and just ways (*procedural legitimacy*); 4) seen and accepted by all members of the organisation as legitimate in principle (*socio-political legitimacy*); and 5) designed, managed and maintained, to operate, and produce outcomes and consequences in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability, as well as people's inalienable human, civil and democratic rights, and they reflect, propagate, uphold, protect and strengthen these rights and values (*substantive consistency*).
3. *Democratic governing*: All members of the democratic organisation govern the organisation and its affairs collectively, either directly or via democratically elected representatives (direct, representative or participative democracy). Such democratic governing of the democratic organisation comprises: a) *democratic decision-making*, i.e. that all decisions are made democratically and in accordance with democratic standards and procedures either by all members of the organisation or its relevant parts, by elected or appointed, democratically controlled representatives or office holders; b) *transparency*, i.e. that all members of the organisations have free and equal access to all relevant, non-confidential information about the organisation and organisational affairs; and (c) *accountability*, i.e. that all office holders are obliged to give account about their actions (decisions, activities, behaviour, conduct and performance) any time to any member or institution of the organisation, to assume responsibility for their actions or inactions, and may face positive or negative consequences for their actions or inactions.
4. *'Good governance'*: For the democratic organisation, 'good governance' means that: a) the organisational institutions of governance and the basic functions of government and governing are designed, work and are offered on the basis of the rule of law, and are consistent with democratic standards (level 1 – formal administration); b) all organisational institutions of governance (boards, councils, committees and/or assemblies) and positions of power are based on, and confined by, legitimate authoritative sources; contained and controlled via checks and balances in the form of separation of powers and the principle of subsidiarity; have members who are elected, controlled and held accountable by those they represent; and employ decision-making processes that are democratic and transparent (level 2 – democracy); and c) all owners' and members' inalienable human, civil and democratic rights are equally protected and promoted, and there is substantive rule of law, freedom of expression and freedom of association within the democratic organisation (level 3 – civil society).

## Democratic management

This chapter is about the establishment, design and functioning of management (of organisations) – *democratic* management. For this, first it will be argued that a democratic organisation *must* have *heterarchical* organisational structures and processes and *democratic* management. The following three sections then develop a concept of *democratic* management that is consistent with the notion of the democratic organisation. The first element is *self-management*. It will be shown how people (i.e. all members of an organisation) can manage, organise and decide (their) work and work-related issues, the conditions of their work, and organisational affairs by themselves either individually and/or via self-managing groups, networks or democratic institutions. This is followed by an interrogation of *representative management*, i.e. how organisational affairs and management functions that go beyond individuals’ or groups of people’s capacities to self-manage can be managed by formally established organisational institutions of governance and management (boards, committees, councils or assemblies) or individual management positions. Finally, it will be looked at *participative management*, how *all* individual members of an organisation can participate in formal decision-making processes and in the management of the organisation and organisational affairs at all levels of the organisation. A final section then presents all the elements of democratic management.

### Hierarchy and/or heterarchy: Democratic management

Things must be managed – which means that there must also be management in the democratic organisation. Whereas governance offers the general framework for designing and maintaining an organisation, management provides the specific concepts, functions and actions to run the organisation on a daily basis. Concerning governance, it is clear that only *democratic* governance corresponds with the fundamental ideas and principles of the democratic organisation. The same is true of management: only *democratic* management fits the democratic organisation. Management in the democratic organisation *must* be democratic since otherwise it would go against the organisation’s fundamental principles.

Democratic management is fundamentally different from any prevailing management orthodoxy, in particular from the traditional hierarchical, exclusive, top-down type of management (and managers!) that has been the dominant managerial concept and ideology since the 19th century.<sup>149</sup> The crucial question, of course, is what exactly is *democratic management* – and how does it work?

In general, management means ‘handling’ things and people and comprises key functions such as planning, organising, leading and controlling. In this sense, management is a *relationship* between people and things; *who plans, organises, leads and controls what and whom?* (For a social system with some or many members) possible solutions are that (1) one person manages and everyone else is managed

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<sup>149</sup> For a thorough critical analysis of orthodox management and managers, see my book *Management and the Dominance of Managers* (Diefenbach 2009a), in which I developed a multidimensional theory relating to the social dominance of managers within an institutional context.

(autocracy), (2) a few people manage and many are managed (oligarchy), or (3) all manage and no one is managed (democracy). The first two solutions result in forms of *hierarchy*, whereas the last results in *heterarchy*.

Hierarchy can be understood as a comprehensive, thoroughly established social system of vertically arranged social positions of superiors and subordinates in which the former have the exclusive right and means to give orders to, control and sanction the latter, who have the duty to carry out the orders and to obey.<sup>150</sup> Clearly, the democratic organisation could not function with such a formal chain of command and vertical social relationships, i.e. with hierarchy. Within the democratic organisation, formal social relationships cannot be hierarchical for *legal* reasons (because all members have equal rights and responsibilities due to their owner status, the partnership agreement, self-ownership and the impossibility of transferring inalienable rights) and *governance* reasons (because the principles and mechanisms of democratic governance – in particular checks and balances, separation of powers, subsidiarity and democratic decision-making – suggest equal rights to participate in running the organisation).

For these reasons, there cannot be hierarchical superior–subordinate relationships or autocratic management in the democratic organisation. There can only be such organisational structures, processes and types of management that are consistent with the concepts, rights and responsibilities of collective private ownership and democratic governance. Consequently, the organisational structure of the democratic organisation is to be understood better as a *heterarchy*, as a system where all the elements are unranked.<sup>151</sup> A heterarchical social system consists of horizontally arranged social positions. In the case of a formalised social system such as an organisation, this means that all the elements (i.e. all formal positions and all members via their roles, functions and positions) ideally have equal power and authority to influence the system and common issues and affairs within the system (Girard & Stark 2002 called this ‘distributed authority’ or ‘relations of lateral accountability’).

The concept of heterarchy fits fairly well with the democratic organisation and has valuable implications for conceptualising democratic management. Joyce Rothschild (also known as Rothschild-Whitt), one of the leading (if not *the* leading) organisation studies scholars of collectivist organisations since the late 1970s, captured the notion of the heterarchical democratic organisation and management perfectly (Rothschild-Whitt & Lindenfeld 1982, p. 6):

Democratic workplaces are united in their attempt to break down the division between management and labor, planners and workers, so that all who do the work of the organization have an equal voice in its management and a fair share of the fruits of their labor. What they are seeking to alter, then, is nothing short of the structure of power in organizations. The aim is not the simple *transference* of power from one official to another; it is the *abolition* of the pyramid *in toto*. It is an attempt to accomplish organizational tasks cooperatively and democratically, without recourse to hierarchal authority structures or the stratification systems that accompany them.

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<sup>150</sup> See my book *Hierarchy and Organisation: Toward a General Theory of Hierarchical Social Systems* (Diefenbach 2013), which contains a comprehensive and systematic analysis and critique of the concept, ideology, and many dangers and downsides of (formal and informal) hierarchy.

<sup>151</sup> See the sub-section ‘Checks and balances’: Separation of powers and subsidiarity’ above.



Making the case for heterarchy and against hierarchy is the right thing to do – for *any* social system, and thus also for the democratic organisation. It is an argument for structural relationships between positions and social relationships between people that are equal, non-authoritarian, legitimate and democratic.<sup>152</sup>

It should be clear that attempting to have the democratic organisation based, and functioning, on heterarchical social relationships between people does not mean a ‘structureless’ organisation or anarchy. Within the democratic organisation there are still various necessary ‘hierarchies’. In any formally established social system there is, and must be, a *legal* hierarchy between (its) authoritative sources. For instance, the (external) constitution as well as corporate, contract and labour law are superior to the partnership agreement and predefine to quite some extent what exactly can be agreed in it. In turn, the terms agreed in the partnership agreement provide some guidelines for the organisation’s vision and policies, operational plans must be in sync with the organisation-wide policies and strategy, and so on. The hierarchy of authoritative sources creates and guarantees formal and procedural consistency and legitimacy.

Moreover, there is also an *institutional* hierarchy between the various organisational institutions of governance. For example, decisions made by the board of executives or by the general assembly are of higher relevance than decisions made by a shop-floor workers’ committee or project team, and institutions in the headquarters are of more functional relevance than local institutions. Institutional hierarchy provides the administrative consistency that any diversified, multi-layered social system requires. Hence, the case against hierarchical order is not a case against *all* hierarchical orders of and within a formalised social system, but against *social* hierarchy, i.e. against *institutionalised unequal social relationships, social dominance and stratification*, and therefore orthodox, hierarchical management.

For the democratic organisation, the issue of ‘hierarchy vs. heterarchy’ is about avoiding management producing power differentials and social inequality and avoiding power being systematically and exclusively allocated to positions that are not controlled and held accountable by democratic means.<sup>153</sup> Hence, the question, or task, is not how to get rid of management but how to organise management (the bundles of managerial functions or management tasks) so that it is compatible with the democratic organisation.

From legal, constitutional and conceptual perspectives, the democratic organisation is very clear about the allocation and conduct of management functions; there is no stylised or factual distinction or separation between owners and managers (separation between ownership and control) or between managers and workers (separation between management and work) (Zeitlin 1974, pp. 1074–1075, Rothschild-Whitt & Lindenfeld 1982, p. 6, Bowman & Stone 2004, p. 275). *Every* member of the democratic

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<sup>152</sup> Regarding hierarchy, the focus here is only on *formal* structures. Hierarchy, of course, is a much more complex and multidimensional phenomenon – and a danger to the democratic organisation. The chapter ‘The iron threat(s) of disproportional empowerment’ in my book *The democratic organisation* (Diefenbach 2020, pp. 207–241) offers a broad discussion and analysis of intended or unintended processes within the democratic organisation that threaten its principles, its ideas, and even its very existence.

<sup>153</sup> ‘To positions that are not controlled and held accountable by democratic means’ is added as a qualifier to make clear that orthodox, autocratic management positions (i.e. the ‘classic’ line manager) are not compatible with a democratic organisation (or with any formalised democratic system). Later in this chapter it will be argued that the democratic organisation *can* have formal management positions – but these positions come with no line authority and the office holders, even if they are called ‘managers’, are *representatives* who are elected, controlled and held accountable by those they represent and those whose will they execute.

organisation is simultaneously an owner, a manager and an employee or worker in legal as well as in practical terms. As a consequence, there is no separation or distinction between people with and without managerial responsibilities. *Every* member of the democratic organisation has all the rights and responsibilities, and can conduct all the tasks and functions, that are related or directly linked to the legal status of owners. Every member is an owner-manager. *All* members of the democratic organisation have equal rights and responsibilities to conduct the whole range of management functions and to make decisions (Ackoff 1994, p. 117). Management in the democratic organisation is ‘management of the people, by the people, for the people’ – *all* people.

That *all* members of the democratic organisation are legally and constitutionally entitled and required to conduct *all* management functions and responsibilities provides an important and necessary clarification. The question, though, is how *exactly* management functions should be allocated and conducted, and by whom, in the spirit of *democratic* management and consistently with the notion of the democratic organisation. The following sections develop the concept of democratic management by focusing on its three main elements:

1. *Self-management* (by individuals, self-managing groups of people, or via collective authority structures),
2. *Representative management* (via democratic organisational institutions and democratic managers), and
3. *Participative management* (participation in decision-making of all via *full* participation).

### **Self-management via collective structures of authority**

In regard to the allocation of management functions in the democratic organisation, the *principle of subsidiarity* (as introduced in the context of democratic institutions of governance, see sub-section ‘Checks and balances’: Separation of powers and subsidiarity’ above) is helpful in developing the notion and concept of self-management. Subsidiarity was defined as ‘any task or function that *can* be performed at a lower level *should* be performed at the lowest possible level’. In this sense, subsidiarity is understood against the backdrop of, and in respect to, *hierarchical* systems. The principle, though, can also be seen with regard to and applied to *heterarchical* systems in the sense of moving from smaller to larger elements of a social system until the whole system is reached. In the case of the democratic organisation, this would mean: 1. individuals, 2. (work or project) groups, 3. networks, and 4. the whole organisation. Self-management at each of those levels looks as follows.

1. In the elaboration of the principle of subsidiarity above I argued (italics added): ‘Subsidiarity means that matters are governed and administered, that issues are addressed and solved (or attempts are made to solve them), *where things happen and matter*, or where the causes and consequences are relevant (i.e. in a local context or at operational levels in an organisation). This means that people “on the ground” are entitled and empowered to make decisions and are responsible for taking action where they are, i.e. in their neighbourhood or in the workplace.’ Understood in this way, self-management means that it is, or should be, the individuals themselves that first and foremost manage their work and make decisions about their work as far as possible (i.e. as long as it does not impact on others’ work). *Those who do the work manage it and make decisions about it* – or, to put it slightly

differently, *decisions should be made by those who implement the decisions* (Rothschild-Whitt & Lindenfeld 1982, p. 1, Melman 2001, p. 272). In respect to their own work, individual members of the democratic organisation conduct all management functions. No one tells an individual what to do, when to do it, how to do it, or why to do certain tasks (others might give the individual information about their work but it is the individual – and only the individual – who makes the decisions).

2. Although self-management puts each and every individual first, this, of course, does not mean that the individual members of an organisation manage their work in an isolated manner. More often than not, tasks are related to other members' work and need to be coordinated or even carried out in collaboration with others. Several individual members of the organisation might work together as a team, project group or organisational unit permanently or temporarily. In the case of collaborative or overlapping work, individuals (should) conduct all management functions in joint and cooperative ways. In the democratic organisation, self-management is done in and by *self-managing groups*. Individuals participate routinely in permanent or temporary self-managing groups, teams or organisational units. Such groups are fairly independent in how they organise and manage themselves and the work they do (Ward 1971, p. 290). Self-managing groups are organised and function according to democratic principles and standards. Collective formal decision-making within these groups is open and transparent, inclusive and deliberative, decisions are reached by either majority or consensus. Within the democratic organisation they reflect the notion of *direct* democracy the most. For instance, Sausser (2009, p. 160) pointed out that 'self-managing teams operate with participative decision-making, shared tasks, and the responsibility for many of the managerial tasks performed by supervisors in more traditional settings'. It is self-evident that all individuals engaged or involved in any form of such collective self-management must do so freely, must debate and deliberate, and must find means of self-management and collective decision-making that are consistent with democratic principles and standards.
3. Several individuals and groups of people are then connected via *networks*, i.e. in organisational structures and processes where no single element dominates all others (i.e. hierarchy) but all elements are of the same or similar status (i.e. heterarchy). The main idea is that a network consists of autonomous, 'self-directed units based on decentralization, participation, and coordination' (Castells 1996 cited in Ekbia & Kling 2005, p. 163). Hales (2002, p. 54) gave a good description of the idea of the network within organisations: 'The internal network organization is conceived as a loose federation of informally constituted, self-managing, often temporary, work units or teams within which there is a fluid division of labour and which are coordinated through an internal market, rather than rules, and horizontal negotiation and collaboration, rather than hierarchy ... Instead of a hierarchy of vertical reporting relationships there is a 'soft network' ... of informal lateral communications, information sharing and temporary collaboration based on reciprocity and trust.' According to Miles and Snow (1995 cited in Ekbia & Kling 2005, p. 163), the management of the network is viewed as 'a shared responsibility among colleagues, not as a superior-subordinate relationship'.
4. Self-managing individuals and groups can create temporary or permanent *self-managing institutions* that function according to democratic rules, standards and procedures. For instance, a general assembly or formalised virtual processes of deliberation and decision-making represent such self-managing institutions. All members of the democratic organisation are member of these institutions and have equal rights to participate in and contribute to those institutions, the debates and decision-making

processes happening there. For example, when Srivastva and Cooperrider (1986, p. 689) investigated the physician group practice of the Cleveland Clinic (a private, non-profit tertiary care centre located in north-eastern Ohio), they found that: 'A dynamic self-regulating system of cooperative governance has been established whereby the traditional distinction between management and labor has effectively been eliminated. Those who do the specialized work of the organization also control all aspects of the organization – medical and administrative – through a collective authority structure encompassing decision-making at the operational, tactical, and strategic levels.' A 'collective authority structure' can be any kind of democratic institution that is organised, managed and used by all members of the relevant unit (or even the whole organisation), i.e. where all members directly participate in, and contribute to, that management institution. Such institutions are quite developed and robust forms of self-management.<sup>154</sup>

All in all, when the principle of subsidiarity is applied to the notion of self-management, it becomes clear that in a democratic organisation 'those who do the work' also carry out all management functions at all levels, i.e.:

1. Each and every individual member of the democratic organisation manages their work (and themselves) as comprehensively and as far as possible.
2. Self-managing groups of people (teams, projects or organisational units) manage their work and themselves as well as the cooperation and decision-making processes among their members as much as possible according to democratic rules and standards.
3. Individuals and groups of people manage their cooperation with other individuals and groups of people in and via network-like structures and processes.
4. Via collective structures of authority – such as general assemblies or (online) forums – all members of the democratic organisation manage the organisation and organisational affairs in democratic ways.

Thus, in a more complex democratic organisation, the management functions of planning, organising, leading and controlling are provided by self-managing individuals, groups of people, networks and organisation-wide institutions – in *that* order. It is probably this particular arrangement in which various actors execute management tasks and responsibilities individually and collectively on the basis of the principle of subsidiarity that makes self-management so significant. Some organisation scholars even talk about 'self-managing organisations'. For example, as Lee and Edmondson (2017, p. 39) explain:

We define self-managing organizations (SMOs) as those that *radically decentralize authority in a formal and systematic way throughout the organization*. What distinguishes self-managing organizations from managerial hierarchies and from efforts to make managerial hierarchies incrementally less hierarchical is that SMOs eliminate the hierarchical reporting relationship between manager and subordinate that serves as the core building block of the managerial hierarchy and constitutes its key mechanism of control. In self-managing organizations, all employees hold well-defined decision rights that cannot be

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<sup>154</sup> Otherwise such democratic institutions need to be seen more as part of 'representative management', which will be addressed in the next sub-section.

superseded by someone simply because s/he is the 'boss'.<sup>155</sup>

As it has been mentioned several times, self-management in democratic organisations is *democratic* self-management, i.e. all management functions are conducted, and management decisions are made, by individuals, groups, networks or institutions *according to democratic principles and standards*. The following two empirical examples give an idea of how democratic self-management can work.

Paul Burrows, one of the co-founders of the Mondragon Bookstore & Coffee House collective, a non-hierarchical workers' cooperative that existed in Winnipeg from 1996 to 2014, described how self-management worked there (Burrows 2008, p. 280):

In terms of decision making, one of the goals of Mondragon is to create a work environment in which each worker-member can carry out their tasks without managerial supervision, and each is taught the necessary skills to make any day-to-day business decisions that might be required. Part of the reason behind this is to avoid a workplace characterized by unequal knowledge and divisions of labor, in which a single individual is considered indispensable, or might argue for special privileges on the basis of some monopoly on information or skills. In positive terms, this has to do with creating a workplace that empowers its members, fosters solidarity, and puts democracy and equality into practice. ... Ultimately, the basic goal of the workplace with respect to decision making is to give each worker a good deal of latitude for self-management of their own work circumstances, but within the constraint of meeting collectively agreed upon priorities, tasks, and policies that affect the group as a whole. The idea is to develop a system that balances individual and collective needs in a way that is both fair and efficient.

Dafermos (2012, pp. 8–9) offered a good empirical example of how democratic self-management can work at the individual and micro level when he analysed FreeBSD (where 'BSD' stands for Berkeley Software Distribution), an open-source software community of a volunteer core team, several hundred developers ('committers') and thousands of contributors:

If authority is defined as a relationship in which an actor obeys a specific command issued by another ... then FreeBSD is essentially an organisation without authority. There is no such thing as giving or following orders in FreeBSD. The administrative organ of the project – the core team – cannot tell committers what to do. When a decision needs to be made, it is made collectively by consensus. If, in the Weberian tradition, we take the basis of authority as the decisive organisational feature, then the mode of organisation of FreeBSD is collectivist, based on direct-democratic procedures of decision making. Seen from the perspective of the division of labour in the project, FreeBSD is decentralised and anti-hierarchical: tasks are self-selected by committers as their needs and interests best dictate. The resulting division of labour is spontaneous in the sense that it emerges from the choices of

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<sup>155</sup> They added (Lee & Edmondson 2017, p. 46): 'Self-managing organization is an apt label to capture radical approaches to less-hierarchical organizing for two reasons. First, by eliminating the hierarchical reporting relationship between manager and subordinate, individuals and groups must "manage" themselves. Second, the term appropriately emphasizes that radically decentralized organizations necessarily operate (accomplish work) through an ongoing dynamic process rather than by building a static operating structure ... removing the hierarchical reporting relationships between managers and subordinates.'

the committers rather than from a central designer. Their rejection of supervisory hierarchy is analogous to the autonomy from managerial control other professionals enjoy on account of being expected to exercise judgment and discretion in their daily work, but there is a fundamental difference: while professionals working in organisations, even in the most ‘adhocratic’ ones, are invariably subject to some measure of hierarchical control ..., hackers have totally ousted hierarchical authority from their organisational frame. Committers work without supervision, shouldering themselves the ultimate responsibility that the modifications they make to the codebase have been adequately tested and do not clash with the work of other committers. ... In FreeBSD those who work also manage.

### **Representative management via individual positions or organisational institutions**

Work, work-related issues, the context of work, and even organisational issues and affairs can and *should* be managed first by individuals themselves. However, as an organisation grows in size, it becomes increasingly difficult and ultimately impossible for the organisation, its organisational affairs or its managerial issues to be managed by every member via self-management or direct democratic management because of complexity, time restraints or efficiency issues (Dahl 1970, pp. 67–68, Rothschild-Whitt 1979, p. 512, Bowles et al. 1993, p. 139, Cheney 1995, p. 174, Davis 2001, p. 29, Wright 2010, p. 155). Thus, also in (larger) democratic organisations there is division of labour, differentiation and specialisation, also concerning management functions. Organisational institutions and individual positions are formally established and allocated with the task of providing management functions and managing organisational affairs that go beyond individuals’ or groups of people’s wills or capacities to self-manage.

Such organisational institutions can be special organisational units (e.g. boards, committees, assemblies or councils<sup>156</sup>) or individual formal positions where managerial tasks and management functions are clustered. Both organisational institutions and individual positions represent formal (part-time or full-time) management positions and create the formal (part-time or full-time) roles of ‘managers’ – but then alarm bells (should) ring! Formal organisational institutions and management positions *as such* are not a problem even for the democratic organisation – but they are a problem, a *serious* problem, if they are drawn up and function like traditional, orthodox ones, i.e. hierarchical and with line management authority. Formal management positions are greatly worrying when they are equipped with bundles of those orthodox management tasks and responsibilities that create social dominance, inequality and hierarchy – i.e. management tasks that give a person power over others, such as having explicit line management authority in the sense of giving orders; supervising, controlling and sanctioning others; making decisions that are about others or relevant to others; and/or providing leadership or guidance.<sup>157</sup> This is

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<sup>156</sup> These are the same organisational institutions that are responsible for the democratic governance of the organisation (see the section ‘Organisational institutions of governance’ in chapter ‘Libertarian constitution and democratic governance’ above). Especially when it is about constitutional or strategic issues, governance and management overlap very much.

<sup>157</sup> As a brief side remark for clarification: *none* of these are “rights”. The fundamental management functions (planning, organising, leading and controlling) and managerial responsibilities (e.g. making decisions or even making sure that others conduct their tasks as expected) do *not* include the “right” to give orders, to control, or to sanction others. In the democratic organisation there are no such “rights”. Actually, in no free and democratic

one of the fundamental problems of orthodox organisations (or hierarchical social systems in general) – and a fundamental threat to, and challenge for, any democratic organisation: formal positions may be provided with orthodox management tasks, managerial “rights” and responsibilities (if not to say privileges and prerogatives) that put these formal roles and positions – and the role-holders! – in an *unequal* or *hierarchical social relationship* with others, and create and establish superior–subordinate relationships, social dominance and subordination, exploitation and infantilisation.

It is fairly obvious that such a traditional, hierarchical and authoritarian understanding of management, management positions and managers would be inconsistent – and incompatible – with both the spirit and the letter of the democratic organisation (or any social system that caters for free individuals). Organisations do not need this kind of formal position, which accumulates social power and resources – and they do not need this kind of office holder or manager (Watson 2006, p. 170). Hence, in the democratic organisation, formal management positions – whether in organisational institutions or as individual roles and positions – are *fundamentally* different. I call the way management is provided as a specialist function by formal management positions in the democratic organisation *representative management* (and the people in these formal management positions could be called *representatives* and not ‘managers’ – although because of convention I suppose that the established term ‘manager’ will continue to prevail, and I, therefore, will also use the term ‘manager’). In representative management there are no managers in the sense of ‘bosses’, or ‘superiors’ (Nielsen 1985, pp. 67–68, Macdonald 2013, p. 6) – if one understands ‘manager’ in the traditional way as someone who has line authority, i.e. gives orders to, controls and sanctions subordinates. Instead, representative management in the democratic organisation means in particular (Bowles et al. 1993, p. 139, Weisskopf 1993, pp. 9–10, Arnold 1994, p. 206; and especially Morrell & Hartley 2006, pp. 484–485; Malleeson 2014, p. 41):

1. *Election or appointment of representatives*: All managers/representatives serving in any kind of management position are elected or appointed democratically by those whom they represent. Managers may be elected or appointed either directly by the relevant members of the organisation (or a relevant part of it) or indirectly by members of an organisational institution (e.g. a council or general assembly). Elections and appointments of representatives must be free, fair, competitive and transparent on the basis of one person, one vote.
2. *Conduct of office*: All democratically elected or appointed representatives (are obliged to) execute the will of those whom they represent and carry out their responsibilities within clearly defined boundaries. Managers are obliged to conduct their office democratically and to carry out their responsibilities and conduct management functions jointly and in close cooperation with those whom they represent. There is no people-oriented authority ascribed to any managerial role, i.e. no manager is formally entitled and empowered to give orders, to control, or to punish anyone, and no manager can ‘tell’ another person what to do, when to do it, how to do it, or why to do something – *anything*.

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organisation or social system are there such “rights” or responsibilities. *Between free individuals there cannot be orders, only consent*. The “right” to give orders cannot be deduced from ownership rights (they only cover rights in respect to material and immaterial assets, or ‘things’) or from any other legitimate authoritative source of private law. Nor do organisational responsibilities establish any right to give orders, to control, or to sanction others. The *only* legitimate way to establish a ‘right to give orders’ (and to control and sanction others) is via *public* law and regulations, i.e. where legitimate institutions or actors of authority (‘authorities’) are provided with such formal and legal rights and entitled to use them for, and within the range of, their official duties.

Managers can ask, suggest or encourage people to do certain things, but they do not have the power to force people.<sup>158</sup> Formal management positions do not come with any line authority. Representative managers do not *give* but *receive* instructions. They have no line management responsibilities but ‘service responsibilities’ in the sense that they (should) follow the instructions they were given by whom they represent. As representatives, it is their main responsibility, even obligation, to conduct their office according to the will of the people, the organisational institutions of governance, and the relevant authoritative sources.

3. *Control of representatives*: All democratically elected or appointed representatives are controlled, held accountable, reconfirmed or replaced by those whom they represent and/or by institutions formally provided with the task of overseeing the conduct of office of representatives. Every manager is accountable to every member of the organisation on a democratic basis. Any delegation of power and authority (from an electorate to its representative(s)) is accompanied by an equivalent of accountability, i.e. the electorate (or the institution appointed to act on its behalf) has the right to oversee the representative and their conduct of office, to receive any relevant information from the representative, to assess and to judge their performance against predefined criteria, and to sanction the representative as appropriate and in accordance with the laws, rules and regulations.

Obviously, the institutions and positions of representative management are *democratic* institutions and positions, i.e. they are constituted, based on, operate, staffed and managed according to democratic principles and standards. Together, the guidelines for election or appointment, conduct of office, and control of representatives and managers make sure that representative management is as democratic as possible. This means that management positions (and managers) that are consistent with the idea of representative management are *legitimate* – they have *legitimate authority* (Raz 1986/2009, pp. 21–105). For example, Beetham (1991, p. 3) argued that ‘where power is acquired and exercised according to justifiable rules, and with evidence of consent, we call it rightful or legitimate’. In this sense, it can be stated that representative management is *legitimate only* when office holders, managers and/or representatives: (1) are democratically elected or appointed; (2) operate on the basis of, and within a constitutional and legal framework of explicit and justifiable rules and a clear mandate; and (3) are accountable to, controlled and sanctioned by those who have elected or appointed them (Archer 1995, p. 35, Leach 2005, p. 326).<sup>159</sup>

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<sup>158</sup> Srivastva and Cooperrider (1986, p. 707) argued that ‘while hierarchy remains, it is not hierarchy in the sense of chain-of-command. Instead, it is best depicted as a “chain-of-consent”’. Lee and Edmondson (2017, p. 46) described this notion as follows: ‘The core element of self-managing organizations is radical decentralization of the authority typically granted to managers. We define radical decentralization as the elimination of the reporting relationship between manager and subordinate. In radically shifting authority to non-managerial roles, individuals in self-managing organizations no longer report to a manager who has broad and diffuse authority to allocate work, direct execution of tasks, monitor performance, sanction or fire employees, and determine promotions or raises. Indeed, the notion of “reporting to” someone who has “authority over” you becomes anathema in a self-managing organization.’

<sup>159</sup> In a similar vein, Morrell and Hartley (2006, pp. 484–485) described political leaders’ authority as legitimate if the political leaders (1) are democratically elected (2) representatives (3) who are vulnerable to deselection and (4) operate within as well as influence a constitutional and legal framework, (5) with authority that is based on a mandate whereby (6) membership of the electorate is set out in law. Morrell and Hartley’s concept offers a pretty good idea of how the roles and positions of managers can be understood in the concept of representative management if they are to have legitimate authority. Malleon (2014, p. 41) summarised this idea as follows: ‘Ideally, a



### **Participative management: From information given to full control**

The fundamental notion of democratic organisations – that individuals, i.e. *all* members of the organisation, have equal rights and the responsibility to make all the decisions – raises the question of how exactly individuals can get involved in the collective self-management or representative management of their own work, organisational affairs and the organisation as a whole.

Such an involvement of people can be achieved via *participation* or *participative management*<sup>160</sup> (Fromm 1956/1971, p. 323, Pateman 1970, p. 24, Dahl 1971, Mulder 1971, Vanek 1971, pp. 8–9, Dachler & Wilpert 1978, p. 12, Rothschild-Whitt 1979, p. 512, Mansbridge 1980, Rothschild-Whitt & Lindenfeld 1982, Srivastva & Cooperrider 1986, Held 1987, Bachrach & Botwinick 1992, p. 2, Bowles et al. 1993, p. 129, Archer 1995, pp. 31–32, Dahl 1998, Heller et al. 1998, Strauss 1998, Heeks 1999, Melman 2001, p. 272, Stohl & Cheney 2001, Cheney 2002, Caspary 2004, pp. 239–240).

Participation is one of the key mechanisms for managing and running social systems collectively and democratically. In the democratic organisation – or *any* democratic system – participation *as such* is justified by the very idea of democracy or democratic systems: governance ‘of the people, by the people, for the people’. For any democratic system, participation must be as comprehensive and far-reaching as possible for *all* members on the basis of equal and democratic principles. Concerning the democratic organisation, participation means that *all* members of the organisation should have equal (legal and political) rights and opportunities to participate regularly in the governance and management of the organisation and organisational affairs. More specifically (and perhaps more relevant for individuals), participation means that individuals are involved in the conduct of management functions (i.e. planning, organising, leading and controlling) and in formal decision-making processes at all levels of the organisation (constitutional, strategic and operational) and in respect to all matters that are relevant to them.

Nonetheless, people’s involvement or participation can be of varying scopes and intensities. Participation can be imagined as a continuum (or as a ‘ladder of participation’) with various levels ranging from very weak (number 1 in the following list) to very strong (number 6) (Arnstein 1969, Heller et al. 1977, p. 572, Rothschild-Whitt & Lindenfeld 1982, p. 4, Pretty 1995, Strauss 1998, pp. 18–20, Atzeni & Ghigliani 2007, p. 10, Cornwall 2008):

1. No or minimal information;
2. Information only;
3. Opportunity to be heard, to provide an opinion and to vote;
4. Consultation and advice is taken into consideration;
5. Joint decision-making and co-determination;
6. Complete control.

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co-op structure means that all people in positions of power and authority are elected, revocable, and accountable to the rank and file. Authority no longer derives from shareholding and property rights, but, ultimately, from the consent of the workers themselves.’

<sup>160</sup> Also known as ‘participative governance’, ‘shared governance’, ‘equal opportunity of political influence’ or ‘effective participation’; see classic works on participative democratic organisations such as Pateman (1970), Dahl (1971), Mulder (1971), Dachler & Wilpert (1978), Mansbridge (1980), Rothschild-Whitt & Lindenfeld (1982), Srivastva & Cooperrider (1986), or Bachrach & Botwinick (1992).

In this sense, participation in the democratic organisation can take place as follows:<sup>161</sup>

- i) *Complete control (level 6)*: Within the democratic organisation, participation or participative management starts with individual and collective *self*-management. Each and every individual member of the democratic organisation has complete control over their area of work and responsibilities. This level of autonomy reflects or resembles the idea(l) of full participation, i.e. in the democratic organisation individuals are in complete control of their work (i.e. level 6 of participation). Moreover, via self-managing their work, organisational issues related to their work as well as themselves, individuals participate in, and contribute to, the ongoing operating and functioning of the democratic organisation.
- ii) *Joint decision-making and co-determination (level 5)*: Also in their immediate work collaboration – whether this is in self-managing groups, teams or organisational units or with representative managers – individual members of the democratic organisation score very high in participation (level 5). This is mainly because the fundamental modus operandi of self-managing groups or representative management is collaboration and joint decision-making on the basis of democratic rules and standards, i.e. enabling individuals to participate profoundly in the group(s) and units they belong to, the organisation of their work and organisational affairs.
- iii) *Consultation and advice is taken into consideration (level 4)*: Individuals and groups also might engage and collaborate with others in and via network-like structures and processes, i.e. networks. These networks are self-organised and self-managed, and are maintained and function via the participation and contributions of their members. Decisions are made, and things are done, via decentralised cooperation happening across the evolving network. Where such wider, more indirect forms of collaboration between individuals and groups of people (such as in and via networks) are concerned, the scope of individuals' participation resembles level 4, i.e. members of the network communicate, negotiate with and consult each other, and take others' advice into consideration.
- iv) *Opportunity to be heard, to provide an opinion and to vote (level 3)*: Finally, individuals reach the lowest level of participation (level 3) in regard to their engagement with organisation-wide, self-managing representative institutions of democratic governance and management (such as: boards, councils or committees). They are designed and maintained, and operate and function according to the principles and standards of representative democracy. These institutions are transparent, open and accountable to every member of the organisation. Participation here is fairly formalised and less direct. It mostly consists of receiving and providing information, attending (open) debates and deliberations, voicing opinions (opportunities to be heard) and voting on issues.

There obviously is a decline in the level of participation from individual and collective self-management to organisation-wide institutions of representative management; with respect to the governance and management of their work and immediate work context, members of the democratic organisation are in full control, conduct all management functions, and decide things either individually or jointly with others. This type and intensity of participation exemplifies direct democracy. Individuals' participation in organisation-wide institutions is then more about scrutinising information, voicing opinions, voting

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<sup>161</sup> Level 1 (no or minimal information) and level 2 (information only) are not addressed because they mean hardly any active participation and do not contribute any specific aspects to the participation in democratic organisations.

and holding representatives accountable. These activities and individuals' involvement resemble participation in a (fully fledged and fully functioning) representative democracy. Participation guarantees that governance and management are *democratic* governance and *democratic* management.

Of course, participation, especially how decisions are made, also depends on the people involved (see next chapter 'Equalising empowerment') as well as organisational 'technicalities'. For example, size matters; whether all members of an organisation or an organisational unit can actually participate in making decisions directly is subject to the total number of members and opportunities for debate. Larger numbers of people (and space or time constraints) usually lead to participation and decision-making procedures that draw more on representative than direct governance and management.

These issues also depend on the type of decision that needs to be made. Decisions can be about operational, strategic or constitutional issues. Operational issues concern daily business and management issues; strategic issues concern the purpose(s), business model, direction and ways of doing business of the whole organisation (or large parts of it); and constitutional issues are largely of a legal, statutory or regulatory nature. Operational decisions take place at the individual level, within groups, within teams, or within organisational units in the workplace largely via direct participation and joint decision-making. Strategic decisions may be delegated to democratically elected or appointed boards or committees, and this process may be accompanied by open, organisation-wide discussions and decisions (in a general assembly). Decisions on constitutional matters will be highly formalised, organisation-wide, preceded and accompanied by public discussions and debates, and probably include some sort of formal voting.

But whatever the (actual or alleged) 'technicalities' relevant to a particular decision-making process and people's participation, it should be clear that *participative management* as a whole is a *fundamentally* different management concept from any other; managing and governing democratic organisations on the basis of, and in the spirit of, participative management mainly means *expanding* participation in decision-making across all issues and levels (constitutional, strategic and operational) and making decision-making procedures as inclusive, transparent and democratic as is possible and feasible. It means making decisions the democratic way. And it works.

### **The elements of democratic management**

As outlined above, democratic management is a comprehensive and detailed concept that comprises self-management, representative management and participative management:

1. *Self-management*: It is the fundamental idea of *self-management* that work and work-related issues are managed (i.e. planned, organised, led and controlled) by the people and that people also manage themselves. Accordingly, all members of the democratic organisation have a fairly broad scope and opportunities to make decisions and to organise and manage their own work, the conditions of their work, and organisational affairs by themselves individually and/or via self-managing groups, networks and institutions that are organised and function according to democratic principles and standards.
2. *Representative management*: In larger democratic organisations there are formally established organisational institutions of governance and management (boards, committees, councils or assemblies) as well as individual management positions with the task of managing organisational affairs and/or delivering management functions that go beyond individuals' or groups of people's wills and

capacities to self-manage. Institutions and positions of representative management are *democratic* institutions and positions, i.e. they are constituted, are based on, operate, are staffed and managed in accordance with democratic principles. This means in particular:

- *Election or appointment of representatives*: All representatives serving in any kind of management position are elected or appointed democratically, and elections and appointments of representatives are free, fair, transparent, democratic and competitive.
  - *Conduct of office*: All democratically elected or appointed representatives (are obliged to) execute the will of those whom they represent and carry out their responsibilities within clearly defined boundaries. Additionally, they have no line management responsibilities but instead have ‘service responsibilities’.
  - *Control of representatives*: All democratically elected or appointed representatives are supervised, controlled, held accountable, reconfirmed or replaced by those whom they represent (the electorate) and/or by institutions formally provided with the task of overseeing the conduct of office of representatives.
3. *Participative management*: All individual members of the (democratic) organisation have equal rights and opportunities to participate in and collaborate with self-managing groups and organisational institutions of representative management, in particular with regard to the management of the organisation and organisational affairs, formal decision-making processes at all levels of the organisation (constitutional, strategic and operational), and decisions that are either relevant to the whole organisation or affect members directly.

Conceptualised in such a way, democratic management is an end in itself worth striving for. But it is also a means, and provides the means, to make organisations better places – *much* better places. Democratic management offers the main rationales, concepts, formal structures and processes for organising and managing not only work and organisational affairs but also social positions, actions and interactions in non-hierarchical, equal, inclusive and participative ways. And it puts people in charge – each and every single individual member of the democratic organisation. In this sense, democratic management substantially contributes to the democratisation of work and workplaces, organisations and society. Only *democratic management* is the right and appropriate management concept for the democratic organisation – actually, for *any* social system that appreciates individuals.

## Equalising empowerment<sup>162</sup>

This chapter concentrates on the people within (democratic) organisations – or, more specifically, on how much people are empowered or not empowered within organisations, social organisational structures and processes respectively. The focus is on how equally or unequally people are empowered and how equal rights to equal power and equal empowerment can be achieved. For this, the notion or concept of *equalising empowerment* will be developed. The principle of equalising empowerment suggests *empowering the disempowered many and disempowering the empowered few until the two are equally empowered*. The following sections will show how this can be achieved. A three-dimensional concept of empowerment and disempowerment is introduced that identifies the formal, psychological and social dimensions of empowerment. The next sections then focus on an analysis of people’s formal, psychological and social empowerment – or disempowerment – and on measures to formally, psychologically and socially empower the disempowered many and disempower the empowered few. The chapter closes with a discussion of how equalising empowerment works.

### From equal rights to equal power and the idea of equalising empowerment

A libertarian constitution, democratic governance and democratic management make available the principles, organisational structures and processes for the democratic organisation to *formally* be a fully fledged democratic system. Together, they represent the *institutions* of the democratic organisation. However, *social* systems, like organisations, comprise institutions *and* people. In this sense, it is – of course – not only (formal) *institutions* (i.e. principles, rules and regulations, structures and processes) but also *people* (i.e. their interests and perceptions, attitudes and behaviour, and actions and inactions) that make and shape a social system and cause it to work – and with people come additional (psychological and social) dimensions, complexities and dynamics for the social system.

The question is how a social system’s institutions (of governance and management) and its people (their existence, behaviour and actions) are, or can be, related in ways that are consistent with the system’s fundamental principles and values as well as with people’s rights and interests.

One of the fundamental principles of the democratic organisation – like any democratic system – is that people have *equal rights* (human, democratic and civil rights), especially equal rights to decide on the design and functioning of the system to which they belong. People’s equal right(s) to govern and to manage this system and its operations can be understood as *political equality* (Held 1987, p. 34). According to Dahl (1970, p. 12) ‘no authority can be democratic unless it is based on some principle of political equality’. And Held (1987, p. 78) argued in his *radical model of developmental democracy* that ‘citizens must enjoy political and economic equality in order that nobody can be master of another and all can enjoy equal freedom and dependence in the process of collective development’.

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<sup>162</sup> In this chapter I draw on, and use material from some of my previous works, in particular Diefenbach (2013, 2016, 2019), and Diefenbach and Sillince (2011).

Equal rights and political equality mean that people (must) have *equal power* (Mansbridge 1977, p. 321). Democratic organisations are built on, and for, the idea of equal rights and equal power, to provide all their members with equal power, and the means to govern and manage the democratic organisation and organisational affairs according to *their* interests, to pursue *their* interests, and to act and behave as *they* deem right and as is right in a democratic context. Democratic organisations' formal structures and processes of democratic governance and management are designed and made to *empower* people – to empower them *equally*. The overall idea is that disempowered people should be empowered and empowered people should be *disempowered* formally, psychologically and socially until both have equal power. I call this the principle of *equalising empowerment*.<sup>163</sup>

Equalising empowerment is about individuals having equal power to influence the system they belong to and common issues and affairs within the system. Equalising empowerment is about achieving and guaranteeing the *political equality* of every member of the social system concerning governance, management and decision-making. Following such an understanding, the idea of empowerment of all members of the democratic organisation *does* have an egalitarian component – but *only* in the sense of equal(ising) power (and equal opportunities to participate in decision-making) in the governance and management of the democratic organisation. Equalising empowerment is *not* about equalising people. The democratic organisation is *not* an attempt to equalise everyone and everything and to establish an egalitarian society. This would not only be unrealistic but would also go against the democratic organisation's own fundamental principle of protecting individuals' freedoms, autonomy and integrity and, as a consequence, tolerating individual and social differences.

Despite all efforts to equalise empowerment there will, of course, still be differences and inequalities in the democratic organisation – as even the most progressive proponents of participatory or collectivist organisations (Kanter 1972, Rothschild-Whitt 1976, 1979, Mansbridge 1977, 1980, Rothschild & Whitt 1986) and researchers of egalitarian (hunter-gatherer) societies (Boehm 1993, Wiessner 2002) have noted. There still (and always) will be *individual differences* in personality, talents, skills, competencies, knowledge, motivation and/or commitment, and *social differences* in positions, status, social relationships, interaction (communication, cooperation, competition and participation) and/or influence.<sup>164</sup>

Such differences, some of which may even turn into systemic inequalities, will occur and remain even in the most democratic organisations. That people are different; do more or less than others; have different roles, positions, tasks and responsibilities; and do things differently is normal for any social

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<sup>163</sup> The opposite of *equalising empowerment* is *disproportional empowerment*, i.e. where only a few members of a social system are (formally, psychologically or socially) empowered whereas the many are disempowered. Disproportional empowerment is a typical characteristic of hierarchical social systems and social dominance, but it can also occur in democracies and democratic system and can damage them considerably. The issue(s) of disproportional empowerment were addressed in the chapter 'The iron threat(s) of disproportional empowerment' in my book *The democratic organisation* (Diefenbach 2020, pp. 207-241). The chapter provides a thorough analysis of, and possible explanations for, *why* and *how* disproportional empowerment, social dominance, autocracy and oligarchy can emerge and happen in (democratic) organisations, i.e. the *reasons* for and *causes* of disproportional empowerment as well as what can be done about them.

<sup>164</sup> This problem of (individual and social) differences and inequalities will be discussed systematically and in some more detail in section 'Individual and social differences and the concept of social inequality' in Part V, 'A more equal, just and sustainable society'.

system. Moreover, in the sense of non-totalitarian, open and democratic social systems that appreciate people's individual rights and freedoms, it *should* be like that; freedom and democracy inherently entail differences and diversity. The democratic organisation does not do anything about *those* differences (on the contrary, it protects, upholds and nurtures those values). If it did, it would actually be acting against its own principles and values. In this sense, the democratic organisation is about equalising people's *power* without equalising *people*. The principle of equalising empowerment suggests empowering the disempowered many and disempowering the empowered few until the two are equally empowered. The following sections will show how this can be achieved.

### **A three-dimensional concept of empowerment and disempowerment**

In management and organisation studies, the idea of *empowerment* has been around since the 1970s (Bachrach & Botwinick 1992, Perkins & Zimmerman 1995, Gandz & Bird 1996, Seibert et al. 2004, Greasley et al. 2005, Maynard et al. 2012, Pratto 2016). Since then, rhetoric about empowerment has been rife in orthodox, hierarchical organisations. But the most far-reaching efforts towards empowerment have been tried in participative organisations, e.g. cooperatives (Jones & Svejnar 1982, Rosen 1984, Cheney 1995, Poole 1996), utopian communities (Kanter 1972), collectivist organisations (Rothschild-Whitt 1979), and hybrid organisations and networks (Stohl & Cheney 2001, Hales 2002, Ekbia & Kling 2005).

In its most general understanding, 'empowerment' might be defined as *people having the freedom, skills, competences, resources and opportunities to manage themselves and the affairs that are relevant to them, to reason, to decide, and to do as they deem right*. (Within an organisational context) *empowerment* can be defined technically as 'delegation of authority to the lowest level in an organization where a competent decision can be made' (Seibert et al. 2004, p. 332) so that the members of the organisation have 'the authority to make and implement their own decisions' (Greasley et al. 2005, p. 355).<sup>165</sup> Empowerment means that 'decisions are made by those who implement them' (Collier & Esteban 1999, p. 177).

Empowerment taken seriously brings many advantages for organisations and their members alike (Kanter 1971, p. 66, Vanek 1971, p. 17, Ackoff 1994, p. 111, Collier & Esteban 1999, p. 177, Bowman & Stone 2004, p. 280, Greasley et al. 2005, p. 358, Heywood et al. 2005, pp. 557, 559, Carson 2008, pp. 522, 524, O'Neill 2009, p. 384, Erdal 2011, pp. 19, 189, Maynard et al. 2012, pp. 1247–1249, Fernandez & Moldogaziev 2013, Altmann 2014, p. 182):

- *Formal and organisational advantages*: Organisational members have more power and actual control over their work and working lives, higher levels of responsibility and more accountability, since decisions are made by those who implement them. Work and workplaces are more attractive, there are lower rates of absenteeism and turnover, and there are higher levels of job performance and overall performance.

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<sup>165</sup> Note that empowerment resembles the idea of subsidiarity, which was explored and utilised concerning democratic governance and democratic management (see chapters 'Libertarian constitution and democratic governance' and 'Democratic management' above).

- *Psychological and attitudinal advantages*: Organisational members have a greater sense of personal control over their tasks and environment, greater motivation and engagement, higher (job) satisfaction, greater commitment to the organisation, more organisational loyalty, a greater sense of dignity and personal worth, more self-respect and a higher quality of work life.
- *Social advantages*: Organisational members are more willing to share (their) skills and knowledge. There is more trust, sociability, collegiality, cooperation and reciprocity between members of the organisation and a higher likelihood of members engaging in organisational citizenship behaviour.

How far empowerment *actually* empowers people within an organisational context depends on how the concept is understood and realised. At one end of the spectrum there are mere instrumental, if not cynical, concepts of empowerment that are mainly meant to give employees or other subordinates the *feeling* of being empowered – while authority, managerial responsibilities and control remain with superiors or power elites. At the other end of the spectrum there are fundamental concepts of egalitarian–democratic organisations and communities that give people *actual* ownership and control and ideally enable them to rule themselves (Rosen 1984, p. 312, Wilkinson 1998, Greasley et al. 2005, p. 355, Rothschild 2009, p. 596, Maynard et al. 2012). For the democratic organisation only the highest level of empowerment is appropriate (just as only the highest level of participation is appropriate – i.e. *full* participation and *complete* control – as argued earlier in the context of participative management).

Obviously, whether one is able to do what one wants and deems to be right depends on various factors or dimensions. Originally, empowerment focused on the roles and positions, related responsibilities and conditions of the immediate work context (Maynard et al. 2012, p. 1234), such as work design and job characteristics. It also added organisational settings (e.g. policies, structures and processes) and managerial aspects (e.g. access to resources, planning, decision-making, leading, organising and controlling). All of these factors might be summarised as formal dimension of empowerment and herein will be called *formal empowerment*.

Later a second dimension became increasingly relevant: *psychological empowerment*, which is mainly about people’s subjective perceptions, cognition, self-efficacy and the feeling of being empowered (Christman 1994, Zimmerman 1995, Seibert et al. 2004, Greasley et al. 2005, Maynard et al. 2012, Chen et al. 2014, Miguel et al. 2015, van Dop et al. 2016, Yu et al. 2018). This second dimension has become increasingly dominant, especially in its orthodox, ‘business-oriented’ or ‘management-oriented’ version. This concept of psychological empowerment is rather instrumental in the sense that it first focuses on the (alleged) *needs* of the organisation (and/or its owners or managers) and then on how employees *need* to be ‘empowered’ so that they can conduct their tasks more efficiently and effectively (for the sake of the organisation). The main (unspoken but all-determining) criterion is performativity. Aspects such as ‘motivation’, ‘organisational commitment’, ‘personal development’ and the ‘psychological contract’ are largely seen in terms of their usefulness in increasing employees’ performance. The currently prevailing concept of psychological empowerment is fairly limited and largely instrumental in its scope, interpretation and application.

The formal and psychological dimensions of empowerment are highly relevant. What has been completely missing so far in any concept of empowerment in management and organisation studies is the social or interpersonal dimension, i.e. *social empowerment* (what an individual is and can do among others). This is particularly surprising since organisations are one of the most common and most



differentiated types of *social* system. Hence, this chapter proposes a *three-dimensional concept of empowerment* that comprises: 1) formal empowerment, 2) psychological empowerment and 3) social empowerment:

1. *Formal empowerment* can be understood as providing people with formal roles and positions within the official structures and processes of an institutionalised social system and the official responsibilities and entitlements, rights and duties, privileges and prerogatives, signs and symbols (of power and status), and (access to) resources and opportunities that come with such formal arrangements to act, make decisions, manage and control (others).
2. *Psychological empowerment* might be described as a cognitive state of mind or feeling of being powerful or being empowered, particularly having reasonable personal confidence in one's own abilities (efficacy and self-esteem), perceived personal control of what happens to oneself and in one's own life (locus of control), and the cognitive and emotional capabilities to achieve personal goals (goal attainment).
3. *Social empowerment* can be defined as people having reasonably established positions, status, worth, self-images and images of how they are perceived by others (social identity); adequate and sufficient resources, opportunities, social skills and competencies to pursue their legitimate interests and to achieve their goals within a social context; the ability to freely initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict; and the ability to behave accordingly, i.e. to demonstrate the whole range of confident and competent behaviour of a free and independent individual within a social context.

Reasoning about empowerment along the lines of this three-dimensional framework reveals another important point: there is not only empowerment but also *disempowerment* – a crucial aspect that has not been addressed so far in the entire empowerment literature. 'Disempowerment' may be defined as *any reduction in people's capabilities (a) to conduct their lives (i.e. to reason, feel, decide, act and interact) in ways that can be reasonably thought of as appropriate for human beings in a particular socio-cultural context and (b) to be equal members of a given social system (i.e. formally, psychologically or socially they are not as empowered as other members of that social system).*

Like empowerment, disempowerment can happen in all three dimensions:

1. *Formal disempowerment* can be understood as people having 'lower', less powerful or less influential formal positions; having no or few (managerial) responsibilities; having less access to information and resources; not being involved in formal decision-making; and regularly carrying out tasks that are portrayed or seen as inferior. In a word, people who are formally disempowered are *subordinates*.
2. *Psychological disempowerment* can be described as people showing low levels of self-esteem, a lack of confidence and self-respect, high levels of power distance, and/or any other psychological traits of the *obedient personality*.
3. *Social disempowerment* can be defined as people being marginalised; having their social identities despised or stigmatised; lacking (access to) resources and opportunities; being excluded from important and meaningful processes of sense-making, debate and decision-making; and/or being disadvantaged in any other way concerning social resources or their participation in social life.

People can be empowered – or disempowered – by anonymous institutions (formal empowerment), by themselves (psychological empowerment), or among or via others (social empowerment). Often those people who become empowered or empower themselves possess more of the following characteristics: (a) they are more keen to and capable of acquiring formal roles and positions of power and influence and the privileges and opportunities that come with such formal arrangements (*formal empowerment*), (b) they have personal confidence in their abilities and (perceived) personal control of what happens in their lives (*psychological empowerment*) and/or (c) they have a diligently developed social identity; initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly; and demonstrate the corresponding behaviour of a free individual (*social empowerment*). In contrast, those people who become *disempowered* or who *disempower* themselves have *fewer* of these characteristics.

Each of the three dimensions of empowerment and disempowerment can be seen (theoretically) as independent of the others. In practice, though, there usually is a correlation between the various dimensions of (dis)empowerment. For instance, people who are formally empowered often also see themselves as more powerful – and disempower others. There is also a considerable body of empirical evidence that formally empowered employees often show higher levels of psychological empowerment (Greasley et al. 2005, p. 358, Maynard et al. 2012, p. 1243, Francescato & Aber 2015). They then use their privileged and powerful positions and higher self-esteem to gain social dominance, i.e. to empower themselves socially – often against and at the expense of others. In turn, their social empowerment helps them to become even more formally empowered (e.g. by being provided with greater formal responsibilities, being promoted to a higher position, or being formally appointed to committees or other special roles or positions) – whereas others become formally, psychologically and socially even more disempowered. The empowerment of the few and disempowerment of the many are often intertwined, and they influence and mutually reinforce each other. Empowered members of an organisation can exert their formal, psychological and social power and influence increasingly in multiple ways whereas disempowered members cannot – which further reinforces and expands the existing and emerging patterns of formal, psychological and social empowerment and disempowerment. Over time, these patterns and processes become persistent and manifest themselves more and more clearly.

The following sections analyse how the empowerment of the few and the disempowerment of the many happen in democratic organisations – and what can be done about it, i.e. how *equalising empowerment* (empowering the disempowered and disempowering the empowered formally, psychologically and socially until both have equal power) can be achieved. In order to keep the analysis relatively simple, the various forms of empowerment and disempowerment will be looked at individually.

### **The formal, psychological and social disempowerment of the many**

One part of the solution to equalising empowerment is to empower those who are disempowered. But before it is possible to think about how members of (democratic) organisations can be formally, psychologically or socially empowered, it is necessary to look at the causes, i.e. whether, how and why they may be *disempowered* (within the democratic organisation).

### *Formal disempowerment of the disempowered many*

Orthodox, hierarchical organisations disempower most of their members *systematically* and *routinely* by depriving them of their fundamental, inalienable rights and placing them in lower positions within the hierarchical order (Diefenbach, 2013). People who are formally disempowered in such ways are *subordinates*.

From a constitutional and conceptual perspective there is no such formal disempowerment in democratic organisations: all members have equal rights and status (via their status as owners and partners), there is no formal hierarchy (and therefore no ‘lower’ positions), and there are no formal superior–subordinate relationships between people (because of the absence of formal line management). Furthermore, democratic governance and democratic management make sure that every member of the democratic organisation gets the same rights and sufficient opportunities to participate in the governance and management of the organisation and organisational affairs.

Nonetheless, within *all* types of organisation, i.e. even in democratic organisations, people still can be *formally* disempowered in various ways (Nelson 2001, Ekbia & Kling 2005, Guimerà et al. 2006, Oberg & Walgenbach 2008, Rank 2008, Crowley 2012): by having less official access to information and resources, being less involved in formal or managerial decision-making, or having fewer (managerial) responsibilities to manage and control key activities (than people in formal institutions of governance or in positions of representative management). Because of their formal roles and positions, some members of staff are less powerful and less influential. In that sense, they are formally disempowered – though it must be stressed that members of the democratic organisation are not formally disempowered *in principle* (like most members of orthodox organisations), but ‘only’ *practically*.

Nevertheless, any formal disempowerment is a serious and worrying issue because it disadvantages members of a social system systematically and thoroughly. According to Young (2008, pp. 80–81), ‘People differently positioned in structural processes often have unequal opportunities for self-development and access to resources, to make decisions about both the conditions of their own action and that of others, or to be treated with respect or deference. These structural inequalities do not determine that every member of a less-privileged group suffers deprivation or domination. They do, however, make most members of structurally-disadvantaged groups more vulnerable to harm than others. They also put constraints on the ability of group members to achieve well-being. It is these vulnerabilities and limitations that define structural injustice more than the amount of goods or power individuals may have at a particular time.’

### *Psychological disempowerment of the disempowered many*

Members of organisations can also be psychologically disempowered – and most actually are. In orthodox, hierarchical organisations subordinates regularly show deeply entrenched feelings of inferiority, low levels of work-related self-esteem, lack of confidence and self-respect, and high scores on power distance. In other words, they have internalised the identity of the ‘good’ subordinate. Hierarchical social order is mostly about the systematic degradation and infantilisation of people (Jacques 1996, p. 81, Diamond & Allcorn 2004, p. 26). In orthodox organisations and other hierarchical systems, subordinates are expected and made to show ‘patterns of behaviour that dehumanize, depersonalize, and infantilize’ (Diamond & Allcorn 2004, p. 26). Ashforth (1994, p. 759) mentioned that ‘bureaucratically-oriented

individuals tend to be somewhat insecure, suspicious, authoritarian, dogmatic, and lower in ability, and tend to place a higher value on conformity and order’.

Counterintuitively, in democratic organisations most members can *also* be expected to be ‘good’ subordinates and to show the personality traits and behaviour of the *obedient personality*. It is certainly the case that the notions of self-management, participation and non-hierarchical structures and processes require, if not to say necessitate, psychologically strong, empowered members. However, for instance, self-managing groups and units may put immense pressure on members to be ‘team players’, i.e. to have the mentality and to demonstrate the willingness and ability to ‘fit’, ‘contribute’ and ‘perform’ (read: ‘behave’) as expected (by the team leader and/or other powerful team members). In some respects they regulate, if not reduce and weaken, members’ psychological strength (Alvesson & Willmott 2002). ‘The team’ – or any similar collectivist ideology of ‘we’, ‘family’ or ‘them and us’ used as a rhetorical device by powerful actors – can be an all-encompassing metaphor, the ideological as well as actual regime that reduces most of its members to well-functioning and replaceable parts of a greater whole and disempowers them psychologically as well as practically. In her empirical research, Akella (2003, p. 54) found ‘that learning organisations are, in reality, practising hegemonic regimes under the pretence of employee democracy and empowerment’. Because of such identity regulation from outside (and a corresponding externally initiated and supported internalisation of dominant values and beliefs), the locus of control can be taken away from members. Little wonder then that many ‘team’ members’ efficacy, self-esteem and perceived personal control can be relatively low and even minimal.

#### *Social disempowerment of the disempowered many*

Finally, social disempowerment is a profound and serious issue in any social system. Members can be socially disempowered by (1) low status, stigmatisation, marginalisation or social exclusion; (2) having insufficient resources or being socially disadvantaged in any other way concerned with pursuing their legitimate interests; (3) not being able to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly; and/or (4) behaving accordingly, i.e. demonstrating the whole range of obedient behaviours of the ‘good’ subordinate.

As is the case for formal and psychological disempowerment, social disempowerment of the many is a constituting and systemic element of the orthodox, hierarchical organisation – but it can also emerge in the democratic organisation. In fact, democratic organisations can be even *more* socially controlling and disempowering than orthodox types of organisation (Barker 1993, Jacques 1996, Jermier 1998, Courpasson 2000, Akella 2003, Kärreman & Alvesson 2004, Varman & Chakrabarti 2004, Courpasson & Clegg 2006, Ackroyd & Muzio, 2007, Crowley 2012). This is because non-hierarchical social systems usually have fewer (or at least less prescriptive and regulative) formal policies, rules and regulations that define and clarify people’s official social status and behaviour. Moreover, the formal structures and processes (of governance and management) of non-hierarchical social systems are in many respects less rigid and bureaucratic but more enabling and empowering than those of hierarchical social systems. Individuals, therefore, are (required to be) more socially active and interactive. Greater social activity and engagement can be ‘good’ (in the sense of social embeddedness, belongingness, support, encouragement and cooperation) or ‘bad’ (in the sense of social pressure, aggression, discouragement and competition). Especially because of the latter, democratic organisations can be rather challenging places

for some or even many people. For whatever reasons and in whatever ways, people may not feel comfortable or be able to cope with rather unstructured social processes – they may not feel (or be) ‘strong’ enough to navigate, act within and cope with the social dynamics of a participative system. As a consequence, they may increasingly be excluded – or exclude themselves – from processes of sense-making, debate and decision-making; from participating in organisational and social life; and from taking or creating opportunities for their personal development within a social context.

Instead of engaging openly and freely with others, they may be more willing and keen to pre-emptively adapt and follow silently (others and/or written and unwritten rules). Like subordinates in orthodox organisations, they demonstrate ‘a willingness to comply with authority, a preference for impersonal and formal relationships with others on the job, a desire for strict adherence to rules and procedures, and a need to identify with the organization and conform to norms’ (Ashforth 1994, p. 759). Hence, even members of democratic organisations may conform (voluntarily and willingly) to (assumed) expectations, follow ‘rituals of subordination’ (Scott 1990, pp. 2, 66), and show the appropriate levels of ‘learned helplessness’ (Bassman & London 1993, p. 22, Van Vugt 2006, p. 361) – i.e. behave in socially disempowered and self-disempowering ways. Additionally, members of participative, empowering and democratic organisations can be socially rather *disempowered* – and can demonstrate rather (self-)disempowering behaviour.

### **Empowering the disempowered many**

If one believes in the fundamental idea(s) of the democratic organisation one might be rather concerned and disappointed about the possible existence or emergence of formal, psychological or social disempowerment of its members. Nevertheless, the democratic organisation *does* have the means to combat the disempowerment of the many or to prevent this from happening in the first place. The following three sub-sections discuss measures for the formal, psychological and social empowerment of the disempowered many in turn.

#### *Formal empowerment of the disempowered many*

Formally, all members of the democratic organisation are already very much empowered by its principles and policies, structures and processes of *democratic governance* (established through democratic institutions of governance, legitimate authoritative sources, democratic governing and ‘good governance’) and *democratic management* (in form of self-management, representative management and participative management). Especially the concepts of *self-management* and *subsidiarity* empower members of the democratic organisation *considerably*. Together, these two concepts make sure that – unlike in orthodox organisations – also members without formal management positions *can*, and actually *do*, conduct management functions and carry out managerial responsibilities as much as possible. Formal office holders’ managerial responsibilities are then as minimal and as residual as possible. In that way, formal disempowerment of members without formal management roles is kept relatively contained in the democratic organisation.

Nonetheless, because of the existence of specialised institutions of governance (boards, committees and councils) and formal management positions within the democratic organisation, those who are *not*

holders of such formal positions *are* formally disempowered; they (naturally) have less access to information and resources, have fewer (managerial) responsibilities, and are less involved in formal decision-making compared to people in management positions. (Even) the democratic organisation creates or opens up this formal power differential. The question is how this power gap can be closed by formal means, or at least be minimised. There are several tools readily available in the democratic organisation:

- *Transparency*: Having access to, and being provided with, all the information relevant to their work and the management of the entity they belong to empowers non-office holders and is crucial to enable them to participate in decision-making. A very thorough application of the principle of *transparency*<sup>166</sup> significantly helps to counter the information imbalance. According to this principle, all members of the organisation have free and equal access to, and are automatically provided with, all relevant non-confidential information about the formal organisational policies, rules and regulations of governance; the general procedures for making decisions; and specific information relevant to the particular decision-making they are involved in. Every office holder and manager is *bound to* give non-office holders relevant information. Making information relevant to the execution of management functions routinely available to all members is not discretionary but *compulsory*.
- *Accountability*: Transparency provides the basis for holding managers and office holders *accountable*. According to this principle and concept, it is not an option but an *obligation* of office holders to account for their decisions and actions (or non-decisions and inactions) at *any time to anyone* who has a legitimate interest. Accountability is a very powerful tool for those who have the right and means to assess, judge, sanction and alter an office holder's conduct of office.
- *Legitimate authority*: Transparency and accountability lay some necessary groundwork for the concept of *legitimate authority* – embodied in the democratic organisation via the concept of *representative management* (see section 'Representative management via individual positions or organisational institutions'). In line with this concept, all managers are *representatives* (and *not* supervisors) that are (a) elected or appointed democratically, (b) obliged to execute the will of those whom they represent, and (c) supervised, controlled, held accountable, reconfirmed or replaced by those whom they represent (and/or by institutions formally provided with the task of overseeing the conduct of office of representatives). Specified in that way, the notion of legitimate authority not only limits the ability of any kind of superior–subordinate relationship to emerge but also turns the tables in favour of non-office holders; *they* are the formally empowered ones.
- *(Full) participation*: In addition, according to the principles of *participative management* (see section 'Participative management: From information given to full control'), members of the democratic organisation have equal rights and opportunities to participate in formal decision-making processes at all levels of the organisation and to collaborate with organisational institutions of representative management, including individual management positions. And participation means *full* participation – which severely blurs the lines between formal positions of management and non-management positions and between office holders and non-office holders.

Altogether, it may be argued that formally empowering disempowered members of the democratic organisation is not so much about inventing new measures but about applying existing ones thoroughly:

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<sup>166</sup> See section 'Democratic governing' in chapter 'Libertarian constitutions and democratic governance' above.

the notions and concepts of transparency, accountability, legitimate authority and participation are all rather sharp tools. Together, especially seen against the wider background of democratic governance and democratic management, they formally empower disempowered member of the democratic organisation more than sufficiently.

### *Psychological empowerment of the disempowered many*

Psychological empowerment focuses on individuals *as such* – their feelings and perceptions of being empowered, their mindsets, and their personal identities (Seibert et al. 2004, pp. 332, 335, Greasley et al. 2005, p. 356, Maynard et al. 2012, pp. 1234–1235, Chen et al. 2014, Yu et al., 2018). There are various understandings concerning which areas psychological empowerment covers. According to Zimmerman (1995), psychological empowerment comprises three dimensions: intrapersonal, interactional and behavioural. In contrast, here only the *intrapersonal* dimension is meant as psychological empowerment, whereas the other two dimensions are subsumed under social empowerment (which will be discussed in the next sub-section). Focusing on the intrapersonal dimension, Conger and Kanungo (1988, p. 474) define psychological empowerment as ‘a process of enhancing feelings of self-efficacy among organizational members’. Menon (quoted in Greasley et al., 2005, p. 357) described psychological empowerment as ‘a cognitive state of perceived control, perceived competence and goal internalisation’. And Miguel et al. (2015, p. 901) argued that psychological empowerment addresses ‘how people think about themselves and includes monitoring and self-perceived effectiveness for controlling motivation, skills, and perception domains or beliefs about their own skills’. Altogether, psychological empowerment might be defined as personal confidence in one’s own abilities (self-esteem), perceived personal control of what happens in one’s life (locus of control), and the cognitive and emotional ability to achieve personal goals (goal attainment).

Legitimate social systems – be they groups, organisations or even nation-states – are not completely responsible for the state of mind of their members (only totalitarian regimes think that they have this responsibility). Of course, social systems represent some of the contextual factors that influence people’s feelings and perceptions (about themselves, others and the wider environment). In this sense, there *are* ways that disempowered members of the democratic organisation can be empowered, or empower themselves, psychologically. As argued above in the chapter ‘Democratic management’, democratic management is particularly based on the notion that people manage their own work, work-related issues and organisational affairs first and foremost by themselves (according to the concept of *self-management* and the principle of *subsidiarity*). *There is nothing more (psychologically) empowering than actually doing things, making decisions, being in charge of something and being responsible for something.* And, in democratic organisations, if people cannot conduct all management functions by themselves then they at least all have equal (legal and political) rights and actual opportunities to participate regularly in all governance and management functions (i.e. planning, organising, leading and controlling) and in all formal decision-making processes at all levels of the organisation (constitutional, strategic and operational) that are relevant to them (according to the concept of *participative management* and the principle of *full participation*). Together, the concepts of self-management and participative management and the principles of subsidiarity and full participation give individual members broad and far-reaching rights, opportunities and responsibilities concerning the management of their work and themselves. In so doing, they (may) increase individual members’ self-esteem, sense of having an internal locus

of control, and sense of goal attainment noticeably and help them to feel psychologically empowered.

With the focus on the individual, it should be clear that self-management and participative management are not reduced to instrumental concepts that primarily aim at enabling people to fit better into existing social systems and to function smoothly within – and for! – predefined organisational regimes, purposes, structures and processes. True psychological empowerment means that people are seen as, put first as, and develop into *autonomous individuals*, and that they feel free to reason, decide and act as *they* deem right, necessary and appropriate. The focus is clearly *individuals'* self-management and participative management; although the democratic organisation is a collective enterprise, it is *not* 'the collective' but *individual* members that are operating and cooperating (and who are, thus, responsible for all performance and success). The fundamental notions of the free individual and self-ownership as well as individuals' actual status as owners provide strong rationales to stave off the oppressive elements of collectivist regimes. Individuals who are self-managing their work and participating in the management of organisational affairs have every reason to think independently without interference from external authorities (*independent intellect*); to be able and confident to formulate their own will and manage themselves and social affairs accordingly (*self-mastery*); and to feel confident about themselves and their personality traits *as individuals* with a developed personal identity *and* social orientation (i.e. with developed emotional, social and cultural intelligence and prosocial behaviour).

#### *Social empowerment of the disempowered many*

As explained earlier, social empowerment can be understood as empowerment of people within and by an interactive social context. It refers to how well their positions, status and worth are established among others (social identity); how much and how well they can pursue their interests relative to others' (interests); what they are able to do and to achieve in social situations (social skills and competencies); and whether they behave accordingly.

How much people are socially empowered primarily depends on how they see themselves among others and how they are seen by others – i.e. their *social identity* (Tajfel & Turner 1979, Ashforth & Mael 1989, Musson & Duberley 2007). Tajfel (1978, p. 63) argued that social identity can be understood as that part of an individual's self-concept 'which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership'. Hogg et al. (1995, p. 257) explained that 'the perception that one is enacting a role satisfactorily should enhance feelings of self-esteem, whereas perceptions of poor role performance may engender doubts about one's self-worth, and may even produce symptoms of psychological distress'.

With its fundamental principles and values of individual freedom, democracy, equality and justice, self-ownership, and equal rights and responsibilities, the democratic organisation provides a values framework with which members can positively identify and around which they can develop a sound social identity (provided that these values are acknowledged and practised by all members of the organisation in their regular daily activities, communication and cooperation). Moreover, social empowerment means what one can actually *do* within a social context – i.e. whether one can realise one's interests. Social empowerment means the ability to pursue one's interests within a social context; the ability to have an influence and an impact on others, within a range of possibilities from merely being accepted to making others behave in certain ways; and even the ability to have one's values institutionalised and/or



internalised by others (these three abilities equate to Lukes' 1974 three dimensions of power). To pursue one's interests in a social context makes one powerful if one is able to voice one's interests, take action and achieve goals.

Therefore, it is crucial that members of the democratic organisation see sufficient opportunities in the processes of democratic governance and democratic management to pursue their interests. This can mainly be achieved by comprehensively institutionalised participation – *full* participation in all governance and management functions as well as in all relevant formal decision-making processes:<sup>167</sup> participation in the self-management of individuals' work; in temporary or permanent self-managing groups, networks or institutions; in the conduct of management functions; and in organisational institutions of democratic governance and representative management (e.g. boards, councils, committees and/or assemblies).

This, finally, hints at the importance of having the *social skills and competencies* that are relevant and necessary within a (particular) social context for maintaining one's position, pursuing one's interests, and participating in the governance and management of common affairs. Having appropriate social skills and competencies means that one can successfully navigate social situations. It means that that one has, or can acquire, the knowledge and the cognitive, emotional, social and cultural intelligence and capabilities necessary to make sense of, critically reflect on, and cope with social phenomena; to initiate, maintain and manage social relationships sovereignly; to communicate and interact effectively with others; and to behave and act within a specific social context as is required, as one deems right, and/or as one feels comfortable as a free individual.

Obviously, people have various levels of such social skills and competencies (to some extent related to their personalities and personal backgrounds) – and members of the democratic organisation are no different. Because of its fundamental ideas of self-management, participative management, cooperation and participation, the democratic organisation offers manifold opportunities to acquire, to practice, and to improve one's social skills and competencies, and to develop and to empower oneself socially, mainly via 'learning by doing'. But these opportunities are at the same time challenges, and perhaps significant challenges for some members. The democratic organisation, thus, must make available ample training and ongoing support for members' personal and skills development. In some respects this is probably even more the case than in orthodox organisations, because even in fully developed democratic societies not many people have been socialised, educated, and provided with the skills and competencies necessary for self-management and participative management.

### **The formal, psychological and social empowerment of the few**

As in any other organisation, in the democratic organisation there is the possibility that some people will be formally, psychologically or socially 'overtly' empowered – that they will become much more empowered than 'the rest'. The formal, psychological and/or social empowerment of the few is problematic and illegitimate when it happens at the expense of others, threatens others' fundamental and

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<sup>167</sup> See section 'Democratic governing' in chapter 'Libertarian constitutions and democratic governance' and section 'Participative management: From information given to full control' in chapter 'Democratic management' above.

inalienable (human, civil and democratic) rights, or otherwise impacts negatively on their legitimate interests, equal opportunities, life chances or personal development. Thus, in any social system that claims and aspires to protect and to enable the individual – *all* individuals – or that claims and aspires to be democratic, to be based on, and to promote equal rights and equal opportunities, *disproportionately* and *illegitimately* empowered members need to be disempowered (until their power is equal to others’).

Before it is possible to look at how illegitimate (inappropriate, unfair and unjust) empowerment of the few can be reduced, nullified or even completely avoided, it is necessary to understand how some members of a social system (here, a democratic organisation) can be formally, psychologically and/or socially overtly empowered.

#### *Formal empowerment of the empowered few*

Most democratic organisations (especially larger ones) have various institutions of governance and individual management positions. Even in democratic organisations, formal management positions might be created that formally empower office holders. These formal positions, despite being designed, maintained and controlled fairly tightly by the principles of democratic governance and representative management, can formally empower office holders in at least three different ways.

First, formal management positions empower their holders by providing privileged and exclusive access to relevant and crucial information, tangible and intangible resources, and decision-making processes (while at the same time excluding other members of the organisation – non-office holders – from this kind of access and potential usage). It is even meant to be the case that with the creation of specialised management positions, office holders gain and use specific management knowledge and competencies. Hence, even in participative and empowering, relatively non-hierarchical democratic organisations, some members can be formally more empowered than others because of their formal positions and responsibilities.

For example, when Jane Mansbridge (1980, p. 210) researched participatory workplaces in a US crisis centre (with the pseudonym ‘Helpline’) in the early 1970s, she found that:

Helpline’s staff believed in equal salaries, equal respect, and equal power. But Helpline’s division of labor precluded an equal distribution of power. Fund raising, representing one’s service group ..., or acting as coordinator, vice coordinator, or treasurer provided individuals with resources that gave them greater than average power over the direction of the organization.

Burrows (2008, p. 283) described very clearly how the problem constitutes itself within organisations:

If some people have jobs that are empowering, and others that are exclusively deadening or menial, the former will *necessarily* dominate all conceptualization of policy options, all proposals for structural change, all discussion at meetings, and all decisions which affect the business and workers as a whole. The latter will listen, and perhaps debate proposals made by others, and even vote if such is required – but the very nature of their work package will limit their knowledge and skills, and thus their ability to participate effectively as equal partners in the workplace.

The second way that office holders can be formally empowered relates to democratic organisations' democratic and participative nature, which leads to a tendency in these organisations to create and establish more and more formal institutions of governance and management, such as boards, councils, committees and assemblies. These formal bodies create many formal positions and functions that are, theoretically, available to all members. Nevertheless, often it is only a minority that actively seeks appointment to such formal positions and responsibilities. For whatever reason, some members volunteer for more formal positions than others. This not only empowers those individuals formally but also overall creates a rather unhealthy constellation of governance and management. To give an example:

Once I worked at a university that had almost 120 faculty in its two colleges of management – and altogether about 20 committees for its self-governance. Out of curiosity I compiled a little statistic about the membership in these committees. About 80 faculty were on no committee whatsoever, 35 faculty were members of 1–4 committees. Then there was a big gap. And 4 faculty were each members of 12–17 (!) committees.<sup>168</sup> Although no one said it openly, everyone knew that those four individuals 'ran the university', that nothing could be done without them and nothing would be done against them or their will. When I presented the data at the next general faculty assembly the university took drastic measures; from the following semester onwards it no longer published information about membership in committees.

The formal empowerment of the four faculty is a typical example for the *accumulation of formal positions and functions*. Although 'legal' (if the relevant authoritative sources do not have any quantitative limitations in regard to holding offices), the accumulation of formal positions and functions – and the formal empowerment of 'grey eminencies' that goes hand in hand with it – is definitely a problem for democratic organisations since it equips a few individuals with largely uncontrolled power (it actually creates an oligarchy). Moreover, it goes against the idea of separation of powers and checks and balances (office holders can be members of the very same committees that provide legislation for the executive positions they hold or that are supposed to check their conduct of office). A (severe) unequal allocation of formal positions and functions decidedly goes against the spirit of *democratic* self-governance and self-management.

The final way that office holders can be formally empowered relates to *illegitimate* empowerment (by others or themselves), which results from their carrying out their role like orthodox management, i.e. claiming line management responsibilities and demonstrating an autocratic or authoritarian management style. Managers may do this not because they are formally compelled, entitled or encouraged to do so (as in a hierarchical organisation) but because of their *personality, attitudes* and *personal management style*. Alternatively, the people who act in this way may just think they should behave like a 'boss' in their formal role and management position and micro-manage everything and everyone.

Although this is not a full abuse of power (like corruption or other illegal activities while in office), it establishes a (personal) management style and regime that are in stark contrast to the ideas of representative management and cooperative collaboration. Such a managerialistic, micro-managing or even autocratic management style can be quite patronising, annoying and stressful, especially for those who

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<sup>168</sup> This unequal allocation was even more severe than the actual numbers show because only a handful of the 35 faculty actually served on *important* committees; most of them served only on rather exotic – and largely irrelevant and needless – committees.

have to work with such a managerialistic manager. Moreover, it represents a serious problem for the democratic organisation because it changes an originally acceptable formal management position and conduct of office into formal management practices that are fundamentally inconsistent and at odds with the principles of democratic management. It is not an exaggeration to say that *managerialism*, i.e. the implementation and application of orthodox management and performance measurement concepts in non-hierarchical social systems, represents a serious threat to the very nature and existence of these systems.<sup>169</sup>

Overall, formal empowerment of the few can happen in the democratic organisation largely by individuals gaining and holding legitimate management positions, in particular via:

1. Accumulation of specific (management) knowledge and competences via formal management positions;
2. Accumulation of formal positions, roles and functions, such as membership in formal institutions of governance and management;
3. Conducting office like orthodox management, i.e. claiming line management responsibilities and demonstrating a micro-managing, autocratic/authoritarian management style.

#### *Psychological empowerment of the empowered few*

Work – understood not as (mere) ‘salaried, dependent work’ but in a very general sense as any kind of human cognitive and/or physical transformative or creative activity – can be psychologically empowering (e.g. by providing satisfaction, increased confidence in one’s abilities, control and achievements). Work within an organisational context can be even more empowering (because of the additional structural and procedural means, resources and opportunities an organisation provides, which can make work a lever for one’s own confidence, competencies and capabilities). And work for a democratic organisation can be extremely empowering (because its governance and management structures and processes primarily enable, and require, *self-management* and *self-managing* individuals).

There is nothing wrong with being, or trying to be, psychologically empowered. On the contrary, as argued above, psychological empowerment – i.e. having reasonable personal confidence in one’s own abilities (self-esteem and self-efficacy), perceiving that one has personal control of what happens to oneself and in one’s life (locus of control), and having the cognitive and emotional ability to achieve personal goals (goal attainment) – is a characteristic and necessary condition of the ‘sane’ person (a concept developed by Fromm 1956/1971). Psychological empowerment, though, can be a rather unhealthy phenomenon in both absolute and relative terms. In *absolute terms*, this is the case when confidence turns into hubris, personal control into obsessive control (or even obsessive-compulsive personality disorder), and goal orientation into fixation. In *relative terms*, this is the case when one’s own psychological empowerment is largely seen, pursued and achieved relative to others – at the expense of

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<sup>169</sup> For a description and analysis of managerialism (and its devastating consequences) see my paper ‘New Public Management in public sector organisations: The dark sides of managerialistic “enlightenment”’ (Diefenbach 2009b).

others because it depends on and leads to the formal, psychological and social disempowerment of others. Such psychological empowerment is not only based on an inflated self-image but also about seeing oneself as 'superior' *relative to others*; *being* 'superior' suggests being superior *to others* and being a superior to others. Such psychological empowerment means that some people regard themselves not only *as* superiors and 'leaders' (Coutu 2005) but also as *superior to others* – and these others are perceived not only as subordinates and followers but also as *inferior*.

Individuals who think in this way largely follow stereotypical scripts of orthodox leadership theories or ideologies, such as *trait leadership theory* (Carlyle 1841/1888, Conger & Kanungo 1988), which claim that powerful people (such as leaders) have personality traits, cognitive abilities, skills and competencies that (only) *some* people have.<sup>170</sup> Clearly, there can be only a few of such superiors or leaders (ideally, only one), and there can be, and *must* be, many subordinates or followers (ideally, masses). This is where and why this kind of psychological empowerment of the few is troublesome for everyone involved and is not legitimate; it is largely based on and achieved by aggrandising some in rather questionable and unhealthy ways and by belittling many others – again, in rather questionable and unhealthy ways.

#### *Social empowerment of the empowered few*

Earlier, social empowerment was defined as people having reasonably established position, status, worth, self-image, and image of how they are perceived by others (social identity); adequate and sufficient resources, opportunities, social skills and competencies to pursue their legitimate interests and to achieve their goals within a social context; the ability to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly; and the ability to behave accordingly, i.e. to demonstrate the whole range of confident and competent behaviour of a free and independent individual within a social context.

As in the case of psychological empowerment, there is nothing wrong with members of a social system striving for social empowerment – as long as an individual's social empowerment does not come at the expense of others. This is where, and why, the social empowerment of the few becomes problematic. For example, in his research on egalitarian tribes, Wiessner (2002, p. 233) pointed out that *aggrandisers* – 'who alter egalitarian institutions to suit their own ends through debt, coercion, or marginalization' and vie for elevated social status, prestige and wealth – are the key reason for the emergence of inequality (p. 234). 'Ambitious' people, such as aggrandisers, often empower themselves socially in rather questionable ways that may be summarised as *organisational misbehaviour* (Bassman & London 1993, Rayburn & Rayburn 1996, Vredenburg & Bender 1998, Vickers & Kouzmin 2001, Zapf & Gross 2001, Bryant & Cox 2003, Vandekerckhove & Commers 2003). Ashforth (1994, pp. 756–757) put forward a good description of some of these countless little acts of empowered people's daily inappropriate behaviour, in this case autocratic managers:

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<sup>170</sup> Or can acquire. In practical terms, trait leadership ideology usually is accompanied by a *generic leadership theory* that assures overtly ambitious people that the abilities, skills, competencies and even personality traits necessary for being or becoming a leader can be acquired via socialisation, education, training and personal development.

Recurring elements appear to include: close supervision, distrust and suspicion, cold and impersonal interactions, severe and public criticism of others' character and behaviour, condescending and patronizing behaviour, emotional outbursts, coercion, and boastful behaviour; they suggest an individual who emphasizes authority and status differences, is rigid and inflexible, makes arbitrary decisions, takes credit for the efforts of others and blames them for mistakes, fails to consult with others or keep them informed, discourages informal interaction among subordinates, obstructs their development, and deters initiative and dissent. Pervasive themes in these descriptions are a tendency to overcontrol others and to treat them in an arbitrary, uncaring, and punitive manner.

People showing, and empowering themselves via, such organisational misbehaviour might be called 'petty tyrants' (Ashforth 1994), 'Machiavellians' (Rayburn & Rayburn 1996), 'egotistic leaders' (Aronson 2001), or simply 'modern careerists' (Vickers & Kouzmin 2001). But whatever they are called, they share the common feature that their main concerns and deliberate actions are primarily geared towards personal gain (under an official rhetoric of serving the greater good and masked by demonstrating the etiquette of collegiality) and belittling others. They 'care about their own personal power and status, often depending on conspiracies and excuses, and resorting to distortion of truth and manipulation of followers to their own ends' (Aronson 2001, p. 253). As argued by Knights and O'Leary (2006, p. 126), their conduct of office and managerial responsibilities constitute 'a failure of ethical leadership that derives from the pre-occupation with the self that drives individuals to seek wealth, fame and success regardless of moral considerations'.

Social empowerment of the few, especially when it is primarily about the pursuit of personal interests against and at the expense of others, is deeply problematic from a principle-based and practical standpoint for those who are directly or indirectly exposed to such behaviour as well as for any democratic social system. It is illegitimate, socially unacceptable, immoral and sometimes even illegal – and it can happen in democratic organisations.

### **Disempowering the empowered few**

The formal, psychological and social empowerment of the few constitutes serious and systemic problems for the democratic organisation as well as for most of its members. Together, these forms of empowerment threaten the very idea and even the existence of the democratic organisation. If they happen widely and regularly, they change the democratic organisation into a hierarchical autocracy or oligarchy, i.e. turn it into an orthodox organisation. The illegitimate and disproportional empowerment of the few, thus, must not only be addressed thoroughly and specifically but also tackled with measures that are consistent with the democratic organisation's principles and values.

#### *Formal disempowerment of the empowered few*

Formal management positions, even without line authority, empower office holders considerably, mostly by providing them with privileged access to relevant and crucial information, resources and decision-making processes. Therefore, it is crucial to *directly limit the authority of offices and office*

*holders*. As discussed in the context of the formal empowerment of the disempowered, the concepts of democratic governing (in particular *transparency* and *accountability*) and representative and participative management are particularly responsible for providing such necessary measures.

(Compulsory) transparency makes sure that managers do not have exclusive access to or possession of information and cannot use information as a strategic or tactical tool. Moreover, they have legitimate authority only as representatives and are obliged to carry out their role according to the will of those whom they represent. They are controlled and held accountable by those people and/or by formal institutions of governance. As Erdal (2011, p. 164) argued: ‘The fact that the directors are accountable to the employees does change things. When you know that you can be sacked by the people you are leading, your attitude will be different. ... You will tend to be keen to make sure that your decisions are well understood, and that you have listened to the opinions of the people you are leading. You will also tend to pay attention to the reasonable desires and needs of the employee-owners.’

In addition, (compulsory) transparency means that all of the managerial responsibilities and management functions that office holders execute are open to full participation, i.e. all members of the relevant unit are entitled to be involved in decision-making. When O’Mahony and Ferraro (2007, p. 1089) researched the emergence of governance in an open-source community (Debian), they discovered that the governance system was particularly designed to limit the authority (of leaders) through democratic means:

We found that Debian members were only interested in supporting a positional basis of authority if this role was also limited in ways that facilitated democratic control by the rest of the community. We found that positional authority, once created, was limited in four ways that preserved democratic rule. First, the Debian constitution requires those with positional power to defer to the wishes of the collective by making ‘decisions which are consistent with the consensus of the opinions of the developers’. Second, a Debian project leader is subject to the same rules as any member; he or she is not entitled to special privileges. ... A third limit on positional power is the failsafe measure of recall by the collective via general resolution. Any member has the right to propose a general resolution that can counter a leader’s actions. ... The fourth way that democratic rule constrains positional authority is through a countervailing source of authority. For example, projectwide decision-making power is split between the project leader and a technical committee empowered to ‘decide any technical matter where developers’ jurisdictions overlap.

Concerning the accumulation of formal positions and functions, organisations can easily limit terms of office (e.g. to two or four years; Hernandez 2006, p. 116) and limit the number of memberships of boards or committees a person can hold. Moreover, they can make sure that everyone has not only equal *rights* but also equal *opportunities* to hold office and that membership is diverse (Dahl 1985, pp. 21–22, Bachrach & Botwinick 1992, p. 71, Jaumier 2016, p. 7).

Nevertheless, even if all possible formal policies and means of regulation of democratic governance and democratic management are in place to confine and limit formal management positions and office holders as far as possible, there is still the possibility that office holders will formally empower themselves disproportionately. As outlined earlier (see sub-section ‘Formal empowerment of the empowered few’

in the section ‘The formal, psychological and social empowerment of the few’), this is the case when office is conducted like orthodox management. For instance, even if managers do not have any formal line authority or supervisory responsibilities (in the spirit of democratic management), managerialistic managers can still (try to) micro-manage others and demonstrate a rather autocratic or authoritarian management style.

*Formal* measures to counter such personal management styles are possible but limited. There can be company policies, rules and regulations clarifying and outlining that only democratic or participative management styles are acceptable and that managerialistic, micro-managing or even autocratic or authoritarian management styles are not acceptable and will not be tolerated. Such policies can influence how office holders conduct their roles and management functions and can serve as a reference for those who might be exposed to managerial misconduct. These *formal* means of handling personal management styles can be effective, but *social* means (see the sub-section ‘Social disempowerment of the empowered few’ below) are probably even more so in countering such behavioural and relational issues.

#### *Psychological disempowerment of the empowered few*

In the section ‘The formal, psychological and social empowerment of the few’ it was argued that the psychological empowerment of the few can be a rather unhealthy phenomenon in absolute terms, both for *those who are empowered* (e.g. hubris; obsessive control and fixation; mixed score in openness to experience; high conscientiousness, extraversion and neuroticism; but low agreeableness) and in relative terms for *others* (who may experience bullying, patronising treatment and belittlement from the empowered person). It tends to be rather *extreme, unbalanced* types of people who are overtly empowered psychologically or who seek to empower themselves psychologically at the expense of others – organisational psychopaths.

Hence, the idea emerges of psychologically disempowering the empowered few by encouraging them to develop a more balanced, more moderate and less ambitious personality, and a strong prosocial orientation – or similar psychological traits and orientations. However, notions such as ‘balance’ and ‘moderation’ may not be suitable means to counter the disproportional psychological empowerment of the few. There is a practical argument and a principle-based argument.

The practical argument is that such suggestions – even if well meant – are probably rather unrealistic. Moderate, let alone decent or even ethical, psychological traits and orientations simply do not fit with the majority of (overly) ambitious people, aggrandisers, careerists, autocratic leaders and other organisational psychopaths. Most people with strong egocentric and anti-social personality traits (high scores in conscientiousness, extraversion and neuroticism, and a low score in agreeableness) are neither willing nor able to show more decent personality traits or social behaviour.<sup>171</sup> Their imbalanced personality traits and non-social, if not to say anti-social, orientation is ‘their personality’, ‘what drives them’, ‘what works for them’ and ‘what is good for them’ (from their perspective) – so why should they change?<sup>172</sup>

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<sup>171</sup> Actually, it is rather difficult for *everyone* to alter (some of) their personality traits, attitudes or behaviour – just think about all those (broken) New Year’s resolutions.

<sup>172</sup> This statement is perhaps a tad too pessimistic. Probably every person who is not a complete psychopath or sociopath in a clinical sense (or otherwise severely mentally ill or morally so distorted that they have a chronic



Countless managers have gone through ‘leadership training courses’, ‘communication workshops’ and ‘participative management seminars’ to little or no avail.<sup>173</sup>

The principle-based argument concerns the notion of free individuals and people’s right to self-ownership. As argued in the context of the discussion of the libertarian constitution of the democratic organisation (see chapter ‘Libertarian constitution and democratic governance’ above), in a democratic system that acknowledges, guarantees and supports people’s rights and status as free individuals and their inalienable rights in themselves, attempts to change people directly are illegitimate. People’s minds, personality traits, personal identity, and even character and typical attitudes (altogether their ‘personality’) form the inseparable part of the individual that falls under self-ownership and are, therefore, sacrosanct and protected by individuals’ inalienable rights in and to themselves (and are further protected by human, civil and democratic rights). Hence, within a democratic system – actually, within *any* social system – measures to empower or disempower, or otherwise *directly* shape or change, people personally or psychologically find their limits when it comes to the personality and individual inalienable rights of the system’s members.<sup>174</sup>

Measures intended to shape, alter or steer people’s personalities are only legitimate as long as they respect these boundaries. This means that with respect to people’s personalities and anything else that is covered and protected by individuals’ inalienable rights of self-ownership (and/or human or civil rights) there can only be *indirect* measures, i.e. measures targeted at the conditions, context or situation of people’s lives, and providing options and incentives (rewards and/or punishment) so that people are still free to choose and to make decisions.

#### *Social disempowerment of the empowered few*

Finally, it shall be inquired how the empowered few can be socially *disempowered*. As already explained, a minority of members of a social system can be *socially* empowered by (1) having high(er) status or exclusive possession of and/or access to crucial tangible or intangible resources; (2) being disproportionately advantaged and capable of pursuing their personal or group interests against and at the expense of others and the whole; and/or (3) showing corresponding domineering and manipulative attitudes and (mis)behaviour.

These are some of the typical characteristics of social dominance (Sidanius & Pratto 1999) and power

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medical disease or condition) is *potentially* capable of developing a social orientation and demonstrating prosocial behaviour (although it may be difficult for them to achieve; see previous note). But in the case of egotistic power-players and careerists it would take quite some professional intervention, social support and pressure at a scale and over an extended period of time that is usually not provided in an organisational context.

<sup>173</sup> One supervisor I came across had five or six framed *leadership seminar* certificates on the wall behind her desk with two computer-screens. She told everyone that she is a people’s person – and was one of the worst micro-managing, bullying and inept managers I encountered in my 36 or so years of working in hierarchical organisations – and I saw quite a lot of mediocre managers, organisational psychopaths and useless wannabee leaders.

<sup>174</sup> This is another fundamental difference between democratic or libertarian and non-democratic or totalitarian systems (such as autocracies, oligarchies or hierarchical organisations); the latter do not respect this boundary and try to model people directly so that they fit either to certain ideal types or into stereotypical roles that are consistent with the system.

elites (Mills 1956). Each of them goes against the fundamental principles of the democratic organisation and indeed any other decent social system. Together, they seriously threaten the very idea and functioning of the democratic organisation. Wiessner (2002, p. 235), therefore, rightly demanded that ‘egalitarian norms and relations must be constantly enforced against aggrandizers and free riders’. Nevertheless, it is probably fair to assume that most of the socially empowered few are neither willing nor able to voluntarily undo their own social dominance, their privileged status and their social power. The initiative to achieve equal social relations between empowered and disempowered, or between leaders and followers, consequently must come from those who are not socially empowered (Srivastva and Cooperrider 1986 called this the ‘egalitarian spirit’ or ‘egalitarian ideal’, Boehm 1993, pp. 228–233, called it ‘egalitarian behaviour’). Or, as the founder of the Mondragón cooperative, José María Arizmendiarieta, once said (quoted in Erdal 2011, p. 196): ‘Our beloved democracy can degenerate into a dictatorship through the abuse of power by those at the top – but also through the failure of those at the bottom to use the power they have.’ The question is what ‘those at the bottom’ (the disempowered many) can do – or even *must* do – to socially disempower ‘those at the top’ (the empowered few) in order to achieve equal social relations. The remainder of this sub-section looks at various ways in which the empowered few can be socially disempowered – in particular:

- a) Challenging privileging knowledge and privileging positions;
- b) Exercising social control, especially upward control;
- c) Carrying out social actions to confine leaders and to contain the social dominance of leaders and other aggrandizers;
- d) Promoting an organisational culture of equal(ising) power.

#### a) Challenging privileging knowledge and privileging positions

Based on the discussion so far, it seems clear that probably all societies will sooner or later have well-defined and well-protected areas where ‘special’ knowledge and skills reside (e.g. sacred sites or temples, monasteries, secret societies, professions, universities, consultancies, bureaucracies and administrations) – and also ‘special’ people who are the ones, *the only ones*, allowed to and (allegedly) capable of accessing, understanding and using this special knowledge (e.g. priests, monks, social elites, professionals, academics, managers and leaders, bureaucrats and administrators). It is relatively obvious that such protected and monopolised knowledge, along with its exclusive access and usage, creates privileged positions and, as a consequence, rather large power differentials and unequal social relationships.

Rothschild and Whitt (1986, p. 60) therefore called for a “‘demystification” of specialized knowledge’, i.e. ‘efforts to simplify, explicate, and make available to the membership at large formerly exclusive knowledge’ (Rothschild & Whitt, 1986, p. 106). As they further explained (p. 114): ‘In its essence, demystification is the opposite of specialization and professionalization. Where experts and professionals seek licenses to hoard or at least get paid for their knowledge, collectivists would give it away. Central to their purpose is the breakdown of the division of labor and pretense of expertise. In effect, demystification reinforces egalitarian, democratic control over the organization.’

Rothschild and Whitt might have gone a bit too far in the spirit of the 1970s and early 1980s when they suggested breaking down specialisation, division of labour, professionalisation and expert knowledge

as such. But they definitely had a point when they criticised all of the (potential) social dominance and inequalities that are related to, and might stem from, exclusive knowledge and privileges, specialisation and professionalisation. In this sense, it is not professional or special knowledge per se that is problematic but professional or special knowledge that is, or is portrayed and used as, *privileging* (differentiating, dividing) knowledge. *Privileging knowledge* is data, information, knowledge, skills or capabilities that create social inequalities and power differentials that are made exclusive, used and applied in certain ways, and that provide the possessor of that knowledge with the ability to enlarge their status, to dominate others, and to rule, (mis)lead and exploit them. Privileging knowledge is not professional knowledge and technical expertise per se but their exclusive and controlled accessibility, calculated application, and selective usage in a social context (i.e. in a social relationship, or a social situation of interaction, communication, cooperation or competition) that empowers some and disempowers others. It is not, therefore, about counteracting professional knowledge *as such* (or its operational use and application) but about demystifying and combatting its privileging, calculated presentation, use and application at the interface between the professional and the non-professional, and making sure that it does not create a power differential.

Mystification of knowledge, unfortunately, is exactly what is currently seen with the prevailing ‘management knowledge’. It appears that the modern understanding of management was particularly invented to create, elevate and protect a new power elite, the ‘managers’. Only *they*, so it is claimed, have the knowledge, skills and abilities to manage (the corporation and people) ‘professionally’ (Burnham 1941, Drucker 1954, Petit 1961, Rosen 1984, Willmott 1984, Deem & Brehony 2005, Diefenbach 2009a).

This portrait could not be further from the truth. Actually, *all* people with full capacity manage, are capable of managing, and are managers (Grey 1999). Willmott (1984, p. 350) stated that “‘management’, in the sense of reflexive social action, is intrinsic to human agency’. Every adult manages their daily work, life, tasks and activities across the whole range of management functions (planning, organising, leading and controlling) in knowledgeable, competent, multi-dimensional and complex ways (Grey 1999, p. 564). The management of modern life requires handling countless pieces of information, making hundreds of decisions every day, and using skills and competencies from various professions, including, of course, business and management. Every street vendor conducts the same range of management functions as any celebrated billionaire entrepreneur or CEO of a multinational corporation – and the former often face much more challenging business environments, take relatively more risks, work much harder, and deserve their hard-earned income much more than the latter.

So, even if there are ‘managers’ or other specialists in the democratic organisation (i.e. people who are officially elected or appointed office holders of management positions) and even if these people are ‘learned’ managers with special qualifications, professional knowledge and expertise, the management functions they execute are *not* ‘special’ – and also their status as managers has nothing (or should not have anything) ‘special’ about it. Managers merely do what almost everyone else also does – or is potentially capable of doing. Mystification of management, management knowledge, or managers has no place in organisations or society.

It is a similar case with the notion of ‘leaders’ and ‘leadership’. As outlined earlier, trait leadership theory (and similar ideologies, such as charismatic leadership) claims that leaders are ‘special’ because they have the necessary personality traits, abilities, skills and competencies to be leaders and that only

*some* people have or can truly acquire these attributes. And only *they* can provide the leadership necessary for everyone else. This orthodox, if not to say archaic, idea and ideology of leadership and leaders can – and must! – be challenged in principle. Kerr and Jermier (1978) argued that ‘professionals’, ‘knowledge workers’, and competent people in general do not need leaders *at all* to do their jobs. Such people know why and how to do their jobs, what is necessary to do their work, what guides and motivates them, and how to guide and motivate themselves respectively. I agree with Kerr and Jermier – but I would even go one step further and say that *no one* needs a leader to do their work, be a part of society or live their life. We are all grown-ups.

Rejecting the archaic notion of ‘the leader’ or leaders still leaves room for members of a social system to provide leadership. But this requires an understanding of leadership that is fundamentally different from any trait leadership theory or other orthodox leadership ideology. One such approach to a more enlightened and democratic understanding of leadership is *distributed leadership*, i.e. leadership understood as a shared activity of co-creating social meaning, values and orientations conducted by all members of a social system alternately or collectively that is open to contestation, change and reinterpretation (Grint 2010, pp. 89–90, Sutherland et al. 2014, p. 764). For example, in their investigation of four anarchistic political activist groups and organisations, Sutherland et al. (2014) found that direct or participatory democracy, combined with efforts to distribute leadership knowledge and skills more equally among all members of an organisation, offers a relatively good basis for having all members contribute to the provision of leadership and, in doing so, avoids the emergence of leaders. As they explained (p. 769):

To combat the emergence of leaders, each organization made efforts to construct a participative democratic environment. Generally, democracy and participation were *the* key principles underpinning these organizations, and representative democracy was rejected in favour of a more radical/direct approach. This was something that the organizations strove towards in their blueprints for social change, and sought to realize in their here-and-now organizational practices. ... In each organization, decision-making was the main activity in which participative democracy was sought.

And they continued (p. 771):

Experienced individuals were therefore allowed, and often encouraged, to offer their thoughts on certain situations, but efforts were made to ensure that they did not become permanent ‘leaders’. Rather, it was preferred for the leadership of the group to develop organically due to *shared* expertise and skills instead of being determined by *individuals’* cultural capital or styles and behaviours. ... After everyone felt they had the relevant information, an open discussion was held, where no members were considered to be more or less knowledgeable, and meaning-making became something that the group collectively engaged in. Instead of allowing more experienced members to become leaders and take on responsibilities individually, efforts were made to ensure that knowledge and skills were distributed amongst a variety of leadership actors.

It is fairly obvious that distributed leadership not only is consistent and highly compatible with democratic governance and democratic management but also helps a lot to prevent leaders or privileging knowledge emerging. In a truly democratic system there is no place for protected and monopolised

knowledge or positions (such as orthodox management and autocratic managers or trait leadership ideology and privileged leaders) – or for power differentials artificially created via specialised knowledge or positions.

b) Exercising social control, especially upward control

Challenging existing protected and monopolised knowledge or positions, and preventing the emergence of new ‘special’ knowledge and positions, requires that people keep an eye on those areas where knowledge is created and processed – and on the people who access and use such knowledge (for whatever purposes or ends). The main idea is to make sure that those in charge do not aggrandise themselves. One possible way of doing this is by *social control* (Chekroun 2008, pp. 2142–2143).

Generally speaking, social control means putting social and/or informal pressure on members of a social system to abide by its prevailing norms and values. Social control comprises (1) observing people existing and acting in the social realm (their appearance, feelings, reasoning, communication, attitudes and behaviour), (2) judging their existence and acting on the basis of and against prevailing social norms and values, and (3) approval or disapproval of their being and acting followed by (4) direct or indirect reactions and sanctions (rewards or punishment) appropriate to the judgement by members of the social system.

Social control can be done *informally*, i.e. by members of a social system without formal authority (e.g. family, friends, peers, neighbours, passers-by, colleagues and the like), or *formally*, i.e. by members of a social system or institutions with formal authority (‘the authorities’, institutions of the legal system, the government, or the state). In the context under discussion in this chapter, it is mostly about informal social control, i.e. social control provided by members of the democratic organisation without formal functions or positions of authority.

Social control can take place in the form of *downward* control (superiors controlling subordinates), *upward* control (less empowered control the powerful), or *horizontal* control (mutual monitoring and peer pressure) (Ostergaard & Halsey, 1965, pp. 70–71, Hernandez 2006, p. 115, O’Mahony & Ferraro 2007, p. 1089, Erdal 2011, p. 51, Leach 2013, pp. 37–38, Jaumier 2016, Langmead 2016). When it is about socially disempowering the empowered few, upward control is of particular relevance.<sup>175</sup> As Ostergaard and Halsey (1965, pp. 70–71) noted: ‘The crucial test is the extent of the influence wielded by the members [of the cooperative] over those who exercise authority and this cannot be measured merely in terms of participation figures.’ And Hernandez (2006, p. 115) added that ‘the rank-and-file’s ability to maintain control over their elected officials is a reflection of workplace democracy’. Some examples may create a better understanding of how social control can work in a democratic organisation:

- Hernandez (2006, pp. 115, 118) describes how upward control happened in a Mexican cooperative (Pascual): ‘The threat of concentration of power is expressed in three different ways at Pascual.

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<sup>175</sup> The term ‘upward control’ would be most fitting in a formally organised hierarchical or stratified social system to describe subordinates’ or people’s control of their superiors or rulers. Although the democratic organisation (presumably) is *neither* hierarchical *nor* stratified, I use the term ‘upward control’ in order to indicate that members of the organisation (ought to) control those with power – especially the empowered few, who may have established an informal hierarchy or even represent an informal ruling elite.

First, there are factors pushing for the development of charismatic and professional leadership. Second, individuals attempt to gain control and power within the cooperative. Third, corrupt behavior of people in supervisory and administrative positions threatens workers' ability to maintain control. Workers counterbalance these oligarchic forces and sustain control by challenging authoritarian and abusive representatives and recalling them from office, demanding consistent contact with the rank-and-file, and keeping a watchful eye on all the activities performed by the elected leaders. ... Pascual workers' efficacy, the constant watch over representatives and the existence of a law defending their exercise of collective power and democracy have sustained workers' control over their elected officials.'

- When O'Mahony and Ferraro (2007, p. 1089) researched the emergence of governance in an open-source community, they realised that the governance system was particularly designed to limit the authority of leaders through democratic means and social control, such as: (1) people with positional power and other office holders were required to make sure that their decisions were consistent with the consensus of opinion of others involved, (2) project leaders were subject to the same rules as other members and were not entitled to any special privileges, (3) any member had the right to propose a general resolution that could counter a leader's actions, and (4) decision-making powers were split between project leaders and a technical committee.
- In a French cooperative sheet-metal factory, Jaumier (2016) found continual efforts to 'prevent chiefs from being chiefs'. In particular, he understood (p. 1) that: 'Three types of day-to-day practices appear to be central for members of the cooperative in circumventing the coalescence of power in the hands of their chiefs: a relentlessly voiced refusal of the divide between chiefs and lay members; a permanent requirement for accountability, and endless overt critique towards chiefs; and the use of schoolboy humour.'

As the examples indicate, in democratic organisations social control especially means upward control of the empowered few in public by all members of the democratic organisation. It means making sure that neither the holders of elevated formal positions nor overtly active or ambitious individuals aggrandise themselves; gain illegitimate power, dominance and influence over others; or become or turn themselves into formal or informal leaders – and if they do so, they are 'pulled back to earth'. The next point will show how exactly this can be done and achieved.

### c) Carrying out social actions to confine leaders (and other aggrandisers)

To a large extent, social control is *taking action* – especially *social actions*. The key thing is that people, i.e. disempowered members, actually *do* things. Social actions can be understood as people's voluntary activities in the public sphere that have a political or pedagogical intent or dimension. They are activities that are pursued deliberately in regard to particular issues or people in order to achieve some change relating to the issue in question or the currently prevailing status quo. Ober (2003, pp. 19–20) gave a good and telling historical example of the spirit and idea of social action against the powerful:

In his speech *Against Meidias*, written in 346 BCE, a half-century after the trial of Socrates, Demosthenes presents a detailed brief for why the laws must remain authoritative if the dignity of ordinary citizens is to be protected from attacks by powerful, wealthy, clever men. Demosthenes assumes that powerful men will always

desire to demonstrate their power by harming the weak, and he does not consider the possibility that they would be restrained by any internal concern for abstract justice. Nor are the laws themselves, mere inscribed letters, capable of guaranteeing compliance. Rather, the appropriate insurance of legal authority is the collective action of the citizenry: the legal judgment and its consequences. Vigorous public punishment of outrageous behavior will serve to intimidate the powerful and will force them into compliance with the will of the many. In Demosthenes' argument, it is thus the mass of citizens, acting as jurors on the initiative of a voluntary prosecutor, that is the collective agent that ensures the authority of law. It is only when the people are unwilling to use their collective power to restrain the powerful that the law will lose its authority.

This spirit of social actions carried out in the public sphere can also be applied to and seen in organisations, especially democratic organisations. To provide some empirical examples and insights:

- Lipset (1952/2010, p. 17), presenting the first findings and analysis of his famous case on 'The Internal Politics of the International Typographical Union' (Lipset et al., 1956), showed that 'the rank and file' can indeed 'keep very much on the alert'; they stayed suspicious of their officials and rejected outright some of their proposals to change policies (e.g. when officials wanted to increase their salaries, their mandate or extend their terms in office).
- When Rothschild and Whitt (1986, p. 105) investigated a collectivist medical clinic, they found 'angry conflicts between the doctors and the paramedical staff erupted frequently. Members were confounded by the paradox of doctors who endorsed egalitarian principles in concept, but who seemed in practice to usurp decision-making power. In response, members charged the doctors with being guilty of "elitism," "authoritarianism," and "professionalism"'.
- In his ethnographic research of how democracy and equality were practically achieved in a French cooperative sheet-metal factory, Jaumier (2016) found that workers regularly criticised members of the executive board, mainly as one of several means to limit the board's power and to show its members that they should not go beyond their mandate. As he explained (pp. 16–17): 'what mattered to them [members of the cooperative] was first and foremost the act of criticizing [the Executive Board], independently of its content. While one could conclude from this that criticising is, for Scopix members, an end in itself, such a conclusion would in fact be inaccurate: rather, it is one of various means that co-operators use to limit chiefs' power. Indeed, the continuous flow of criticism and of requests for accountability that targets the board members keeps them alert not to go beyond their mandate'. And he added (p. 20): 'at Scopix, criticism again does not always take issue with real facts. What matters most is simply that the flow of speech or critique be sustained, thus indefinitely reaffirming the infinite nature of chiefs' debt. Within Scopix, this state of affairs may be tough to experience. While the current foreman is mentally resilient and has the advantage of knowing the tricks that he himself long performed as a shop-floor worker, his two immediate predecessors left the company, the first due to burn-out and the second to being systematically played and cheated by workers.'

As these empirical examples show, social actions can take place in various forms, such as critical public opinion and voicing concerns, discontent, open criticism and ridicule, holding people in power accountable, disobedience, symbolic or concrete actions (political activism), and limitation, reduction, or even termination of people's elevated roles and positions.

The main, and crucial, difference between social and formal (or even legal) actions is that the latter *must* conform with authority and be consistent with existing (formal) rules and regulations whereas the former *can*, but does not *have to*, comply with the prevailing authorities and regulations. In fact, social actions are *meant to challenge* authority (even legitimate authority). This explains why the notion of social action usually does not exist in the blueprint of autocratic or oligarchic social systems, such as dictatorships or hierarchical, orthodox organisations. In such regimes, social actions are excluded from the range of allowed activities, even formally and/or legally forbidden, seen with suspicion, and actively combated by those in power and their followers. In contrast, the principles, regulations and workings of democratic social systems not only allow social actions but even *encourage* and *require* social actions (Boehm 1993, p. 230, Cheney 1995, p. 186).

Social actions fill the gap that democratic governance and democratic management cannot fill with their strongly formalised concepts and approaches. In return, democratic systems offer favourable conditions in which members *can*, and *do*, express their opinions and show autonomous, non-obedient and even challenging behaviour. In the democratic organisation, the existence of elaborate democratic institutions, egalitarian management and leadership styles, and an assertive social or organisational culture, can and should shape members' mindsets, attitudes and behaviour very much towards a 'democratic mentality', including initiating or participating in social actions. In this sense, social actions at the same time disempower the empowered and empower the disempowered. They contain the power and social dominance of leaders and the powerful, and turn those people into (relatively) 'powerless chiefs' – they help to 'prevent chiefs from being chiefs' (Clastres quoted in Jaumier 2016, p. 10). Additionally, social actions empower the disempowered by providing them with yet another tool (or range of tools) with which to state *their* opinions unreservedly; to question and challenge prevailing orthodoxies, inequalities and injustices; and strive for change.

#### d) Promoting an organisational culture of equal(ising) power

Together, a continual demystification of privileging knowledge and privileging positions, social control (especially upward control) and social actions lead to an *organisational culture of equal(ising) power* (Osterman 2006, p. 628, called it a 'culture of contestation'). To illustrate:

- In a precursor to his investigation of 'The Internal Politics of the International Typographical Union' (Lipset et al., 1956), Lipset (1952/2010, p. 14) found a deeply embedded 'concern of the members to keep control over their officers'. He noted that 'a certain suspicion of or at least lack of complete enthusiasm for officials exists even among the supporters of a given administration' (p. 17), and that the 'members are critical of the motives of union "politicians"' (p. 17).
- In his analysis of decision-making processes, power and control in Mexican cooperatives Hernandez (2006, p. 128) identified a similar culture of contestation: 'Forces pushing for democracy include scepticism toward, and willingness to challenge, authority; readiness



to recall representatives; expectations that the representatives maintain contact with rank-and-file, honesty and effectiveness; expectation to participate fully in board and committee meetings; and a participatory culture (belief in workers' right to self-determination and commitment to defend this right) developed through the labor struggle.'

- While researching a network of institutionalised civil society organisations in the US (Southwest Industrial Areas Foundation) Osterman (2006, p. 639) found: 'Despite the presence of an oligarchical group of organizers, the heightened sense of agency of the members, combined with the culture of contestation, has enabled members to maintain a strong sense of energy (i.e., avoid becalming) and enabled the Southwest Industrial Areas Foundation to avoid goal displacement, ...'. He concluded (p. 636) that 'The idea that a culture of assertiveness or contestation is healthy for the organization is reminiscent of Coser's (1956) claim that conflict can be functional for organizations because it helps subgroups define their own interests, creates a balance of power between groups, and by providing an outlet for differences, prevents exit behavior.'

One can imagine that it takes a lot to create and maintain an open and vibrant culture of contestation and equal(ising) power. The formal structures and processes of democratic governance and democratic management (e.g. formal institutions of deliberation and decision-making, representative management and full participation) only provide the – necessary – framework or basis. The organisational culture of equal(ising) power itself must come from the members of the organisation – in particular from its disempowered members.

This, first and foremost, requires psychologically empowered, confident and caring members: individuals who have a strong, comprehensively developed personal identity and who dare to voice their opinions and speak their mind. And they must have a relatively strong social orientation, i.e. they must care that the social aspects and dimensions are consistent with the principles and values of the democratic organisation. Osterman (2006, p. 643) called this 'a strong sense of agency and a skepticism of authority'. If this is the case, then individual members will contest and challenge those who seemingly do not comply with, act, or behave according to democratic ideals.

This contestation has to happen in the open (and in accordance with the principles and values of the democratic organisation) so that other members can see it and join in.<sup>176</sup> In contrast to orthodox

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<sup>176</sup> On a personal note: I was regularly surprised by the positive feedback I received from some of the disempowered members of the organisations I worked for when I publicly addressed or criticised managerial malpractices or other issues that were perceived to be 'the elephant in the room'. Even a (very) few individual senior managers admitted that 'something has to be done' – and, *very* occasionally, something *was* done. Admittedly, most (disempowered as well as empowered) members stayed silent and in all of the orthodox organisations I worked for I never saw an 'organisational culture of equal(ising) power' emerging. This was rather disappointing, especially since I have worked at some universities where – allegedly – so many 'intelligent' and 'passionate' people work. Actually, my personal experience suggests exactly the opposite; it seems that in academic institutions there is a disproportionately high percentage of cognitively, emotionally, socially and morally severely limited and distorted, mean and useless academics, cowards, psychopaths, inept managers and dysfunctional leaders – especially among academics who also carry out management functions – and the higher those positions are the worse it is. But it is probably the case that some politicians, lawyers, doctors, engineers or civil servants would say the same about *their* professions or the organisations for which they work.

organisations, the democratic organisation arranges for public spaces and encourages members to address issues openly (via democratic institutions of governance such as boards, committees and assemblies; democratic decision-making at all levels and across levels; transparency; and full participation in all management affairs). But it takes quite some effort, encouragement, and perhaps even training and direct support to reach the point where not just a few individual members voice their concerns publicly (at this point they may still be perceived or portrayed as ‘deviants’ and ‘troublemakers’) but the majority of the members regard open deliberation and contestation as normal and practise it routinely. Most people are simply not used to it, as most societies and organisations (even fully developed and functioning democratic societies and organisations) do not socialise and educate their members to become citizens.

Public debate, deliberation and discussion; criticism of organisational affairs and conduct of office; and an overall culture of contestation are values in themselves. Moreover, they are of great functional value since they evidently strengthen the democratic side of the democratic organisation and help to address and solve issues in more nuanced and inclusive ways. An organisational culture of equal(ising) power can help a lot to level disproportional social empowerment. If a social system has a fully developed culture of contestation it is highly likely that not only ‘technical’ or ‘operational’ issues will be addressed in the open but also, and perhaps predominantly, issues of democratic governance and democratic management, the conduct of office of powerful office holders, and issues of (unequal) power, inequality and injustice will be addressed in this way. It tends to be the case that, by addressing those issues openly, the status, power and influence of the powerful are reduced (because of the very fact that they have to engage in those discussions and their actual power may be confined as an outcome). At the same time, the status, power and influence of the disempowered are increased. Over time, a well-functioning culture of equal(ising) power serves to disempower people who were previously empowered (at least in public) and to empower many of the more disempowered members.

In summary, probably the most promising way to disempower the empowered is to disempower them *socially*, i.e. where *others* disempower them socially. Challenging privileging knowledge and privileging positions through demystification, social control (especially upward control), social actions (in particular to contain the social dominance of leaders and other aggrandisers) and an organisational culture of equal(ising) power can remove the power distance between (aspiring) leaders and (possible) followers significantly. Social disempowerment also has the advantage that it does not aim directly at people’s personalities and does not attempt to change them (it leaves them as they are) and instead aims ‘only’ at (changing) people’s public and interpersonal behaviour. This can work – especially when one understands how aggrandisers and other (organisational) psychopaths reason and act. Most of them do so mainly, if not exclusively, at pre-conventional levels of moral development (Kohlberg 1976), i.e. they reason, operate and behave with a very narrow egocentric perspective oriented towards dominance and obedience, rewards and punishment, and opportunistic social exchange. At the same time, they are very conscious – and concerned – about their social status and public image. This means that public opinion, social control and social actions serve as rewards and punishment and can steer the behaviour of the empowered few without the need to change their (unchangeable) personalities. They can remain who they are. All they have to do is to change some of their most obvious behaviour. And since their reasoning and behaviour are mostly opportunistic, they are unlikely to have a problem with doing so. In a democratic system, power-hungry careerists will do (almost) anything *not* to appear like power-hungry

careerists. This is where and why public social disempowerment has a chance to work.<sup>177</sup>

### **How equalising empowerment works**

The preceding sections provided a detailed analysis of formal, psychological and social empowerment of the few and disempowerment of the many in democratic organisations – and what can, or even should, be done to empower the disempowered and to disempower the empowered until both have equal power (according to the principle of *equalising empowerment*). Empowerment is about empowering the powerless *and* disempowering the powerful formally, psychologically and socially until all members of a social system are sufficiently and equally empowered and able to do their work and conduct their lives in ways appropriate for free individuals. Tables 10 and 11 below offer brief summaries of the issues and measures relating to empowering the disempowered and disempowering the empowered.

Whether it is the formal, psychological or social disempowerment of the many or the formal, psychological or social empowerment of the few, both constitute serious problems and challenges for the democratic organisation. The causes of both are fairly similar and can be found in the same areas, namely:

- One of the main factors contributing to the *formal* empowerment of the few and the formal disempowerment of the many is privileged formal roles, positions and responsibilities and related access to (or exclusion from) relevant and crucial information, tangible and intangible resources, and decision-making processes. The empowered few have these positions and this access (and the institutionalised means to make use of them), whereas the disempowered many do not.
- Some of the main causes of the *psychological* empowerment of the few and the psychological disempowerment of the many are possession vs. lack of efficacy, self-esteem and (perceived) locus of control. On average, the empowered few score high whereas the disempowered many score low on these items.
- Causes of the *social* empowerment of the few and the social disempowerment of the many can be found in social status; having sufficient resources and opportunities to pursue one's interests; and being able to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly and behaving accordingly. The empowered few are socially advantaged and more privileged, competent and capable, whereas the disempowered many are socially disadvantaged, marginalised, less competent and less capable concerning those aspects.

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<sup>177</sup> Admittedly, since the careerists do not really change, they will continue to demonstrate various types of organisational misbehaviour in order to dominate, manipulate, exploit and bully others. Measures of social disempowerment need to be accompanied by rather straightforward measures of formal disempowerment (e.g. comprehensive and robust laws, rules and regulations against anti-social behaviour, principles of ethical management, anti-harassment policies, fair and supportive complaint procedures, HR and legal support for all members of the democratic organisation, and so on) in order to be effective.

<b>Empowering the disempowered within democratic organisations: From disempowerment to empowerment</b>	
<p><i>Formal disempowerment:</i></p> <p>No holding of formal management positions and therefore less access to relevant and crucial information, tangible and intangible resources and decision-making processes.</p>	<p><i>Formal empowerment:</i></p> <p>Non-office holders can be formally empowered via a very strict and thorough application of the principles of democratic governance (<i>subsidiarity, transparency and accountability</i>) and the concepts of democratic management (<i>self-management and (full) participation/participative management</i>). By applying these principles and concepts, non-office holders can participate in decision-making processes at all levels and in regard to all issues on equal terms with office holders.</p>
<p><i>Psychological disempowerment:</i></p> <p>Members' efficacy, self-esteem and perceived personal control can be relatively low and minimal because of identity regulation, 'team' rhetoric or other collectivistic and oppressive regimes.</p>	<p><i>Psychological empowerment:</i></p> <p>The fundamental notions of the free individual and self-ownership as well as individuals' factual status as owners provide strong rationales to keep away the oppressive elements of collectivistic regimes.</p> <p>Self-management and participative management especially provide individual members with broad and far-reaching opportunities and responsibilities concerning the management of their work and, hence, (may) increase individual members' self-esteem, locus of control and goal attainment considerably.</p>
<p><i>Social disempowerment:</i></p> <p>Members can be socially disempowered by: (1) low status, stigmatisation, marginalisation or social exclusion; (2) having insufficient resources, or being socially disadvantaged in any other way in regard to pursuing their interests; (3) not being able to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly; and (4) behaving accordingly, i.e. demonstrating the whole range of obedient behaviour of the 'good' subordinate.</p>	<p><i>Social empowerment:</i></p> <p>Members can enhance their social identity via positively identifying with the fundamental values and principles of the democratic organisation, and via full participation in the processes of democratic governance and democratic management. They can pursue their interests, and can develop their social skills and competencies, and demonstrate the relevant behaviour of a free and empowered individual via engaging in social relationships.</p>

Table 10: Empowering the disempowered within democratic organisations: From disempowerment to empowerment.

<b>Disempowering the empowered within democratic organisations: From empowerment to disempowerment</b>	
<p><i>Formal empowerment:</i></p> <p>Office holders can be formally empowered by holding formal management positions (and therefore having access to relevant and crucial information, tangible and intangible resources and decision-making processes), accumulating formal positions and functions, and/or conducting office in an orthodox (i.e. autocratic or authoritarian) management style usurping line management responsibilities.</p>	<p><i>Formal disempowerment:</i></p> <p>Formal disempowerment of office holders can be achieved through direct limitations of their formal responsibilities and authority via formal principles and regulations of democratic governance (especially via the principles of transparency, accountability and legitimate authority); democratic management (full participation); limitation of the number of memberships, formal positions and functions, and the length of terms in office. Office holders may also be influenced in how they carry out their roles and management functions by company policies, rules and regulations clarifying that only democratic/participative management styles are acceptable and that any managerialistic, micro-managing or even autocratic/authoritarian management styles are not acceptable and will not be tolerated.</p>
<p><i>Psychological empowerment:</i></p> <p>(Overly) ambitious individuals can be psychologically empowered in absolute terms (e.g. hubris, obsessive control and fixation, mixed score in openness to experience, high conscientiousness, extraversion and neuroticism, but low agreeableness of the individual) as well as in relative terms (e.g. personal empowerment of the individual towards a superior and leader while at the same time belittling others towards subordinates and followers).</p>	<p><i>Psychological disempowerment:</i></p> <p>It may be imagined that psychologically overly empowered people can be helped to become more moderate and balanced and to develop a social, or even prosocial orientation. But such a notion is <i>either unrealistic in practical terms</i> (most organisational psychopaths are neither willing nor able to show more decent personality traits or social behaviour) <i>or illegitimate in principle</i> (in a democratic system that acknowledges, guarantees and supports people's rights and status as free individuals and their inalienable rights in themselves it is not permitted to attempt to change people directly).</p>
<p><i>Social empowerment:</i></p> <p>Social empowerment of the few is primarily about the pursuit of personal interests and personal gains against, and at the expense of, others, and about demonstrating organisational misbehaviour in order to belittle, dominate, manipulate and bully others.</p>	<p><i>Social disempowerment:</i></p> <p>The socially empowered can be disempowered by: (1) <i>challenging exclusive knowledge and privileging positions</i> by demystification (e.g. via the idea that everyone is able to manage or to lead and/or contribute to distributed leadership); (2) <i>social control</i>, especially upward control (in particular making sure that (self-)empowered members do not aggrandise themselves, gain illegitimate power or become leaders); (3) <i>social actions</i> to confine leaders (in particular to contain the social dominance of leaders and other aggrandisers by criticising and challenging them openly); and overall (4) an organisational culture of contestation and of equal(ising) power.</p>

Table 11: Disempowering the empowered within democratic organisations: From empowerment to disempowerment.

The reasons why and ways in which the many are disempowered and the few are empowered are fairly similar. Possible remedies for these problems can be the same for both problems, but they can vary too:

- *Formal* empowerment of the many and formal disempowerment of the few can be achieved by largely the same means, i.e. by designing formal roles, positions and responsibilities as democratically as possible and by providing or limiting access to information, resources and decision-making via strict application of the principles of *transparency*, *accountability*, *representative management* and *full participation*. When taken seriously and applied in earnest, each of these principles is a very powerful tool that can be used to limit office holders' formal power and to increase non-office holders' formal power until both are (*almost*) on equal grounds when it comes to information, resources and decision-making.<sup>178</sup>
- Measures concerning the *psychological* empowerment of the many and the psychological disempowerment of the few differ to a great extent. In respect of the former it is mainly self-management (and the principle of *subsidiarity*) and participative management (and the principle of *full participation*) that equip individual members with broad and far-reaching opportunities and responsibilities concerning the management of their own work and, thus, (may) considerably increase *individual* members' self-esteem, sense of having an internal locus of control, and sense of goal attainment. However, the exact opposites of these measures (i.e. taking away such opportunities from the empowered few) would *not* work in respect to disempowering them because their psychological empowerment mainly stems from *inherent* personality traits and not from externally provided opportunities.
- Concerning the *social* empowerment of the many and the social disempowerment of the few, the possible measures are also different. As for their social empowerment, disempowered members can or should take positive measures mainly *by themselves*, for instance positively identifying with and living the fundamental values and principles of the democratic organisation, fully participating in the democratic governance of the organisation, and engaging in social relationships (although it must be admitted that such social behaviour may be challenging for certain people, and even learning by doing, training and skills development may not provide complete and sufficient support). In contrast, the social disempowerment of the few can only be done *by others* – it is up to the people to demystify privileging knowledge and positions, exercise social control (especially upward control) and carry out social actions to confine leaders and other aggrandisers.

In summary, democratic organisations have a very broad range of robust means and mechanisms that (can) empower the disempowered many and (can) disempower the empowered few. There may be more measures, but those put forward here at least offer a good understanding of what democratic organisations *can* do – and, as the examples and empirical evidence have shown, what can be achieved if people are serious about protecting social systems against usurpation by a few. The keys to achieving this are institutions *and* people.

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<sup>178</sup> 'Almost' because one of the fundamental principal-agent or moral hazard problems, *information asymmetry* (and, as a consequence, a power differential and possible abuse of the information advantage), can never be solved completely. Nonetheless, the conditions in the democratic organisation (equal rights and status of all members as owners, no formal superior-subordinate relationships, and no line management authority but instead democratic management, transparency, accountability, and full participation) are fundamentally better than in orthodox organisations, which serves to keep principal-agent and moral hazard problems at a minimum and manageable.

The democratic organisation's institutions of governance and management are designed to *confine and control power*. There are checks and balances horizontally between different organisational institutions (*separation of powers*) and vertically decision-making is located at the lowest possible levels (*principle of subsidiarity*). There is full *transparency* in regard to every formal role and position; governance processes; policies, rules and regulations; managerial decision-making; and the conduct of business – i.e. members of the organisation have free and equal access to all relevant non-confidential information (or the right to ask for such information) and can use this information to provide checks and balances. All office holders, especially those in formal management positions, are *representatives*, elected or appointed democratically, and are obliged to execute the will of those whom they represent. They have no line management responsibilities, and their formal responsibilities and authority of office are limited by the principles and regulations of democratic governance, representative management and legitimate authority. They are controlled regularly, held accountable, and removable from office by democratic means (*accountability*). The number of formal positions or memberships any individual can hold is limited, as is the length of any term in office. Fully fledged democratic systems like the democratic organisation have multiple overlapping and mutually controlling institutions that keep power – and power-oriented actors – at bay.

At the same time, the democratic organisation's institutions of governance and management are designed to *empower and enable individuals* – especially those who are *not* empowered – to manage themselves, organisational affairs and the organisation as a whole collectively and, in doing so, to avoid the democratic organisation descending into oligarchy. Following the principles of self-ownership and subsidiarity, in the democratic organisation *self-management* comes first; *all* members of the democratic organisation are entitled, encouraged and enabled to organise and manage (individually or collectively) their own work, work-related issues and organisational affairs, and to conduct *all* management functions (planning, organising, leading and controlling) relevant to their work as *they* deem appropriate and necessary. Members may decide to delegate functions to formal positions of representative management but keep control over those functions. Moreover, participative management links self-management and representative management, i.e. at all levels of the democratic organisation there is *full participation*. Participative management means that *all* members of the democratic organisation have equal rights and opportunities to participate in all formal decision-making processes. All decisions – whether about constitutional, strategic or operational issues – are made democratically, i.e. either by all members of the organisation or by its relevant parts (via self-management or by direct or participative democracy) or by elected representatives or office holders (via representative management and representative democracy). Altogether, the institutions of self-management, representative management and participative management entitle and empower all members of the democratic organisation to manage and control the organisation, organisational affairs and conduct of office.

With their confining and enabling features, the democratic organisation's institutions of governance and management are *instrumental* for the *people* – how they govern and manage the organisation and their work as well as how they govern, manage, control and empower or disempower themselves and others. Crucially, the institutions are not abstract entities of only theoretical worth and use but are thoroughly embedded in the fabric of the democratic organisation and part and parcel of members' daily work and experiences. All members of the democratic organisation are *routinely* enabled and confined by its institutions to conduct their work, to participate in the governance and management of the organisation and organisational affairs, and to be empowered as much as is appropriate and necessary. There is no

‘big secret’ to why the democratic organisation functions and why its members can maintain it. *People maintain, protect and perpetuate the democratic organisation not because of exceptional idealism but because in their daily work they act on the basis of, act within, and utilise comprehensive and robust democratic institutions that reflect, protect and support their interests. That’s it.*



## Considerate conduct of business

This chapter interrogates how the democratic organisation does its business, i.e. how it acts and operates as an entity internally as well as among and towards others and the environment while pursuing its purpose(s). I call this ‘conduct of business’. It will be argued that the democratic organisation demonstrates *considerate* conduct of business, i.e. that it does things *decently* (in stark contrast to orthodox, profit-maximising organisations). The main three sections will demonstrate and analyse how and why *exactly* democratic organisations conduct their business decently along social, environmental and economic dimensions – i.e. ‘people, planet, profit’ or the widely known ‘triple bottom line’; ‘people’ means a (pro)social orientation and behaviour, ‘planet’ a pro-environmental orientation and behaviour, and ‘profit’ economic and other performance(s) of organisations. A final section highlights that with these orientations and conduct of business, the democratic organisation does exceptionally well.

### Conduct of business – *considerate* conduct of business

The previous four chapters have been about the democratic organisation’s design and internal workings, i.e. its libertarian constitution, democratic governance, democratic management and people’s empowerment or disempowerment. It is now time to examine how the democratic organisation as an entity acts and performs, i.e. how it conducts its business. *Conduct of business* can be understood as the way(s) an individual or organisation as an entity acts and operates (internally as well as among and towards others and the environment) while pursuing its purpose(s). This chapter concentrates on the democratic organisation’s purposes, orientations, actions, behaviour, interactions and performance(s) as an entity in its environment(s) and among others.<sup>179</sup> The basic proposition is that democratic organisations pursue very different purposes, behave and act *fundamentally* differently, and perform better – much *better!* – compared to orthodox, hierarchical and profit-maximising organisations.

These differences can perhaps best be encapsulated in the idea that democratic organisations conduct business *considerately*. *Considerate conduct of business* means that an individual or organisation – within its purposes, strategies, policies, governance, management, structures, processes, and control and performance measurement systems – takes explicitly and equally into account the legitimate interests, problems and needs of individuals, groups of people, other organisations, institutions, society in general, and the natural environment; the intended and unintended outcomes and consequences of its activities, actions and inactions; and acts accordingly in balanced and sustainable ways that avoid or minimise negative, and create or increase positive, impacts on others, the wider system and/or the natural environment.

Considerate conduct of business means doing the things one does *decently*. Although democratic

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<sup>179</sup> The focus in this chapter is mainly on the democratic organisation and its conduct of business *as such* – i.e. the discussion is largely abstracted from external conditions or aspects (like political frameworks, legal rules and regulations, market type and market environment, macro-economic conditions, specific markets or industries, competition and competitors’ behaviour, consumer behaviour and the like).

organisations can be established for very different purposes, can be designed and maintained very differently, and may conduct their business in different ways, they all have the intention to conduct their business decently. How – and why! – *exactly* they do and achieve this will be interrogated and demonstrated in this chapter along three dimensions: social, environmental and economic, i.e. ‘people, planet, profit’ (the well-known ‘triple bottom line’ concept):

- In respect to ‘people’ it will be shown that democratic organisations, their owners and members respectively, largely have, and demonstrate, a (*pro*)*social orientation and behaviour* towards other actors because they have a more collaborative mindset and a stronger community orientation, are more focused on developing and maintaining long-term relations and overall show more decent and honest, fair and just, and responsible and ethical behaviour.
- Regarding ‘planet’ it will be demonstrated that democratic organisations also show more *pro-environmental orientation and behaviour* because of their local embeddedness and community orientation, their higher sense of connectivity with, and responsibility towards nature and their pro-environmental goals and purposes in their business models.
- And concerning ‘profit’ it will be argued that ‘economic performance’ actually needs to be understood in a much broader and multidimensional sense (than mere monetary performance as profit-maximisation) and that in that respect, democratic organisations show a much better *economic orientation and performance* (and are much more successful) because their members – as owners – have an inherent sense of ownership and responsibility, manage the enterprise together, are (therefore) much more committed and engaged, and (thus) achieve higher, more robust and more sustainable organisational performance.

The following three sections will discuss these aspects in turn.

## **People: (Pro)social orientation and behaviour**

### *Social and prosocial orientation*

In their purposes, goals, values, behaviour and actions, individual and collective actors (i.e. individuals, groups of people, organisations and institutions) can show a *social* or even *prosocial* orientation and behaviour – or a lack of social orientation and even *a-social* or *anti-social* behaviour. A *social orientation* means that an actor takes others’ existence and genuine interests explicitly into account in their reasoning and acting in non-instrumental and cooperative ways. A *prosocial orientation* (also called and comprising ‘prosocial personality’, ‘prosocial motivation’ and/or ‘prosocial behaviour’; Van Lange 2000, Grant & Berg 2010) means that an actor *actively* tries to improve others’ existence or the conditions of their existence. A prosocial orientation implies a concern for others and their welfare, and being helpful to other persons, but not at the expense of one’s self-interest (Deutsch 1986, p. 16, Grant & Berg 2010, p. 5).<sup>180</sup> A prosocial orientation shapes not only people’s minds but also their actual behaviour

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<sup>180</sup> In contrast, *other orientation* also means concern for others and their welfare, but less, or not in accordance with, one’s self-interest and rationality (Korsgaard et al. 1996, Meglino & Korsgaard 2004, Lester et al. 2008). That is, *other orientation* can be psychologically problematic, and it can be or become chronically unhealthy since it can lead to obedience, submissiveness, self-denial and/or leader–follower syndrome.

and social interactions. People with a prosocial orientation show predominantly social or even prosocial behaviour, in particular more cooperation (enhancement of joint outcomes), generosity (enhancement of others' outcomes) and equality (enhancement of equality in outcomes) (Van Lange 2000).

Radical, utility- or profit-maximising actors (such as the *homo economicus* or the capitalist firm or corporation) do not have a social, let alone a prosocial, orientation *in principle*. Their reasoning and acting are limited to egoistic (even egotistic), opportunistic and competitive calculus and behaviour, and they are neither able nor willing to demonstrate a social orientation or behaviour. Their orientation and behaviour are fundamentally *a*-social, and in many respects and instances *anti*-social.

In contrast, democratic organisations are able and willing to empathetically take other actors' genuine interests into account and to demonstrate cooperative and mutually beneficial behaviour.<sup>181</sup> Democratic organisations have a *very* strong social orientation (if not to say a *prosocial* orientation) and show predominantly social behaviour *in principle* – they genuinely care about those they are engaged with and others beyond them (within *and* outside the organisation). Many democratic organisations (e.g. community-based organisations, not-for-profit organisations, non-governmental organisations (NGOs), co-operatives and social enterprises) are even set up to pursue *prosocial* goals and activities, and to change or improve the individual situations of people or the social conditions in which they live.

The following sub-sections elaborate on the question of how and why democratic organisations (can) display (pro)social orientations and behaviour. The analysis concentrates on (1) the collaborative minds and cooperative behaviour of members of democratic organisations, (2) community orientation and local embeddedness, and (3) the decent business practices and the responsible and ethical behaviour demonstrated by democratic organisations.

#### *Collaborative minds and cooperative behaviour*

Democratic organisations can be created for various purposes, but what they all have in common is that one of their main purposes is to be mutually beneficial for their members (and/or clients, customers or other stakeholders) (Lewis & Swinney 2008, p. 31). The purpose of creating mutual or collective benefits is enshrined in the organisation's partnership agreement and reflected in how the organisation is designed and works on a daily basis.

In pursuit of this purpose, members of democratic organisations have particularly collaborative minds and regularly cooperate with other members of the organisation. There is a 'culture of cooperation and generalized reciprocity among diverse individuals and groups' (Meurs 1996, p. 110). Against the backcloth of such a collaborative mindset and routinely practised cooperation as the usual way of (inter)acting and operating *inside* the organisation, members of the democratic organisation also seek mutually beneficial cooperation with actors *outside* the organisation and demonstrate corresponding cooperative and reciprocal behaviour (Meurs 1996, pp. 110–111, Novkovic & Holm 2011, p. 1). As a consequence, democratic organisations show high levels of cooperative and reciprocal behaviour in their

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<sup>181</sup> This fundamental difference between orthodox (profit-maximising) and democratic organisations is encapsulated to some degree in the two concepts of Milton Friedman's (1962/1982) *shareholder* orientation and Edward Freeman's (1983) *stakeholder* orientation.

communications, economic exchanges and transactions, and social relations with other actors. Moreover, they are more interested in establishing and maintaining long-term relationships, will sustain and develop relationships with various stakeholders, and may even form alliances or become members of formal or informal networks, interest groups, associations or cooperatives (Smith & Rothbaum 2014).

It is important to note that a collaborative mindset and cooperative behaviour should not be equated or confused with altruistic or unselfish behaviour. There may well be such motives. But people and democratic organisations cooperate (also) because this mindset and behaviour correspond with *their* sense of purpose, values and preferences, it is in *their* interest and to *their* advantage to do so. Moreover, the empirical evidence clearly shows that democratic organisations' cooperative behaviour works:

- In their research into cooperation within cooperative networks seen 'from the small firm's perspective', Mazzarol et al. (2013, p. 28) found that: 'Small firms gain benefits from alliances and networks by securing access to resources and capabilities such as access to markets, technologies and knowledge, as well as a degree of protection from competitive threats. ... Small producers who join cooperatives secure benefits such as greater market access, better pricing and lower input costs. ... The pooling of resources and sharing of knowledge that occurs within co-operatives is also a major benefit to such small firms contributing to the building up of social and economic capacity within their community'.<sup>182</sup>
- When Reed (2015, pp. 105–106) investigated the opportunities and limitations of fairtrade practices and certified Fairtrade networks' primary ways of operating, he found that: 'The solidarity between small producers and other SSE trading partners expresses itself in a number of ways:
  - partnership and shared decision-making over the terms of trade, rather than a [*sic*] imposition of terms based on market power;
  - transparency and knowledge-sharing, leading to shared autonomy;
  - commitment to fairer distribution along the value chain, which includes ensuring that the full costs of production of small producers are covered by the price that they receive;
  - trade based on long-term relations, rather than contracts with a one-year horizon;
  - commitment to supporting capacity-building and local development ...;
  - long-term relationships with consumers, involving loyalty, more direct trade relations that cut out intermediaries, a commitment to quality products, as well as openness and transparency.'

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<sup>182</sup> Mazzarol et al. (2013, p. 36) also offer a whole list of benefits that (small) individual organisations get by being part of a cooperative or cooperative network, such as access to resources, access to services not provided by private industry or government, investment in local communities and creation of social capital, member business development through education, aggregate member bargaining power to gain competitive advantage and a stronger market position, direct financial (dividend or patronage reward) and indirect benefit (lower transaction cost) for member businesses through cooperative core operations and/or diversified investments, ability to stay small but act and benefit big, marketing and other service benefits, (unlimited) support for sales and profitability growth, added value to products and services, lower transaction costs and environmental risks managed by the cooperative, educational benefits, being part of the cooperative community, creating value for and protecting future generations, and a sense of achievement and pride.

All in all, it can be said that (members of) democratic organisations have a more collaborative mindset; engage in more voluntary, mutually beneficial cooperation and reciprocal behaviour; are more willing to share resources, knowledge and power; share and distribute benefits, burdens, costs and profits more fairly; and are more likely to develop and maintain long-term relations with other actors, particularly when they have similar values and ways of operating (Wright 2010, p. 235). All of this evidences a much stronger social and prosocial orientation and behaviour than is found in orthodox organisations.

### *Community orientation and local embeddedness*

A social, even prosocial orientation can especially be seen in respect to people that are ‘close to oneself’. Traditionally, besides family ties, this closeness has been understood and practised in a spatial or geographical sense: the neighbourhood, community or larger cultural area. Many democratic organisations originate as small, local organisations embedded in the neighbourhood and their communities and establish community-based businesses (in particular many types of cooperative, such as farmer, producer, housing, banking or consumer cooperatives; community-based organisations; some types of civil society organisation; and non-profits, NGOs and social enterprises). For example, Nembhard (2008, p. 212) stated that ‘Community-based businesses are local enterprises that are owned, run, managed, and/or shared by members of the same community – either a geographic community (locational affiliation), or a community of interest (based on cultural, ethic or economic affiliation). They are elements of the solidarity economy because they exemplify local control, democratic participation, and economic organizing at the grassroots.’<sup>183</sup> And Groeneveld (2011, p. 533) argued in respect to cooperative banks: ‘Cooperative banks are literally and figuratively closer to their customers and know those customers well through participation in numerous social networks. This is because the cooperative banking model centres above all on “relationship banking” via local presence. Proximity to their customers is reinforced by actively supporting local communities.’

Many democratic organisations have a strong community orientation and a feeling of local embeddedness, and are concerned about local people’s and communities’ well-being (Gibson-Graham et al. 2013). They care about the people ‘close to them’ and treat them well in their interactions and activities. Rothschild-Whitt and Lindenfeld (1982, p. 7) explain this in more detail: ‘The main purpose of each firm is not the maximization of profit, but the maximization of community well-being. This includes fair income for those who work in the enterprise and workers’ control of their own work, with jobs as personally rewarding as possible. Community well-being also includes providing goods or services that are socially useful, of high quality, and ecologically sound. Priority would be given to the conservation of energy and natural resources and to the growth of the organization to an appropriate, medium size. In times of trouble, workers are not laid off, but rather share reduced hours or lower incomes.’

Community orientation and ‘localism’ do make sense. Even in the most developed countries there is a strong trend towards, and appreciation of, local businesses, locally produced, provided and consumed products and services, and the spirit of neighbourhood and community life – and many democratic

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<sup>183</sup> For some concepts, ideas and practical examples relating to such a ‘people’s economy’, i.e. local or community economies that focus on sustainable development, community work, self-help, participation and cooperation, see Bauhaus Dessau Foundation & European Network for Economic Self-Help and Local Development (1996).

organisations fit into such a local context with their values and the way(s) they operate. Nonetheless, there are also problems, or misunderstandings, with such an idea of organisations' localism or community orientation.<sup>184</sup>

One aspect is *size*. Sometimes, people are inclined to think that alternative, participative organisations can be, or even should be, only small 'corner shop' organisations, and that they should stay small in order to, for instance, preserve the founders' spirit; the creative, relatively unstructured, unbureaucratic and informal ways of communication, direct participation and decision-making; and their direct relationships with customers and neighbours. This is definitely true for some democratic organisations, as some want to continue conducting their business on a small scale and in a manner that is deeply embedded in a specific ('their') neighbourhood. Nonetheless, democratic organisations can also grow and become regional or even national institutions *without* losing their local connections and identity (as the Mondragón cooperative network and the German Raiffeisen banks have shown so compellingly). Of course, there are always problems and changes when organisations grow, especially in respect to their identity, structures and processes of governance and management, and their organisational culture. But these challenges can be managed and do not mean that democratic organisations *have* to be, or stay, small in order to demonstrate and keep their community orientation and local embeddedness.

The second aspect is *space*. Usually, 'local' community is understood as the (immediate) *physical* or *spatial* neighbourhood – which makes sense in many respects when an issue under consideration relates to issues where people live. Individuals' work and quality of life as well as community development have a lot to do with location and physical spaces, the built environment, physical infrastructure, availability and accessibility of facilities and (public) services, and the social fabric of the neighbourhood. Nevertheless, with the emergence of the internet, online applications and activities (especially social media), many people's work and lives have become increasingly virtual. 'Space' now transcends physical and geographical boundaries, even exists *without* any physical valence or dimension ('virtual reality' and the 'metaverse'). Private, social and economic activities increasingly take place 'on the internet', for instance in *online* communities. Many people not only spend a large amount of their time online but also have parts of their personal and social identities, work and lives happening and shaped online, by online activities and online communities (Swigger 2013).

Additionally, the physical or geographical space has changed. Whereas traditionally most social and economic interactions and exchanges happened locally, nowadays they take place on a global scale. Globalisation describes this worldwide process of increasing social, cultural and economic interaction and integration among people, organisations and institutions of and from different local, regional, national and ethnic backgrounds. Globalisation happens in both the physical and the virtual worlds and creates communities and social context that transcend any local context. To illustrate, (via the internet and virtual applications as well as real-world operations and logistics) many international NGOs and small fairtrade organisations have successfully established close links between donors/sponsors and sponsored persons or projects or between consumers and producers who are thousands of miles away from each other but are part of a 'community', not only in a metaphorical and virtual sense but also in a social and economic sense. This is (pro)social orientation and behaviour in action spanning the globe.

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<sup>184</sup> And see the sub-section 'Localism and local people's (pro-)environmental orientation' below for some more critical points on 'localism'.

‘People close to oneself’ does *not* mean only local, spatial or geographical closeness but also global, virtual and metaphorical closeness – and democratic organisations’ community orientation and local embeddedness should be seen and understood in *that* way too.

#### *Decent business practices, responsible and ethical behaviour*

Democratic organisations simply do not behave like capitalist firms (Schweickart 2011, pp. 87–89). Whether they operate in the Social and Solidarity Economy or even in (highly) competitive market environments, they simply do not put as much pressure on themselves – and others! – as profit-maximising organisations or corporations do. This is because they are set up for purposes, and pursue goals, that are per se more decent, fair and just; their prime purpose(s) are not short-term profit maximisation (for a very few by exploiting or at the expense of many others and the natural environment) but serving key stakeholders (members, clients, customers, community and humankind); addressing fundamental social, economic or environmental needs or concerns; or pursuing other decent and ethical purposes.

As a consequence of their more decent and ethical purposes, they also develop and demonstrate more decent and ethical business strategies and practices. Democratic organisations usually do not pursue ambitious profit-maximising or growth strategies (growth in revenues, profits, markets or market shares to get ahead of or against others) because this is not why they were set up in the first place or how they operate. They follow much more cooperative, balanced, long-term-oriented and sustainable business strategies and practices (Carnoy & Shearer 1980, pp. 172–174, Groeneveld 2011, p. 533, Groeneveld 2013, p. 24) – and behave accordingly. Democratic organisations produce and offer products and services that are useful, affordable, sustainable and good for people – and perhaps also for the environment. They do not engage in deceptive marketing strategies and practices (or any others that are unethical or annoying). Their ‘value chains’, operations and collaborations with partners correspond and comply with standards of ethical conduct and sustainability, and they care about their members and customers or clients, their community and their neighbourhood routinely, i.e. as part of their daily conduct of business (Kelly 2012). Democratic organisations demonstrate more conservative behaviour in the sense of acknowledging and protecting the *fundamental* (intrinsic) value and integrity of individuals, legitimate social systems and the natural environment (see next section). Democratic organisations show *prudent* management – and there is quite some empirical evidence for this. For instance, based on his analysis of the business models and conduct of business of 15 European cooperative banking groups, Groeneveld (2011, p. 515) concluded:

Cooperative enterprises are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. With reference to these historical and universal cooperative values, cooperative banks have repeatedly and publicly stated that they have always acted primarily in the interests of their members and customers. They also state that this approach has led to a dominant focus on relationship banking with a moderate risk profile and attention to several different stakeholders. The financial crisis offers a good opportunity to verify many of the longstanding assertions of cooperative banks. ... This specific form of enterprise has proven rather successful in the recent

turbulent financial times. Corporate governance with member ownership and influence has ensured the application of relatively high moral and ethical standards in their daily business and contacts with members, who are both the customers and the owners of cooperative banks at one and the same time.

That democratic organisations by and large show (much more) decent business practices and responsible and ethical behaviour than orthodox organisations is *not* because their members are ‘better’ people per se (some might be) but for *systemic* reasons; members of democratic organisations act and behave more decently within and on behalf of the democratic organisation because this is what these organisations *are*. Decency is part of the organisations’ fundamental principles, values, structures and processes – it is in their fabric and simply the way they operate and ‘how to do things’.

### **Planet: Pro-environmental orientation and behaviour**

#### *Pro-environmental orientation*

Besides their social orientation, the question is how the democratic organisation and its members relate to the *natural environment*. The human–nature relationship is a fundamental (even existential) and complex, difficult and troublesome relationship – *for both*. The discussion here is mostly about whether or not democratic organisations (are able and willing to) demonstrate a *pro-environmental orientation* and *pro-environmental behaviour* towards nature and the natural environment or parts of it.

A *pro-environmental orientation* means that (Purser et al. 1995, p. 1077, Smith 2003, pp. 8–9, 12, Connelly et al. 2012, p. 32):

1. Humans ascribe, and acknowledge, an *intrinsic value* to the natural environment or parts of it (i.e. nature in general, natural phenomena, ecosystems, species, plants, trees, animals and other living organisms) *independent* of humans or a possible instrumental, economic or market value (i.e. these things are considered to be valuable or of value simply for what they are).
2. The natural environment (or parts of it) should be protected and preserved for its own sake because of its intrinsic value.
3. Humans and organisations (should) act environmentally responsibly by acknowledging nature’s intrinsic value.

*Pro-environmental behaviour* means that within their natural environments, humans (individuals and groups of people), organisations and other social systems act towards nature on the basis of a pro-environmental orientation. In particular, they (Kollmuss & Agyeman 2002, pp. 240, 251, Parry 2012, p. 220, Raymond et al. 2013, pp. 537–538):

1. Include the relevant natural environment (or parts of it) consciously and explicitly in their reasoning and decision-making processes;
2. Use, manage, maintain, restore, preserve and/or enhance the natural environment or parts of it in balanced and sustainable ways, according to the principles of balance and sustainability respectively;



3. Overall seek to minimise the negative impacts and to maximise the positive impacts of human action and conduct of business on the natural environment in every possible respect.

Orthodox, profit-maximising organisations do not have a pro-environmental orientation and do not demonstrate pro-environmental behaviour – *in principle*. Profit-maximising organisations are set up for the *sole* purpose of generating as much profit and income as possible for some human beings, their owners. Their indisputable paradigm of increasing returns and profits and reducing costs as much as possible suggests the imperative of avoiding all ‘unnecessary’ costs and externalising internal costs – i.e. by not paying (enough) for any harm or damage done to the natural environment while conducting their business (e.g. when they use and exploit the natural environment, or procure and utilise natural resources and materials in their production processes, operations, logistics or the types of services or products they offer). Orthodox, profit-maximising organisations are, and behave, *anti-environmentally* (and anti-socially) *intentionally* and *by necessity*.

Orthodox organisations can and do show pro-environmental *behaviour* (only) if they are forced to do so (e.g. by law, regulations or policies) and/or if they deem it to be advantageous in a calculative, monetary sense – i.e. (solely) for opportunistic reasons. For instance, there are many orthodox for-profit companies in ‘green business’ or ‘green jobs’, i.e. they develop, manufacture and offer environmentally friendly products or services; make energy from renewable sources such as wind, solar, geothermal or hydropower; and/or minimise their total environmental impact and achieve environmental sustainability in their conduct of business (Parry 2012, p. 220, Park 2013, p. 67). They are ‘being green’ *if*, and as long as, there is ‘a market’ for it. Alternatively, even if they are not in the ‘green business’ and operate in fairly conservative industries and markets, some businesses still demonstrate pro-environmental behaviour if this reduces their costs (e.g. to minimise the consumption of resources, materials or energy, a company might reduce its waste or pollution, or use ecologically sustainable resources or non-toxic substances) and/or gives them a ‘competitive advantage’ (Kollmuss & Agyeman 2002, p. 240, Sandhu 2010, p. 294, Parry 2012, p. 220).<sup>185</sup>

Compared to orthodox organisations, democratic organisations are not required to maximise profit and, hence, are free to decide on their orientation (purpose(s), values and principles) and corresponding behaviour (conduct of business). Hence, one might immediately be inclined to think that democratic organisations, since they are fundamentally different from orthodox organisations, might show pro-environmental orientation and behaviour (Harrison 2013, p. 14) as much as and as easily as they show (pro)social orientation and behaviour. However, the case is not that straightforward. It is not so automatic for democratic organisations to have a pro-environmental orientation or behaviour as it is for them to have a social or even prosocial orientation and behaviour – but there is a good chance that they will do so – at least a better chance than for orthodox organisations. Thus, the question is why and when would democratic organisations demonstrate a pro-environmental orientation and operate in a more environmentally conscious and friendly manner?

This question will be interrogated in the following sub-sections by focusing on (1) owner-managers’ sense and value of nature, (2) people’s (pro-)environmental orientation, and (3) the goals and actions of democratic organisations.

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<sup>185</sup> For orthodox organisations it is sufficient to *appear* to be ‘green’ and environmentally responsible while continuing their unsustainable conduct of business (called ‘greening of corporations’, ‘greenwashing’ or ‘hijacking of environmentalism’; Eisner 2004, p. 148, Sandhu 2010, p. 295).

### *Owner-managers' sense and value of nature*

In business research (in particular about small and family businesses and about entrepreneurs' and managers' perceptions and decision-making) it is well established that psychological and social characteristics as well as personal values and convictions have a crucial influence on people's worldviews, attitudes, behaviour, decision-making and actions (Parry 2012, p. 221). The question is which factors *exactly* may trigger and shape owner-managers' pro-environmental orientation and behaviour.

The factors influencing human reasoning and behaviour are extremely diverse and complex (Kollmuss & Agyeman 2002, p. 254, Gifford & Nilsson 2014, p. 151) and there can be many different reasons why democratic organisations' members demonstrate a pro-environmental orientation and corresponding behaviour (McDonald 2014, p. 292, Gifford & Nilsson 2014, p. 141):<sup>186</sup> *external factors* (historical, cultural, societal, institutional or organisational context, situation and conditions), *intrapersonal factors* (demographic characteristics, personality traits, socialisation, education, knowledge, skills and competencies, values, convictions, political and world views, perceived self-efficacy, motivation, habits, attitudes, behaviour, and social, cultural and ethnic background), and/or *interpersonal factors* (social identity, social norms, prevailing values and ideologies, peer and group pressure, and social processes and interaction).

But whatever factors might trigger or contribute to the emergence of a pro-environmental orientation, one of the key indicators that people or members of democratic organisations have such an orientation is that they *feel connected to* or have a *sense of connectivity with nature* (or oneness, unity or wholeness), i.e. some kind of emotional involvement with the natural environment or parts of it (Kollmuss & Agyeman 2002, Dutcher et al. 2007). According to Dutcher et al. (2007, p. 474), 'Connectivity describes a perception of sameness between the self, others, and the natural world. The experience of connectivity involves dissolution of boundaries and a sense of a shared or common essence between the self, nature, and others.' Kollmuss and Agyeman (2002, p. 254) argue that 'an emotional connection seems to be very important in shaping our beliefs, values, and attitudes towards the environment' and, thus, hypothesise that 'the stronger a person's emotional reaction, the more likely that person will engage in pro-environmental behavior'. Dutcher et al. (2007, p. 478) assume that 'people who sense a fundamental sameness between themselves and the natural world (as well as to other people) will feel more empathetic and compassionate toward nature'.

Besides a more general sense of connectivity with nature or emotional involvement with the natural environment, owners and members of democratic organisations may also have more specific values and ethical principles that motivate them to show pro-environmental behaviour and conduct their business accordingly (Parry 2012, pp. 221–222). Such values – which might be called 'biospheric' or 'biophilic' (Lumber et al. 2017, p. 19) – stress the appeal or worth of nature and imply that the natural environment or parts of it should be cared about, preserved, and nurtured. For example, in their meta-analysis of a broad set of empirical studies about pro-environmental orientations and behaviour, Gifford and Nilsson (2014, p. 144) found that 'persons who hold more self-transcendent and biospheric values report being more environmentally concerned, and the opposite is true for those who hold self-enhancement and

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<sup>186</sup> Kollmuss and Agyeman (2002), Gifford and Nilsson (2014), and McDonald (2014) provide systematic overviews of psychological, socio-psychological and sociological theories and factors that are relevant to describing and explaining individual (pro-environmental) concerns and behaviour.

egocentric values. The same relations apply for environmental behaviour.’

Whether a person has a more general sense of connectivity with nature or specific biophilic values, both prepare and enable people to be, or to become, *more perceptive about environmental issues*. There is substantial empirical evidence that individuals who feel more connected to nature also show a strong(er) pro-environmental orientation and willingness to demonstrate pro-environmental behaviour (Gifford & Nilsson 2014, Geng et al. 2015, Lumber et al. 2017).

And owners of (democratic) organisations usually have a strong *sense of responsibility* about environmental issues. This sense of responsibility may have been one of the reasons and motivating forces that prompted them to set up the business in the first place, or it may have emerged and developed via their founding and then looking after the business, respectively. In the case of owners and members of democratic organisations, their sense of responsibility ‘to do something’/‘to do what is possible’ may also stretch to include environmental issues – *and* they have, or can acquire, the factual knowledge and resources to do something about it. Via their local embeddedness, owners and members of the democratic organisation are in a good position to gain and develop the necessary knowledge of issues and action strategies (Gifford & Nilsson 2014, p. 151) that can cope with (local) environmental issues. And via their democratic organisation, they are also in the position to do something about it and to take appropriate action(s).

Overall, it could be said that there is a sequence that may lead people towards having a pro-environmental orientation and demonstrating relating behaviour (Stern & Dietz 1994, p. 65, Schultz et al. 2005, p. 460): if people have a general sense of connectivity with nature and/or more specific biophilic values and ethical principles, then they are likely to be more perceptive about environmental issues and have a strong(er) pro-environmental orientation, a higher sense of responsibility, and a stronger willingness to demonstrate pro-environmental behaviour that – together with the possession or acquisition of necessary factual knowledge about environmental issues and ways of doing something about them – will lead them to take pro-environmental actions.

#### *Localism and local people's (pro-)environmental orientation*

Democratic organisations may behave in a more environmentally friendly manner because of *localism*, i.e. the notion that local people and actors embedded in local settings see and treat the local environment and local issues in more concerned and caring ways. In her book *Owning Our Future: The Emerging Ownership Revolution*, about a generative economy, Marjorie Kelly (2012, p. 105) describes localism and this caring mindset and attitude towards nature as ‘rooted membership’:

This is Rooted Membership at work – operating hand in hand with Living Purpose. The forest is not seen as an object whose sole purpose is permitting owners to extract maximum amounts of financial wealth. It's a living forest, a community of trees and humans. The purpose is to live well together, maintaining the living forest and supporting the human community. Because governance rights are in the hands of humans rooted to that place, they have a natural incentive to be good stewards. And they are able to carry out their mission because they govern the forest; it's Mission-Controlled Governance.

And she continues (p. 106):

When ownership rights are in the hands of those whose self-interest depends on the health of the forests, the fish, and the land, they have a natural tendency toward stewardship. Self-interest and the interests of the whole become one and the same. Rooted Membership, Living Purpose, and Mission-Controlled Governance are among the ownership patterns that make this possible.

Localism/rooted membership are strong factors that can contribute to people demonstrating a pro-environmental orientation and behaviour. Localism does *not* – or should not – claim that *all* local people or organisations operating in a local context (always) demonstrate a more caring mindset and behaviour concerning the local environment or local issues. For example, Hirst (1994, pp. 128–129) mentioned rightly that ‘The argument here is not against large-scale *per se*, neither claiming that “small is beautiful”, nor holding that local relations are inherently less alienating than long-distance or international ones. Small enterprises can be viciously exploitative and authoritarian, as sweat shops demonstrate. The local can be the merely provincial.’<sup>187</sup> There are abundant historical and contemporary examples of *local* people overexploiting nearby natural resources (sometimes to the extent that the area becomes uninhabitable), polluting and littering the neighbourhood, and intentionally or unintentionally damaging or destroying the natural foundations of their livelihood. Local people (can) do a lot of bad things. An undifferentiated localism that claims otherwise is nothing but naive romanticism.

But what localism *can* claim is that local people have a great(er) sense, awareness and knowledge of the local natural environment *per se* because they live with and within it. Locals often feel closer and more connected to their natural environment because they are exposed to, and have to live with, the possible consequences of any changes to that environment where they live.<sup>188</sup> On average, they also have greater (layman’s) knowledge of the causes and consequences of (local) environmental phenomena. Many local people possess traditional ecological knowledge that is ‘embodied in life experiences and reproduced in everyday behavior and speech’ (‘Ethnoecology’ 2018). Greater awareness and knowledge of the natural environment, then, *may* lead to greater concern about it, such that, *on average and compared to absent actors*, local people may care more about the conditions of their environment and may show a higher degree of pro-environmental orientation and behaviour.

Owner-managers and members of democratic organisations may have this higher sense of connectivity to nature – and show a higher degree of pro-environmental orientation and behaviour – because many of them are locals. In fact, many democratic organisations are established by local people in order to address local issues (e.g. agricultural or housing cooperatives, community-based organisations, local

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<sup>187</sup> In a similar vein, Kovel (2002, p. 182) argued that ‘A pure community, or even “bioregional” economy is a fantasy. Strict localism belongs to the aboriginal stages of society: it cannot be reproduced today, and even if it could, it would be an ecological nightmare at present population levels. Imagine the heat losses from a multitude of dispersed sites, the squandering of scarce resources, the needless reproduction of effort. ... This is by no means to be interpreted as a denial of the great value of small-scale and local endeavors. ... It is rather an insistence that the local and particular exists in and through the global whole; that there needs to be, in any economy, an interdependence whose walls are not confinable to any township or bioregion; and that, fundamentally, the issue is the relationship of parts to the whole.’

<sup>188</sup> For instance, Caspary (2004, p. 240) argued that ‘because worker-owners live in the communities where their factories are, they will be concerned not to pollute their environment’.

retail businesses, professional partnerships and social enterprises). Besides people *within* the democratic organisation, it is also people from *outside* that shape its pro-environmental orientation and behaviour. Local people influence how local organisations operate and function (Parry 2012, p. 222). Democratic organisations' prime purpose(s) are not profit maximisation (for a very few by exploiting, or at the expense of, many others and the natural environment) but serving key stakeholders (members, clients, customers, community and humankind). And since some of their key stakeholders are local people and the community, democratic organisations are also keen to conduct their business according to *their* expectations and concerns. They therefore operate in a more environmentally friendly manner within and on the basis of their local embeddedness and their paradigms of community orientation and member orientation. For example, Hoover (2008, p. 253) noted: 'Because co-ops are rooted in their communities, they tend to have more sustainable practices, civic connections, and investment in doing right by community. Worker cooperatives were among the first 'green' businesses, long before green was a trendy marketing term, because they actually cared about the safety and health of their workers and community (which were often one and the same).' Or, to put it more generally: If local people or a local community by and large appreciate the natural environment – or parts of it – then there is a high likelihood that local democratic organisations will act in an environmentally (more) friendly manner because of their community orientation and local embeddedness.

#### *Environmentally friendly goals and actions*

Because of their owner-members' personal values and/or because of their community orientation and local embeddedness, democratic organisations may have explicit pro-environmental goals and purposes. Democratic organisations, thus, may have an explicit triple-bottom-line approach where social, environmental and economic goals are pursued *equally* and their business model is based on wide-ranging and robust concepts of sustainability and sustainable development (World Commission on Environment and Development 1987, Rees 2014, Sustainability 2016) and corporate social responsibility (Norton 2007, p. 389, Bondy & Matten 2012, p. 519, Bocken et al. 2014, p. 46).<sup>189</sup> One might even say that the democratic organisation and its conduct of business represent a *sustainable business model* (Bocken et al. 2014, p. 42).

With an explicit pro-environmental orientation, democratic organisations also demonstrate pro-environmental behaviour as a fundamental and integral part of their conduct of business. For instance, in keeping with the type and nature of their business and activities, democratic organisations use and offer local, small-scale, decentralised and more environmentally friendly, 'appropriate' technologies, products and services (Appropriate Technology 2014, Pearce 2014), such as:

- *Agriculture*: small farms, family businesses, community-based farming, organic farming, protection of biodiversity, fairtrade, and little or no use of pesticides, chemicals or genetically modified crops;
- *Energy generation and usage*: renewable energies, and local and decentralised energy production,

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<sup>189</sup> Some democratic organisations employ even stronger concepts and versions of (ecological) sustainability, such as 'sustaincentrism', 'ecocentrism' or ecocentric environmental ethics and paradigms (Purser et al. 1995, Bondy & Matten 2012).

storage and distribution;

- *Water and sanitation*: community-scale and household-scale point-of-use designs, local water refill stations, water filtration, wells and pumps, ecological sanitation, and little or no waste water and water pollution;
- *Buildings and construction*: ecologically friendly buildings, green building materials, housing co-operatives and public housing;
- *Logistics*: environmentally friendly operations and transport;
- *Consumer products*: slow fashion, slow food (i.e. long-lasting consumer products of high quality), environmentally friendly household goods, and ethical goods and consumerism;
- *Information and communication technologies*: open-source software, low-cost access to information and the internet, and simple, cheap and long-lasting computers and mobile phones;
- *Finance*: microfinance, and use of savings and credit associations.

All such technologies, products and services are not only much more ethical and environmentally friendly but also more *attractive and competitive* (especially when national policies, regulations, subsidies and incentives as well as the markets provide a level playing field and do not unfairly advantage ‘big business’ and old, outdated industries). It is often the case that markets and industries change to use more appropriate technologies and ethical goods and services because the demand is there (often this change is exponential, as the fairtrade movement has shown so compellingly).

## **Profit: Economic and other performance(s) of organisations**

### *Economic performance*

Organisations must *perform*. They need to deliver the intended outcomes linked to the purposes stated explicitly or implicitly by their founders, owners and members. In that sense, democratic organisations are no different from other types of organisation; whether they operate in highly competitive market environments, in the (non- or partly competitive) public sector, or in the cooperative Social and Solidarity Economy, democratic organisations must perform (well). Although ‘performance’ can be understood, defined and measured in various dimensions and in respect to very different things, the focus here is on *economic performance*. *Economic performance* can be understood as any (positive or negative) change of things (assets) or events (processes or activities) that have an economic value (i.e. a price can be established for them).

Concerning economic performance, it can confidently be said that, on average and in principle, democratic organisations achieve better efficiency, productivity and overall organisational performance, and are economically more viable, successful and sustainable than orthodox organisations. Half a century of compelling arguments and overwhelming evidence exist in support of this assertion (Blumberg 1968, Kanter 1971, Vanek 1971, Dachler & Wilpert 1978, Carnoy & Shearer 1980, Jones & Svejnar 1982, Rosen 1984, Miller & Monge 1986, Bowles & Gintis 1993, Schweickart 1993, Weisskopf 1993, Christman 1994, Doucouliagos 1995, Isham et al. 1995, Nienhaus & Brauksiepe 1997, Strauss 1998, Poole et al. 2001, Fenton 2002, Gill 2003, Bowman & Stone 2004, Clegg & Walsh 2004, de Jong & van Witelooostuijn 2004, Brown et al. 2005, Greasley et al. 2005, Heywood et al. 2005, Fischer 2006, Foley &

Polanyi 2006, Greenwood et al. 2007, Carson 2008, Sauser 2009, Erdal 2011, Schweickart 2011, Davidson 2012, Maynard et al. 2012, Schwartz 2012, Malleson 2013, 2014, Altmann 2014, Smith & Rothbaum 2014, Millstone 2015).

But how can democratic organisations' superior economic performance be explained? Using the insights and empirical evidence from the sources quoted above, it is possible to draft a cause-and-effect model that explains the better economic performance and greater economic success of democratic organisations, and *why* and *how* democratic organisations are economically better and more successful than orthodox organisations. To this end, the following sub-sections particularly look at (1) the relevance of ownership and owner-managers' mindset and behaviour, (2) the effects of democratic management and full participation on performance, and (3) how the institutions and people of the democratic organisation together achieve better economic performance.

#### *Ownership – owner-managers care*

As indicated earlier,<sup>190</sup> when it is about (the handling of) *assets* it all starts with ownership – *private* ownership. There is nothing more motivating than private property and ownership in *that* respect.<sup>191</sup> When people have ownership *of* something, they care *about* it and *for* it (Erdal 2011, pp. 87, 177, 179). People who own property think and act like owners – and owners *care*. They look after the property – *their* property – they have a feeling of ownership and responsibility for it and (therefore) manage and nurture it. They care because their interests are directly linked to the asset, its existence, its use, and what comes out of its use (performance, utility, products, services, revenues or profit). Owners look after *their* property because it *is* their interest and because it is *in* their interest (Greenwood et al. 2007, p. 224).

What is true in regard to property rights in material things is also true about work and organisations – and perhaps even more so. People who own their work, the product of their work, and the organisation they work for care – much more than any employment contract, supervision, coercion or 'psychological contract' drivel can ever achieve. As Erdal (2011, p. 19) argued: 'This is where employee ownership makes its most important difference to performance – when you and your colleagues own the company most of you tend to feel pretty committed to making it work well.' People who at the same time own and manage their work and organisation have an *inherent* sense of ownership and responsibility. They *feel* and *act* like owners because they *are* owners. They are committed and put in effort because they are the ones who make things happen and work – the ones who cause and bear the consequences of their work and the organisation's economic success or failure.

The democratic organisation taps into this powerful link between owning and managing things (assets) in the most fundamental and widest possible form; *each and every person* who works for the democratic organisation is at the same time an owner, a manager and an employee. The democratic organisation is

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<sup>190</sup> See the section 'Private ownership and property rights' in chapter 'Libertarian constitution and democratic governance' above.

<sup>191</sup> That is, with regard to *assets*, i.e. things that have an *economic* value (value of use or exchange value). Earlier in this chapter, in respect to nature and the natural environment, we saw that people can also be motivated to care about things that have an *intrinsic* value.

a jointly owned and controlled enterprise based on the concepts of self-ownership (and related inalienable rights) and private ownership (and related property rights), and a comprehensive and detailed partnership agreement (see chapter ‘Libertarian constitution and democratic governance’). Whether the owners of the democratic organisation care about it for ideological, idealistic and altruistic reasons or for pragmatic and self-oriented reasons (Nienhaus & Brauksiepe 1997, pp. 1424–1425), it is *their* organisation, *they* are its owners, and *they* are responsible for it – and they will feel, act and behave like owners (Fenton 2002, p. 35). *Nothing is more motivating than working for oneself and being one’s own boss* (Malleon 2014, p. xxi). Owner-managers make sure that the organisation runs successfully and that its structures, processes, products and services are good and improve in quality and efficiency (Erdal 2011, p. 189). In so doing, they preserve, maintain and increase the economic value of the things they own and are responsible for (i.e. the organisation and its assets) and drive the economic performance of the democratic organisation.

This is (another) consequentialist reason and argument for why *everyone* should be the owner of the business (not just a few people who refuse others the status and exclude them from the rights, responsibilities and advantages they enjoy). The great and fundamental advantage of the democratic organisation compared to orthodox for-profit organisations is that in the former *everyone* is an owner, whereas in the latter only a few people are owners (even *absent* owners like shareholders) and the large majority are employees, who have to be motivated with ‘stick-and-carrot’ policies. Whether at an individual or a collective level, with its legal and psychological implications, private ownership is one of the great enablers and motivators in the private, economic and social realm. Private ownership is the founding principle of any economic success – and the democratic organisation is based on that principle, and practises it, like no other organisation.

#### *Effects of democratic management and full participation on performance*

(Individual and collective) private ownership provides the legal, psychological and social foundations for ‘being in charge’, i.e. the legitimate authority and responsibility to manage things. Owners see themselves as being, and want to be, in charge – and ownership gives the owners of an organisation equal legal and formal status, and especially with far-reaching rights and responsibilities to make decisions and to govern and manage the organisation. This is where the democratic organisation is cutting edge; it puts the owners, *all* owners, in charge. Corresponding with its fundamental notion of *democratic management*, it first and foremost provides for, even requires, *self-management* from every one of its members. Following the principles of self-ownership and subsidiarity, *all* members of the democratic organisation are entitled, encouraged and enabled to organise and manage their work, work-related issues and organisational affairs as much and as far as possible. As a consequence, in the democratic organisation it is those who *do* the work – and *know* their work – who make the decisions about their work and implement those decisions. It makes much sense to use people’s motivation and knowledge for planning, organising, leading and controlling organisational affairs and conduct of business (according to democratic principles and standards) in such a way; the more closely knowledge, management and operations are related, the more appropriate and better are analyses of and solutions to problems. In the democratic organisation, those who know, who manage, and who operate are the same people. This personal union is a tried and tested recipe for operational efficiency and economic success.



Moreover, all members of the democratic organisation have equal rights and opportunities, if not to say the responsibility, to participate in the governance and management of organisational affairs and the organisation as a whole and in formal decision-making processes at all levels of the organisation (i.e. constitutional, strategic and operational). Participation in management – or *participative management* – ensures that all members’ commitment, knowledge and ideas can feed into organisational decision-making, governance and conduct of business. Full participation in the governance and management of the democratic organisation ensures that more relevant information is available for managerial decision-making, that problems are looked at from different angles, that issues are debated, that diverse opinions are voiced, and that various options are considered until a final decision has been achieved collectively. More relevant information, diverse views and possible options considerably increase the probability that the *quality* and *appropriateness* of solutions will be better. In addition, full participation in decision-making ensures that solutions are decided democratically and implemented with the support and backing of the majority of members. And it is especially the *implementation* of decisions that accounts for most organisational efficiency and success. Hence, although making decisions can take longer under democratic management and full participation, the actual quality and implementation of decisions – and thus overall organisational and economic efficiency and performance – are (much) higher and better than in orthodox, hierarchical and autocratic organisations.

Besides its organisational implications, full participation in the governance and management of the democratic organisation and organisational affairs has a whole range of positive effects on the people who work for and contribute to the success of the democratic organisation (Blumberg 1968, p. 123, Kanter 1971, p. 66, Dachler & Wilpert 1978, pp. 8–9, Bowles & Gintis 1993, pp. 92–93, Strauss 1998, p. 8, Gill 2003, p. 316, Brown et al. 2005, p. 586, Greasley et al. 2005, p. 358, Erdal 2011, pp. 19, 22, Malleson 2014, p. 56): people who (can and do) participate are much more committed and engaged. They identify more with their work and specific tasks as well as with the organisation and its overall purposes, strategy and direction. They are keener to contribute, to come up with ideas and solutions, and to implement them. And they are overall more satisfied, motivated and productive. People who participate feel better and do better – and they produce better results.

But participation does not only create positive (psychological) effects at an individual or *intrapersonal* level – it also produces positive effects at an *interpersonal* level. People who can participate (fully) in the governance and management of the social system they are part of and in daily (organisational) affairs also show more commitment and engagement in social interactions. They communicate more and demonstrate more *collaborative* behaviour simply because participative management and joint decision-making require them to communicate and to cooperate (Bowman & Stone 2004, p. 280, Sauser 2009, p. 151). Cooperation creates trust and reciprocity. Cooperation between free and equal partners, especially, leads to (more) trust (Heywood et al. 2005, p. 557), since their contributions and reciprocal behaviour are entirely voluntarily and can be withheld or withdrawn at any time.<sup>192</sup> Altmann (2014, p. 182) has therefore even talked about a *culture* of trust and reciprocity that typifies the democratic organisation (and differentiates it from orthodox, hierarchical organisations). Cooperation based on trust and

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<sup>192</sup> In contrast, cooperation between superiors and subordinates, or between subordinates (i.e. coordination in hierarchical social systems), is *not* voluntarily but unstable and unequal in almost every respect. Cooperation on such a basis, thus, does not create trust and reciprocity but is built on mistrust (the famous principal–agent problem!), tactical behaviour and advantage-seeking.

reciprocity creates an atmosphere where people are more willing to share their knowledge and other resources, thoughts and insights; to come up with ideas and make suggestions; and to initiate improvements and innovations (Carson 2008, p. 524, Smith & Rothbaum 2014, p. 222). Cooperation, especially voluntary cooperation, considerably increases efficiency, productivity and overall organisational performance.

### *Better economic performance understood in a broad sense*

So, coming back to the question raised at the beginning of this section – how can democratic organisations' higher efficiency, productivity and sustainable organisational performance (altogether their superior economic performance) be explained? The answer to how and why democratic organisations are economically more successful than orthodox, profit-maximising organisations depends on how one defines and understands 'economic performance'. Following the ideologies of neo-classical economists ('perfect market' and 'rational actors') and conservative organisation studies and management scholars ('theory of the firm' and 'shareholder value orientation'), the economic performance of organisations is merely seen and measured in terms of how much *profit* they generate over a short period.<sup>193</sup> Seen in this way, democratic organisations are *not* as economically successful as profit-maximising companies. They may be profitable, but they do not generate as much profit as possible – not because they cannot but because they do not want to.

But even some orthodox economists and organisation studies scholars admit that the goal of profit maximisation is inconsistent with some other orthodox economic measures – such as (increasing the) productivity, efficiency or competitiveness of an organisation. And from an even more objective position, it is clear that it is simply wrong to equate 'economic performance' with a single one-dimensional, financial aggregate that only serves the egoistic interests of a few people (profit only for the single owner or a few owners of the capitalist firm). (The uncompromising striving for) 'profit' is actually a profoundly irrelevant or even a threatening and damaging measure for people other than those beneficiaries (e.g. for employees because they are exploited and may lose their jobs for profit-related reasons) and the environment (e.g. damage to or destruction of the natural environment via externalisation of internal costs in order to reduce costs and, thus, increase profits).

Hence, 'economic performance' should be understood in a more general sense as the change (creation or termination, preservation, or increase or decrease) of the *economic value* of things (i.e. tangible or intangible assets), processes (i.e. exchange, transformation or decision-making processes) or money (i.e. financial assets).<sup>194</sup> Economic performance or economic value can be measured using various dimensions (e.g. financial, technical, natural or social science) and via various indicators (e.g. profitability,

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<sup>193</sup> There may be additional indicators, mostly from financial accounting and perhaps from strategic management or marketing, that can also be subsumed under the narrow neo-classical understanding of 'economic performance'. Nevertheless, they are all of instrumental, secondary importance; 'profit' is the first and foremost measure (and the only reason why traditional, profit-maximising firms are established and operate).

<sup>194</sup> See section 'From economic growth to social, environmental and economic development' in Part III, 'A democratic market economy', where economic performance is defined and understood not only as a mere (positive or negative) change in market value, quantitative economic growth in the traditional sense of GDP respectively, but as multi-dimensional, quantitative and qualitative *social, environmental and economic development*.

productivity, efficiency, effectiveness or sustainability).<sup>195</sup> In this sense, *on average and in the long run*, democratic organisations achieve a *higher* level of economic performance, i.e. they create, preserve, or even increase the economic value of things, processes and money *more* than orthodox or profit-maximising organisations because of various factors (and their interactions):

1. Earlier it was argued that *ownership* matters. People who own property look after it, protect it and nurture it. *All* members of the democratic organisation are its owners, its managers and its owner-managers. Owner-managers usually (try to) do things more efficiently and decently (than hired managers or employees) because it is *their* money, time and effort that goes into (doing) things and *they* carry the costs and burdens if things go wrong or are done inefficiently. People who at the same time own and manage their work and organisation put in effort and make sure that organisational structures and processes are efficient, and that products and services are of good quality and improve over time. It is *their* organisation, and '*their* name' stands for how the organisation conducts its business. Thus, owner-managers have personal, legal, formal and organisational motivation and reasons to preserve, sustain and grow the economic value of their organisation and its assets.
2. The notion of ownership shows itself in the *governance and management* of the democratic organisation. *All* members govern and manage the organisation as a whole, organisational affairs, their work and themselves via the concepts of democratic governance (especially the principle of subsidiarity) and democratic management (self-management, participative management and representative management). This is likely to mean that the structures and processes of governance and management are more complex and time-consuming, and hence relatively *inefficient in the short term*. However, because more information and knowledge goes into governance and management, and due to the notions of sharing (information and knowledge) and collaborating, the structures and processes of governance and management are more robust and productive, and produce better policies over time. As a consequence, the democratic organisation operates and functions better, and the quality, efficiency and productivity of its internal operations are higher.
3. According to the principles of self-management and subsidiarity and the notions of (equalising) empowerment and full participation in decision-making, in the democratic organisation *people* are fully empowered to make decisions about their work (and the organisation they work for) and to implement them. Usually, the more people who organise and manage their own work and organisation, collaborate voluntarily, and feel responsible for their work and the products of their work, the more (intrinsically) motivated, committed and productive they are. Individual commitment and cooperation sizeably increase the quality and efficiency of operations and thus organisational performance.

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<sup>195</sup> For instance, efficiency can be defined as 'the (often measurable) ability to avoid wasting materials, energy, efforts, money, and time in doing something or in producing a desired result. In a more general sense, it is the ability to do things well, successfully, and without waste. In more mathematical or scientific terms, it is a measure of the extent to which input is well used for an intended task or function (output)' (Efficiency 2019). Besides or in addition to such wider economic performance indicators, democratic organisations, obviously, may be evaluated against a whole range of different, 'non-economic' performance criteria and indicators (Kanter 1972, p. 128, Rothschild & Whitt 1986, p. 145), such as doing 'good' things; level of practising their democratic ideals; achieving (various forms of) equality; level of well-being, satisfaction or happiness of their members or other stakeholders; and contributions to society, societal changes and developments. But since this sub-section is (only) about 'profit' and economic performance, such non-economic performance measures are not discussed in more detail here.

4. Ownership, democratic governance and management, equalising empowerment and full participation work together towards better outcomes; in general and on average, members of the democratic organisation are more motivated and committed, more collaborative and more productive. Internal operations are more efficient, economical and sustainable. Democratic organisations employ decent and considerate business practices; have a long-term orientation in their business and investment policies; are more conservative and risk-averse in their decision-making; maintain the economic viability of their business; use surpluses to accumulate reserves, maintain and grow equipment, and invest in efficient technologies; and are more resilient in economically challenging times. The result is higher organisational and economic performance over long periods of time.

## General model of the democratic organisation

This final chapter provides some summary and analysis. First, it represents the general model of the democratic organisation by briefly detailing its main elements that had been developed in the previous five chapters - 1) libertarian constitution; 2) democratic governance; 3) democratic management; 4) equalising empowerment; and 5) considerate conduct of business. After that, some final arguments will be given that make the case for democratic organisations. It will be argued that democratic organisations *are better, do better and perform better*.

### The general model of the democratic organisation

So far, this Part II has described the main features of the democratic organisation: 1) the libertarian constitution; 2) democratic governance; 3) democratic management; 4) equalising empowerment; and 5) considerate conduct of business. Each of those elements is essential for the design and functioning of the democratic organisation – and all are typical of the democratic organisation. Together, they constitute the *general model of the democratic organisation*. The five elements are as follows:

#### 1) *Libertarian constitution*

The democratic organisation is based on libertarian values of individual and collective ownership, in particular self-ownership, private ownership and freedom of contract. Respect for individuals and their inalienable rights in themselves, as well as property rights and equal rights, is the formal, legal and substantive foundation of the democratic organisation – and these rights are linked to one consistent framework:

The notion of *self-ownership* makes very clear that individuals' personalities, minds, individuality, mental competencies and capabilities are *inalienable rights that cannot be transferred* and that any form of 'dependent employment' (i.e. employment based on an employment contract) is therefore illegitimate and invalid.

The right of *private ownership*, and all the property rights related to it, specifies that every member is an owner and as such has the equal status and rights of an owner of the property. In this sense, the libertarian constitution of the democratic organisation takes individual rights of and to private ownership even more seriously than conservative, right-libertarian approaches.

As a logical consequence of this appreciation of individuals' rights, the democratic organisation is based on a *partnership agreement* that specifies and guarantees the *equal* legal and formal status, rights and responsibilities of all people who *collectively and democratically* own, manage and control the organisation and its properties, activities and results. The partnership agreement is *the only legitimate form of legal contract of cooperation between free individuals* that appreciates and protects their inalienable rights and property rights – and the democratic organisation is the *only* type of organisation that enables,

guarantees, accommodates, protects and promotes the status, inalienable rights and responsibilities of free individuals.

## 2) *Democratic governance*

The democratic organisation is an *institutionalised organisational democracy*. As a democratic social system, the democratic organisation *must* have *democratic governance* in place, i.e. formal institutions that outline how the organisation is designed and functions according to democratic principles. Key elements of democratic governance (in the democratic organisation) are democratic institutions of governance, legitimate authoritative sources, democratic governing and ‘good governance’. In order to be legitimate, all key elements of democratic governance themselves must be democratic – and they must be intertwined and consistent with each other.

### i) Democratic institutions of governance

Within the democratic organisation, formal bodies – ‘institutions of governance’ – are formally established, maintained and allocated with the task of governing the organisation (e.g. boards, committees, councils or assemblies). In order to be legitimate, institutions of governance must be designed and function according to the very same principles they are designed to realise and protect. This means that the democratic organisation’s institutions of governance and control must themselves be *democratic* institutions – i.e. they must be established and maintained democratically, and their structures, their composition and the way(s) they operate and function must be democratic. Especially in order to avoid an undemocratic concentration of power, there must be robust checks and balances in place relating to the democratic organisation’s institutions of governance – horizontally between different organisational institutions (*separation of powers*) and vertically by locating decision-making and control at the lowest possible levels (*principle of subsidiarity*).

### ii) Legitimate authoritative sources

Governance is based on *authoritative sources*. Authoritative sources offer explicit principles, norms and values, rules and regulations, policies, guidelines and advice about how a system and its key parts should be designed, maintained and function; what is more and less preferable (or even ‘good’ and ‘bad’); and how people should behave – even how they should think and feel, and what they should do and not do.

Some authoritative sources exist even before a formal social system (such as an organisation) is established (e.g. a constitution, business and contract laws, rules and regulations, and templates for contracts, governance bodies and organisational policies). Other authoritative sources are set up by the members of the democratic organisation (e.g. partnership agreement, mission and vision statements, strategy and operational plans, codes of conduct, and ethics and compliance statements).

Together, these authoritative sources provide the foundations for the governance and functioning of the democratic organisation. In order to be *legitimate*, these authoritative sources must have been produced, deliberated and decided *democratically* – in transparent and participative ways – and their content, implications and applications must reflect the very ideas and values of a fully fledged democratic system. The authoritative sources must be open to debate, capable of being contested, and – within the regulatory framework – capable of being changed.

### iii) Democratic governing

Members of the democratic organisation govern the organisation and organisational affairs on the basis of authoritative sources either directly or via organisational institutions of governance. Decisions – whether about constitutional, strategic or operational issues – are made democratically, i.e. by all members of the organisation or its relevant parts (*direct or participative democracy, self-management*), or by elected representatives or office holders (*representative democracy, representative management*). Office holders are controlled regularly, are held accountable, and are removable from office by democratic means (*accountability*). Members have free and equal access to all relevant non-confidential information about the democratic organisation's formal policies, rules and regulations, as well as all information relevant to a particular case (*transparency*).

### iv) 'Good governance'

Finally, democratic social systems must be governed according to 'good governance'. Democratic governance *is* 'good governance' – and 'good governance' is in its crucial parts democratic governance. In the case of the democratic organisation 'good governance': 1) makes sure that the basic functions of governance are delivered according to democratic standards, and it especially provides the means to contain and to control institutions and positions of power; 2) ensures that the organisational institutions of governance and management (boards, councils, committees and/or assemblies) are designed and work on the basis of the rule of law and according to democratic standards. It also ensures that the members of these bodies are elected, controlled and held accountable by those they represent and that their decision-making processes are democratic and transparent; and 3) protects and promotes civil and human rights; the fundamental values of freedom, democracy, equality and justice; and the equal rights of all owners and members to govern and manage the organisation and organisational affairs collectively and democratically.

## 3) Democratic management

Since *every* member of the democratic organisation has equal rights and responsibilities because of their equal legal and formal status as owners and partners, the democratic organisation can only be a *heterarchical* organisation, i.e. a formalised structure of horizontally arranged social positions of equal power and authority. In the democratic organisation there are no superior-subordinate relationships (either legally or formally), and there is no minority of superiors or majority of subordinates. There are only owner-managers with equal rights and responsibilities. Equal rights (and equal power and authority) especially mean equal rights and responsibilities to make decisions and to manage, and to conduct the *whole* range of management functions (planning, organising, leading and controlling). Equal rights to manage mean *democratic management*. Democratic management consists of three parts: self-management, representative management and participative management.

### i) Self-management

In the democratic organisation, self-management comes first. Acknowledging and following the principles of self-ownership and subsidiarity, individuals and groups of people are entitled, encouraged and enabled to organise and manage their own work, work-related issues and organisational affairs as much and as far as possible. Individuals who do the work also manage (their) work – either individually or

collectively in self-managed groups that are organised and function according to democratic principles and standards. *All* members of the democratic organisation (are entitled and required to) conduct *all* management functions (planning, organising, leading and controlling), including regularly making decisions about constitutional, strategic and operational issues and problems.

#### ii) Representative management

Organisational affairs that go beyond individuals' or groups of people's wills and capacities to self-manage are managed by formally established organisational institutions or individual management positions. Especially in larger organisations, there may be organisational institutions of governance and management or individual positions that are charged with the task of providing certain management functions. These positions are designed, staffed and function according to democratic principles; all office holders are elected or appointed democratically. They are obliged to execute the will of those whom they represent, carry out their responsibilities within clearly defined boundaries, and have no line management responsibilities whatsoever – on the contrary, they are supervised, controlled, held accountable, reconfirmed or replaced by those whom they represent.

#### iii) Participative management

Finally, participative management links self-management and representative management. It provides fundamental principles and robust mechanisms that enable and guarantee equal opportunities for everyone to participate in decision-making as well as effective democratic containment of formal organisational institutions and positions of management. Participative management means that *all* members of the democratic organisation have equal rights and opportunities to participate in all formal decision-making processes at all levels of the organisation.

### 4) Equalising empowerment

From a legal, formal and functional perspective, all members of the democratic organisation are equal and have *equal rights* (according to their status as owners or owner-managers) – and equal rights mean *equal power* (to make use of those rights). *All* members of the democratic organisation *must* have equal power since otherwise the idea of *demos kratos* – government or power 'of the people, by the people, for the people' – would be threatened. Nonetheless, having equal *rights* does not automatically translate into having equal *power*, i.e. being as able as others ('empowered') to exist and to act within a social context. Actions and processes within the social system can lead to a situation where people are formally, psychologically or socially unequally empowered. The challenge for the democratic organisation, thus, is to make sure that *all* members are *equally* empowered, and to find ways to empower the disempowered and to disempower the (overtly) empowered until both have (ideally or as a tendency) equal formal, psychological and social power (*equalising empowerment*). There are various measures the democratic organisation can apply to equalise empowerment: equalising formal power, equalising psychological power and equalising social power.

#### i) Equalising formal power

Formal power can be equalised by configuring all organisational institutions of governance and management as well as formal roles and positions in line with the fundamental ideas and principles of *democratic governance* and *democratic management*.



On the one hand, this is about *confining* formal power – especially of formal institutions and office holders, for instance via limiting institutions of governance to clearly defined responsibilities regulated by robust laws and regulations, separation of powers and checks and balances, and the principle of subsidiarity; directly limiting office holders’ formal responsibilities and authority of office via representative management, democratic decision-making, transparency and accountability; limiting the number of memberships, formal positions and functions that office holders can have; limiting office holders’ terms in office; and tightly controlling office holders’ conduct of office.

On the other hand, it is about *increasing* formal power – especially of those who are *not* formal office holders, namely via practising self-management and participative management as much as possible; guaranteeing *full* participation, *democratic* decision-making and comprehensive transparency in respect to all organisational affairs and matters of public concern; and providing all members of the democratic organisation not only with equal rights but also with *equal opportunities* to participate in the governance and management of the organisation and organisational affairs. The formal institutions of democratic governance and democratic management equip the democratic organisation with a wealth of tools and measures to considerably limit the formal power of the empowered and to substantially increase the formal power of the disempowered.

#### ii) Equalising psychological power

The psychological empowerment or disempowerment of members of the democratic organisation needs to be seen, and done, in more differentiated terms. As a matter of principle, the democratic organisation – like any non-totalitarian social system that appreciates and protects individuals and their inalienable rights of and to themselves (self-ownership) as well as human, civil and democratic rights – does not interfere *directly* with the personality or psyche of any of its members.

With regard to the empowerment of the psychologically disempowered, the democratic organisation has formal and social settings (e.g. individuals’ legal and actual status as owners, the concepts of democratic governance, self-management and participative management) that enable and support the disempowered to empower themselves, increase their self-esteem, move the locus of control within themselves, and improve their goal attainment to a great extent.

The democratic organisation does not attempt to directly disempower psychologically overtly empowered people (people lacking emotional, social or cultural intelligence; ‘aggrandisers’; aspirational careerists; wannabe managers; micro-managing managers; bullies; and organisational psychopaths). However, the democratic organisation can engage with members who show questionable personality traits, anti-social behaviour or inappropriate personal management styles (such as an autocratic or authoritarian management style) via formal or social means.

#### iii) Equalising social power

The case is different in regard to social empowerment and disempowerment of people because the democratic organisation is explicitly a *social* system, and far more so than the bureaucratic or orthodox profit-oriented organisation. The democratic organisation and its governance and management structures and processes are built on the idea of members being socially active and engaged. And they are systematically encouraged and empowered to be so; self-management, self-managed groups and full participation especially help and encourage socially disempowered members on a daily basis to pursue their interests within a social context; to manage and maintain social relationships and interactions; to

develop a strong social identity and orientation; to feel confident and comfortable among others in their social statuses, positions, roles and functions; and to enhance their competencies and capabilities.

Socially empowered members of a social system also can – and will – make sure that overtly (self-) empowered members (e.g. ‘careerists’, ‘leaders’ and ‘aggrandisers’) and their social dominance are challenged. For instance, their claims of privileged and exclusive, privileging and excluding knowledge, skills, status or positions can be challenged by demystification, social control (especially upward control) and social actions (e.g. criticising and challenging them openly).

Together, the social empowerment of the disempowered and the disempowerment of the empowered create an open *organisational culture of contestation and equal(ising) power* that corresponds favourably with the mechanisms of democratic governance and democratic management. That the measures to empower the disempowered and disempower the empowered are consistent with the principles and means of democratic governance and democratic management shows that these measures are *an integral part of the democratic organisation*, that they form and represent some of its *social institutions* – they *have to*; even when all the principles and policies of democratic governance and democratic management are in place, the empowerment of the few and disempowerment of the many represent *constant threats* to the democratic organisation. Thus, equalising empowerment is not a special project but a daily task and duty.

#### 5) Considerate conduct of business

In their purpose(s) and conduct of business, democratic organisations are not confined to a particular narrow orientation (like profit-maximising, shareholder-oriented firms) but are established, and maintained, for very different, multidimensional purposes – and demonstrate accordingly appropriate behaviour. Very generally, one might identify at least three orientations and dimensions: social, environmental and economic (‘people, planet, profit’).

##### i) (Pro)social orientation and behaviour

Most democratic organisations are set up primarily for social or even prosocial purposes, i.e. to increase the welfare of their members, clients, community or other stakeholders. They have this (pro)social orientation, and demonstrate corresponding social behaviour, mainly because most of their owner-managers or members:

- Have a more collaborative mindset; employ more voluntary, mutually beneficial cooperation and reciprocal behaviour; are more willing to share resources, knowledge and power; are keener to distribute benefits, burdens, costs and profits fairly; and are more focused on developing and maintaining long-term relations;
- Have a stronger community orientation, have a feeling of local embeddedness and belongingness, and are more concerned about individuals’ and community well-being;
- Overall show more decent and honest, fair and just, and responsible and ethical behaviour.

##### ii) Pro-environmental orientation and behaviour

Democratic organisations are also more inclined to show a pro-environmental orientation and behaviour because:

- Local people and the local community – as key stakeholders of the democratic organisation – are likely to appreciate and be concerned about the (local) natural environment, and the democratic organisation has a strong degree of local embeddedness and is founded on paradigms of community orientation and member orientation.
- The owner-members of the democratic organisation are likely to have feelings of connectedness or a sense of connectivity with nature and personal (biophilic) values, the relevant and necessary knowledge to act in pro-environmental ways, and a (strong) sense of responsibility to take action.
- The democratic organisation may even have explicitly pro-environmental goals and purposes in its business model (as part of its triple-bottom-line approach), and it may use and offer ‘appropriate technology’ (i.e. local, small-scale, decentralised and more environmentally friendly technologies, products and services) as fundamental and integral parts of its conduct of business.

### iii) Economic orientation and performance

Finally, if ‘economic performance’ is seen and understood not only as mere ‘profit’ (or similar financial or market-oriented measures) but also as any kind of long-term creation or protection of economic value, then it is easy to see that democratic organisations are relatively profitable and economically successful, mainly because:

- *Each and every person* who works for the democratic organisation is at the same time an owner and a manager – and owner-managers have an *inherent* sense of ownership and responsibility, are committed and put in effort, try to make things work (and work as well as possible), and try to preserve or even increase the value of the things (*their* property) they own, use, and produce.
- In the democratic organisation it is those who *do* the work – and *know* their work – who make the decisions about their work and implement them (self-management); moreover, via full participation in decision-making (participative management), they ensure that the quality and appropriateness of solutions are better and that solutions are decided upon and implemented collectively and cooperatively.
- People who participate are much more committed and engaged; are keener to contribute, to come up with ideas and solutions, and to implement them (*intra*personal level); show more commitment and engagement in social interactions; demonstrate more *collaborative* behaviour; and are more willing to share their knowledge and to cooperate (*inter*personal level). This considerably increases the quality and efficiency of internal organisational processes.
- Organisational performance and, as a consequence, economic performance – measured in multidimensional ways and seen in the long term – overall is higher, more robust and more sustainable than in profit-oriented organisations.

Democratic organisations can be set up for various purposes. They can be established and maintained for specific social, economic, political, professional and/or environmental purposes. But, as diverse as democratic organisations may be in their purposes and orientations, in their activities they *all* show behaviour that can best be described as *considerate conduct of business*; on average, democratic organisations and their members show much more considerate governance and management; are more responsible, long-term oriented and risk-averse in how they operate; and overall demonstrate more ethical, decent, socially oriented, inclusive and cooperative behaviour in their internal and external activities, with regard to people, planet and profit.

To sum up, the *democratic organisation*:

1. Has a *libertarian constitution*, i.e. its legal, formal and substantive foundations reflect libertarian values and concepts of self-ownership, individual and collective private ownership, and a partnership agreement that specifies and guarantees the equal legal and formal status, rights and responsibilities of all people who collectively and democratically own, manage and control the organisation, its properties and assets, activities and results.
2. Is based on, and governed by the principles of *democratic governance*, i.e.: a) *legitimate institutions* (boards, committees, councils or assemblies), that are designed according to the principles of separation of power/checks and balances and subsidiarity, and function according to democratic standards; b) *govern democratically* (i.e. on the basis of democratic decision-making, transparency and accountability) the organisation and organisational affairs; c) on the basis of *legitimate authoritative sources* (partnership agreement, mission and vision statements, strategy and operational plans, codes of conduct, ethics and compliance statements); while d) adhering to the principles of '*good governance*' (organisational institutions of governance and management are democratic and function on the basis of democratic rules, the equal rights of all owners and members are protected and promoted, and the organisation and organisational affairs are governed and managed collectively and democratically).
3. Has *democratic management* in place that provides for heterarchical structures and processes and consists of: a) *self-management* (individuals and groups of people are entitled, encouraged and enabled to organise and manage their own work, work-related issues and organisational affairs as much and as far as possible); b) *representative management* (organisational affairs that go beyond individuals' or groups of people's wills and capacities to self-management are managed by formally established organisational institutions or individual management positions that are designed, staffed and function according to democratic principles); and c) *participative management* (all members of the democratic organisation have equal rights and opportunities to participate in all formal decision-making processes at all levels of the organisation).
4. Is built on the notion of *equalising empowerment*, i.e. that all its members are not only seen as equal, and have equal rights, but (shall) have *equal power*, i.e. that they are *formally, psychologically and socially equally empowered*: a) *formally* by configuring all formal roles and positions and organisational institutions of governance and management according to the fundamental ideas and principles of democratic governance and democratic management (i.e. to confine formal power of office holders and increase formal power of those who are not formal office holders); b) *psychologically* by promoting ideas of balance and moderation, providing information, training and support for psychologically overtly empowered people and by enabling all members of the democratic organisation to grow into fully developed autonomous individuals; and c) *socially* by promoting the ideas of self-management, self-managed groups and full participation that help members to develop a strong social identity and orientation, confidence and competences to manage and maintain social relationships and interactions, and to pursue their interests within a social context and by challenging overtly (self-)empowered members (e.g. 'leaders', 'aggrandizers') and confining their social dominance by demystification, social control and social actions.

5. Demonstrates *considerate conduct of business*, i.e. it is designed and maintained in order to pursue, and to achieve, multidimensional (social, environmental and economic) goals and purposes ('people, planet, profit') in balanced and sustainable ways, and to act accordingly, i.e. the democratic organisation: a) demonstrates more socially oriented, community-based and community-oriented, cooperative and responsible conduct of business and practises more decent and prudent management; b) shows more pro-environmental behaviour in its activities, products and services; and c) achieves higher efficiency, productivity and organisational performance and is economically more successful and sustainable than orthodox organisations.

All these features of the general model of the democratic organisation are not only crucial elements in their own right but complement and feed into each other; with its focus on establishing and protecting free individuals, their self-ownership and inalienable human, civil and democratic rights, private ownership and property rights in a legally binding partnership agreement, the libertarian constitution shapes the design and workings of the democratic organisation and all of its parts. All members of the democratic organisation are legally and formally enabled and empowered to govern and to manage themselves, the organisation and organisational affairs via institutions of democratic governance and democratic management. And all members are equally empowered – formally, psychologically and socially – via the organisational institutions of democratic governance and democratic management (self-, representative and participative management). A democratic organisation designed and maintained in such ways shows *considerate* conduct of business and performs well in social, environmental *and* economic terms.

### **Democratic organisations *are* better, *do* better and *perform* better**

The democratic organisation is a *good* organisation. It is *inherently* good because of its libertarian constitution, democratic governance, democratic management, equalising empowerment and considerate conduct of business. All of these elements are built on, are consistent with, and work according to the universal principles of freedom, democracy, equality, justice and sustainability, which are perceived as good in every legitimate culture and society. Democratic organisations are designed and function on the basis of libertarian and democratic principles and provide the broadest possible range of equal (legal, civil and human) rights and opportunities to all their members. They are based on and committed to the values of freedom (self-ownership), democracy (democratic governance and democratic management), equality (equal rights and responsibilities of all members) and justice (good governance and profit-sharing).

These principles, values and institutions influence how the organisation is designed and maintained, how it is governed and managed, how it functions and operates – and how the people involved reason and act. Democratic organisations are set up and maintained by people for the purpose of pursuing their particular social, political, economic and/or professional interests jointly with like-minded others in collective and collaborative ways. Moreover, democratic organisations reflect and represent the interests of their members in their design and governance, and in how they work. In this sense, democratic organisations represent appropriate and viable organisational options for people to collectively and collaboratively pursue their interests in legal, legitimate, decent, democratic and fair ways. Democratic organisations not only *are* better but also *do* better and *perform* better – because their libertarian

constitution, democratic governance, democratic management, equalising empowerment and considerate conduct of business not only are good in themselves and produce good, desirable outcomes on their own but also interconnect and interplay with each other. *These attributes interact with and mutually reinforce each other.* The democratic organisation's (and its members') orientations, activities and outcomes are a consequence – a *logical* consequence – of the interplay between its *libertarian* and *democratic* institutions and *free* people with *equal* rights and responsibilities.

Ownership is crucial – ownership of *all*, not a few. Ownership – and in the case of the democratic organisation ownership in the form of private ownership/property and self-ownership of *everyone*, put together in a partnership agreement – means not only equal status, rights and responsibilities, and power and control but also equal *commitment*; owners are more interested in, considerate, concerned and caring about what they own (including themselves), their work, and the outcomes and consequences of their property and work. Owner-managers care about things they are responsible for and show a high degree of commitment to keeping them, nurturing them and making them work as well as possible. Hence, if *all* members of a social system are owners or owner-managers they will appreciate their equal rights and responsibilities as well as the social system (which provides them with those rights and responsibilities and enables them to enact them), how it works and what it does (to them and others), because this is the – voluntary! – foundation of their existence.

The concerns and commitment of the owners of an organisation are seen in how the social system is designed and maintained, i.e. in its governance and management. If the members of a social system have equal rights and responsibilities, its governance and management can only be democratic – i.e. *democratic* governance (especially in the form of 'good governance') and *democratic* management (especially in the form of self-management and full participation). Because democratic organisations are owned, governed, managed and controlled democratically and collectively by all of their members, decision-making will also be democratic. By and large, decisions that are made democratically tend to take more aspects into account, and they tend to be more comprehensive and more moderate because more people (with diverse views) are involved<sup>196</sup> – which means that democratic organisations have multiple dimensions in their orientation (such as social, environmental and economic concerns and issues). The more people are regularly involved in free, fair, open and transparent democratic decision-making, the more they tend towards the middle ground, acknowledge and appreciate multiple dimensions in their reasoning, and reach more differentiated, wide-ranging and moderate decisions.

The conditions within the democratic organisation not only lead to more commitment, engagement, participation and democratic decision-making *as such* but also to more collaborative behaviour, (a culture of) trust and reciprocity, and *considerate* collaboration and decision-making. It is simply different types and qualities of participation and cooperative behaviour that happen within democratic organisations – *voluntary* participation and *considerate* cooperation – and these create mutual trust and even

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<sup>196</sup> It is important to stress that this statement about decisions being 'more moderate' should be qualified with 'by and large' or 'as a tendency'. Democratic decision-making can, and does, (sometimes) also produce radical, extremist, irrational, completely inadequate or inappropriate decisions. Unfortunately, there are many examples of people in free and democratic elections voting for radical, anti-democratic parties, or examples of groups of people or committees making utterly irrational decisions despite having engaged in open debates and decision-making processes. Democracy only provides (some of) the necessary conditions and opportunities – but no guarantees! – for achieving sensible decisions.

more collaboration. This type of interpersonal behaviour does not happen because members of democratic organisations are ‘better people’ or altruists (they might be, but not necessarily) but because of the specific organisational conditions and incentives offered by the environment of the democratic organisation (Benkler & Nissenbaum 2006, p. 410, Altmann 2014, p. 190); self-management, participative management, collective decision-making and considerate collaboration are simply the *modi operandi* of democratic organisations – and people simply act and behave accordingly. Vanek (1971, p. 17) called this ‘genuine motivation’, i.e. people behave and operate in these ways not because they are somehow artificially extrinsically motivated by rewards or punishment but because it just seems and feels right and natural for them to do so.

The democratic organisation’s and its members’ conduct of business, and how they behave towards and interact with others *outside* the organisation and the natural environment, is influenced quite considerably by the very way the organisation is designed and functions internally (Steen-Johnsen et al. 2011, p. 556). Members’ cooperative attitude and behaviour and their considerate and responsible way(s) of doing business guide their market-related behaviour and their actions and interactions with third parties (Fisher 2013, p. 148). Iuviene et al. (2010, p. 6) argued that ‘because cooperatives are owned and democratically-controlled by their members, business decisions balance the need for profitability with the needs of their members and the wider interests of the community’. Its internal principles – ‘good governance’ and participative management, (democratic) structures and processes, and cooperative attitudes and behaviour of members – determine that the democratic organisation acts in way(s) that are good for everyone (social orientation towards internal and external stakeholders and society as a whole), the economy (decent, productive and sustainable business, products and services), *and* the natural environment (pro-environmental behaviour and appropriate technologies).

One might say that democratic organisations pursue a business model based on lower-intensity and less material values, and higher-quality and more ethical values. They show (much) more decent and honest, fair and just, and responsible and ethical behaviour (than orthodox, profit-maximising organisations). Democratic organisations demonstrate more decent and more ethical behaviour because they have in place purposes and goals, governance and management, structures and processes, and operations and policies for conducting business that prompt and enable their members to act and behave more decently and ethically – and for individuals it is much easier to be, and to act, (more) decently and ethically when one’s day-to-day conditions and operations suggest, support and appreciate such attitudes and behaviour. These attitudes and behaviour are simply ‘in the fabric’ of such organisations. Democratic organisations conduct their business *in humane ways*. They offer organisational performance and success with a human face (Bowles & Gintis 1993, p. 94, Malleon 2013, pp. 100–103). In this sense, the democratic organisation’s and its members’ behaviour and way(s) of doing business are not only fundamentally different from but also (much) better than orthodox for-profit or hierarchical organisations’ practices – whether in competitive market environments or a more collaborative Social and Solidarity Economy.

Altogether, it thus can be proposed that if an organisation is owned by all of its members, who have equal rights and responsibilities (*libertarian constitution*); if the organisation has fully fledged and fully functioning systems of *democratic governance* and *democratic management* in place; and if all of the organisation’s members are equally empowered to manage their work and organisational affairs by themselves (self-management) or collectively (representative or participative management) and to make all major decisions democratically, then the organisation’s and its members’ orientations, behaviour and

performance both within the organisation and towards others and the environment will largely be considerate, moderate, balanced, sustainable, decent, ethical, fair and just (*considerate conduct of business*).

The arguments for the democratic organisation show that it is *necessary* – not just as an exotic option for alternative idealists in niche markets but as *the* standard model for private and public organisations in any industry, market or social economy. Organisations and other social systems *can*, and *must*, be designed and maintained as fully fledged *democratic* systems that enable and protect the equal, fundamental human, civil and democratic rights of all their members. The democratic organisation is the *only* type of organisation that provides and guarantees freedom, democracy, equality and justice for *all* its members. It is the *only* type of organisation that has the institutions and organisational context to enable individuals to maintain and pursue their fundamental freedoms and inalienable rights. And it is the *only* type of organisation that at the same time is consistent with the fundamental principles and values of a fully fledged democratic and modern society, acknowledges the requirements of the natural environment, and is capable of achieving multidimensional socio-economic outcomes in a balanced and sustainable manner. We need such organisations.

It might well be that orthodox, hierarchical and oppressive organisations are (still) the prevailing type of organisation and constitute the un-normal normality of organised work. *But people deserve better*. If we are serious about the idea that individuals ought to be free and be treated decently, and ought to live and work under conditions and within institutions that appreciate their fundamental and inalienable rights, and if we are serious about the universal principles and values of freedom, democracy, equality and justice, and the idea that each and every social system (e.g. organisations and nation-states) must adhere to those principles, then we *must* replace the prevailing orthodox, hierarchical, anti-democratic, oppressive, unfair and unjust standard type of organisation with the democratic organisation.

The *general model of the democratic organisation* that has been developed here in this part is the answer to the ‘So what?’ question. The democratic organisation is the viable alternative to orthodox organisations – and it is *possible*. For every principle and feature that I put forward as key elements of the democratic organisation, I gave empirical examples showing that it can work, and *how* it can work. Every proposition was based on sound theoretical arguments. There was a wealth of references and empirical evidence showing that such organisations are, indeed, possible – anytime and anywhere in the world. The democratic organisation is not just wishful thinking but a realistic concept. It is possible to establish, to maintain and to protect democratic organisations – theoretically as well as practically. We *must* do it – not only because we *can*, but because it is worth it and it is the right thing to do. People deserve it. In this sense, the democratic organisation is not only a *model* but also an *agenda* or guide for those who attempt to implement it.



## Part III: A democratic market economy

### A different economy

So far, it has been established that Pentoutopia is based on the notions of *free individuals* and *legitimate institutions* (Part I), in particular *democratic organisations* (Part II). In Pentoutopia, individuals are *free* individuals who formulate their own will, pursue their own interests, make decisions and act as *they* deem right and appropriate (*self-mastery*) while having, and demonstrating, (pro)social and pro-environmental orientations and behaviour. Organisations are established and maintained accordingly, i.e. they are founded as *democratic* organisations on the basis of libertarian values and concepts of self-ownership, individual and collective private ownership, and a partnership agreement that specifies and guarantees the equal legal and formal status, rights and responsibilities of all their members who own, manage and control the organisation, its properties and assets, activities and results collectively and democratically.

Both free individuals and democratic organisations by and large pursue multidimensional (social, environmental and economic) goals and purposes in balanced ways and act accordingly. They: 1) demonstrate more socially oriented, community-based and community-oriented, cooperative and responsible conduct of business, and practise more decent and prudent management; 2) show more pro-environmental behaviour in their activities, products and services; and 3) achieve higher economic efficiency, productivity and performance measured in multidimensional ways. Free individuals do so because of their values and orientations, and democratic organisations do so because of their members' values and orientations *and* because of how they are organised and function internally, i.e. because of their principles and mechanisms of democratic governance, democratic management and equalising empowerment.

Obviously, actors with such orientations and behaviour – alongside corresponding institutions that enable, accommodate and protect actors to show such orientations and behaviour – imply, and will lead to, *a different kind of economy* – different especially to the neo-classical or neo-liberal economies with their notions of utility-maximising egoists, profit-maximising corporations, and their fundamentally distorted markets that are unequal, unfair, unjust and unsustainable in almost every respect one can imagine.

There has been a long tradition of schools of thought<sup>197</sup> that offers valid alternatives to the model of the neo-classical/neo-liberal market economy, in particular:

– *Market socialism*:<sup>198</sup> Adam Smith (1723–1790), Henri de Saint-Simon (1760–1825), David

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<sup>197</sup> See the section '(Realistic) utopian ideas of a better society' in the introductory part, 'Status quo and (the search for) a better society'.

<sup>198</sup> *Market socialism* is one of the main strands of *libertarian socialism* (see Libertarian socialism 2019 for an extensive and informative coverage of this socio-political and economic school of thought and its many variations) and is especially rooted in *left-libertarianism* (Ellerman 1992, Steiner 1994, Van Parijs 1995, Vallentyne 2000,

Ricardo (1772–1823), Charles Fourier (1772–1837), William Thompson (1775–1833), Thomas Hodgskin (1787–1869), John Stuart Mill (1806–1873), Pierre-Joseph Proudhon (1809–1865), John Francis Bray (1809–1897), William Morris (1834–1896), and many more in the 20th century;

- *Economic democracy*:<sup>199</sup> Vanek (1971), Hirst (1994), Cohen & Rogers (1995), Caspary (2004), Restakis (2010), Schweickart (2011), Malleson (2013, 2014);
- *Social and Solidarity Economy (SSE)*: Vakil (1997), Defourny & Delveterre (1999), Fournier (2002), United Nations (2003), Teegen et al. (2004), Willetts (2006), Solidarity Economic Working Group for USSF 2007 (2008), Allard & Matthaei (2008), Kerlin & Gagnaire (2009), Nyssens (2009), Kelly (2012), Haque (2013), Lans (2013), Lewis (2014), Wallimann (2014), Millstone (2015), Utting (2015), Ould Ahmed (2015), Vilchez (2017), North & Cato (2018).

The strands of market socialism, economic democracy and Social and Solidarity Economy (SSE) differ in some respects in their focus and main features. Moreover, each of these strands comprises multiple concepts that vary to some extent and might even have different names. Nonetheless, all these strands and concepts also have many things in common. In particular, they have the same, or similar, propositions in regard to at least two fundamental aspects of the basis of an economy:

One concerns the coordination of actors' economic activities, especially the production, exchange and consumption of goods and services. The economy is understood as a *market* economy, i.e. the coordination of supply and demand is imagined to happen via decentralised market and price mechanisms (and not via, for example, a state planner or monopolists) (Arnold 1994, p. 49, Schweickart 2011, p. 49).<sup>200</sup> More specifically, the economy is assumed as a *free-market* (or '*freed*' market) economy, where exploitation and market-distorting effects stemming from concentrated power ('capitalist production') are largely absent and economic actors engage on the basis of trust and cooperation, not suspicion and competition.

The second aspect is about the actors in such an economy, the *market participants*.<sup>201</sup> Individuals and

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Otsuka 2003, Left-libertarianism 2018).

<sup>199</sup> The term 'economic democracy' is probably the most widely used term for these types of concepts of an alternative economy. Nevertheless, this term is also somewhat misleading because these concepts are about a particular type of *economy* (i.e. a *democratic* economy) and *not* a particular type of *democracy* (an *economic* democracy actually would be a nightmare). Other authors have used different terms to describe *their* model of a democratic economy. For example, Vanek (1971) called it 'labour-managed or participatory economy', Hodgson (1984), or recently Kelly & Howard (2019), called it a 'democratic economy', Fleurbaey (1993) an 'egalitarian democratic economy', Hirst (1994) and Cohen & Rogers (1995) an 'associative democracy', Caspary (2004) a 'worker-ownership economy', and Restakis (2010) a 'co-operative economy'.

<sup>200</sup> For example, as Caspary (2004, p. 243) explained: 'People's material needs will be signalled and provided for through demand and supply in retail markets. Much of the interrelations among co-ops, as they seek raw materials, supplies and services from each other, will be conducted through wholesale markets. ... Markets at their best provide rapid and accurate signals of what people desire, and what materials and services are needed. Thus they lead to efficient allocation of resources.'

<sup>201</sup> I call actors '*market participants*' when their economic activities are directly or indirectly related to the supply or demand of products, work, or services, i.e. when their economic activities are not only relevant exclusively for themselves but also for others (e.g. collaborators or co-workers, competitors, suppliers, customers, other stakeholders or third parties, the public).

organisations engaging in economic activities and participating in markets are assumed to be as free and democratic as possible. Only organisations that grant *all* their members equal rights, and are owned, managed and controlled collectively are seen as appropriate, i.e. organisations such as grass roots-based, democratically run ‘local’ enterprises, associations, cooperatives, credit unions, or other forms of worker ownership and self-management (Bray 1839/2013, p. 132, Guérin 1980/2005, p. 252, Weisskopf 1993, p. 4, Arnold 1994, p. 49, Caspary 2004, p. 236, pp. 239–240, Williamson 2009, pp. 435–439, Schweickart 2011, p. 49, 2012, pp. 245–246, Kelly 2012, pp. 141–142, Smith & Teasdale 2012, p. 155, Fisher 2013, p. 148, Lans 2013, pp. 166–167, Krishna 2014, p. 2, Wallimann 2014, p. 51).<sup>202</sup> In other words: Only organisations that resemble the *democratic* organisation or free and autonomous individuals working independently are deemed legitimate market participants.

Because of these two main aspects all concepts of market socialism, economic democracy or SSE have in common – i.e. a truly *free market* as the main allocation mechanism for economic activities and *democratic* organisations (and free and autonomous individuals) as the main participants in such an economic system – one might call the type of economy that these concepts envisage a ‘democratic market economy’. The democratic market economy is ‘an economic system in which firms operate in a market but are governed by those who work for them’ (Archer 1995, p. 5). The concept of the democratic market economy as it will be developed here comprises, and corresponds with many of the fundamental ideas and principles of the concepts of market socialism, economic democracy and SSE<sup>203</sup> and can be seen as part of this long tradition of progressive economic (and social philosophical) reasoning that provides promising and realistic visions for society and the economy.

Nonetheless, probably with the exception of the works of classical economists like Adam Smith, David Ricardo or John Stuart Mill, most concepts of a democratic market economy do not detail (sufficiently) the various elements and mechanisms of such an alternative economy and how they are related. They do not explain what free(d) markets actually are, how exactly they (would) function, how they would (need to) be organised, how market participants behave towards others, how their behaviour forms patterns, and triggers and contributes to processes that shape markets and industries, how macroeconomic outcomes are caused and formed by these behaviours, patterns and processes, how markets can and should be regulated, and why and how this altogether would lead to better outcomes for everyone. And they do not describe and explain sufficiently the links between market participants, market participants’ economic activities and market-related behaviour, microeconomic processes, macroeconomic phenomena and outcomes, and how such an alternative economy actually functions.

This Part III therefore outlines what a *democratic market economy* would look like and how it works. In particular, it will show comprehensively and in detail:

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<sup>202</sup> For instance, the British-French anarchist and socialist James Guillaume (1844–1916) described the fundamental idea of such an organisation in his 1876 essay ‘Ideas on Social Organization’ (quoted, no page numbers, in: Guérin 1980/2005, p. 252) as follows: ‘Every workshop, every factory will therefore represent a workers’ association which will remain at liberty to administer itself howsoever it may see fit, as long as the rights of the individual are safeguarded and the principle of equality and justice put into practice.’

<sup>203</sup> According to Bowles (2012, p. 2) ‘some combination of social democracy, market socialism, and workplace democracy would be preferable on democratic or egalitarian grounds to the capitalism we know’.

- 1) The main principles and foundations of a truly free market;
- 2) What are legitimate market participants in the free market;
- 3) How legitimate market participants' individual orientations and economic behaviour constitute considerate conduct of business, how their individual behaviour triggers microeconomic processes, patterns or networks of democratic organisations, how these behaviours and practices change and shape whole industries and markets, and how this overall leads to macroeconomic outcomes and economic developments that are good for individual actors as well as the economy and society, and the environment as a whole; and
- 4) How the free market, market participants and market mechanisms can be governed and regulated in market-conforming, and market-strengthening, ways via various modes of democratic self-regulation, co-regulation and government regulation.

In addressing these issues, Part III provides a *systematic* and *comprehensive* concept that shows how free markets, individual actors/market participants, their behaviour, microeconomic processes, macroeconomic outcomes, and overall regulation of markets, market participants and their behaviour work on their own, how they are related to each other and together constitute a different kind of economy, an economic system that is *libertarian*, *democratic*, *egalitarian* and *sustainable* – the democratic market economy.<sup>204</sup> The following chapters will develop the concept of the democratic market economy step by step along the four items listed above.

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<sup>204</sup> One could also formulate this as a value-free theorem: If markets are fully institutionalised as free markets, all market participants are legitimate market participants (i.e. either democratic organisations or self-employed), market participants conduct economic activities and their business consistent with the notion of democratic organisations, and markets as well as market participants and their conduct of business are regulated democratically via democratic institutions of self-regulation, co-regulation and government regulation, then there will be a fully fledged, and fully functioning, *democratic market economy*.

## Foundations of the free market

Any model of a social system is constituted on the basis of assumptions about its elements, their relationships, actions and interactions. The market is no different. This chapter develops the model of the free market in its most fundamental and basic foundations and design. It puts forward fundamental assumptions about market participants and market mechanisms. It also will be argued and shown that it is actually norms and rules (institutions) that constitute and maintain markets. In so doing, this chapter provides the minimal criteria necessary for defining and establishing a market – a truly *free* market.

### Markets, market participants and market mechanisms

Pentoutopia is founded on the notion of free individuals – and so is its economy. Various schools of thought *across* the political spectrum from the very right to the very left argue for *freedom*: right-wing anarchists, ultra-conservatives, neo-classical economists, neo-liberals, right-wing libertarians, liberals, conservatives, democrats, left-wing libertarians, free-market socialists and left-wing market anarchists – they *all* make the case for taking *the freedom of the individual* as a *sine qua non* for a free and prosperous economy (and society).

As indicated earlier, free individuals formulate their own will, pursue their own interests, make decisions and act accordingly. Some of the activities (free) individuals perform the most are *economic activities*, i.e. the conscious and purposeful creation or transformation of things in order to achieve a practical result. Economic activities can be either self-sufficient (i.e. without any return) or return-oriented (i.e. conducted with the aim to achieve a return of equal value).

There are many economic activities that are performed completely self-sufficiently, i.e. they are not conducted (in the hope) to get something of equal value – or anything – back, where there is no direct exchange or (financial) compensation in return, such as pastime activities, domestic work, gifts or donations, volunteer work, economic activities within the family, among friends, groups, communities or networks, self-help, subsistence, pooling and sharing of resources, individual, collective or shared use of commons (Castells & Hlebig 2017, pp. 162–165, Kallis 2017, p. 40). Such economic activities are not (related to) market transactions or exchanges and are, therefore, not counted as market activities. Self-sufficient economic activities are regarded as alternative forms and subsumed under such terms like ‘informal economy’, ‘subsistence economy’, self-sufficiency or altruism.

And then there are economic activities that are performed deliberately to get a return, to get something back (usually of equal value), i.e. they are conducted *for the market* and *via the market* (and show there as supply and demand). ‘Market’ means the physical or virtual space where return-oriented economic activities (‘work’, ‘services’) or results of economic activities (‘goods’) are offered, performed and/or exchanged by actors on a ‘quid pro quo’ basis, i.e. against payment (with money as the prevailing medium of value), for other work, goods or services (i.e. barter), or for time (i.e. time banks).

Regarding the conduct and coordination of return-oriented economic activities between actors the

market is that sphere or medium that best accommodates the notion of the free individual. As Buchanan (1975, p. 18) explained: 'Under regimes where individual rights to do things are well defined and recognized, the free market offers maximal scope for private, personal eccentricity, for individual freedom in its most elementary meaning.' In this sense, in markets – or the *economic sphere* – actors are free to decide and conduct economic activities as *they* deem right. Thus, Pentoutopia's economic sphere should consist of *markets – free markets*.<sup>205</sup>

The crucial question is what exactly *is* a 'free' market, or, to be more precise, what constitutes and makes a free market; how would a market – or a market economy – need to be designed and maintained in order to be a free market (economy)? The idea – or *ideal* – of the free market is based on certain assumptions about market participants and their behaviour as well about the market mechanism and its outcomes. Key characteristics of the free market are:

- 1) *All* actors/market participants are *as free as possible*, able to make their own decisions and act accordingly. They are socially embedded individuals or collective actors with diverse and multidimensional sets of values, orientations and interests who reason and make sense of phenomena, formulate and pursue their interests according to diverse rationales. They have only incomplete and inconsistent information (and always will), but they are/should be able and enabled to gather information, process information and to make informed decisions as *they* deem right.
- 2) Decisions about what goods and services are offered and demanded by whom and in what ways are made by all market participants themselves *in decentralised ways* according to various rationales.
- 3) There are *many* individual or collective actors (i.e. individuals or organisations as market participants) offering or demanding goods or services at a particular geographical location, via a certain medium or in some virtual space.
- 4) *All* actors/market participants enjoy the same range of formal and procedural rights and opportunities.
- 5) The price and quantity of goods and services offered or sought (supply and demand) depend on market participants' behaviour and decisions, as well as other factors, and are flexible and transparent, and thus tend towards a market-clearing equilibrium.

The five items listed above address the same aspects as the prevailing market model in (microeconomic) economics, the neo-classical concept of the 'perfect' market. The 'free market' model as outlined here is similar to the prevailing model in the sense that it also assumes that in a free market, supply and

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<sup>205</sup>Although the term 'economic activities' used here does mean, and include, both self-sufficient ('non-market') and return-oriented ('market-related') economic activities, the overall focus of this part is on markets and market-related economic activities in order to: 1) make clear that the economy of Pentoutopia – the democratic market economy – is a *market* economy (and not a *planned* economy), 2) show how different a democratic market economy is especially to currently prevailing forms of neo-classical/neo-liberal market economies, 3) outline what kind of alternative market economy the democratic market economy is (in the tradition of market socialism, economic democracy, and Social and Solidarity Economy), and 4) to interrogate and to demonstrate how individual and collective actors (autonomous individuals and democratic organisations) act and conduct business as market participants.

demand of goods and services will be decided by many market participants in decentralised ways on the basis of flexible and transparent prices (Nos. 2 and 3 above). However, the characteristics put forward here differ from the neo-classical ‘perfect’ market decisively in some other crucial respects, especially in regard to actors/market participants and the price mechanism (Nos. 1, 4 and 5 above).<sup>206</sup> In a truly free market, *all* actors/market participants enjoy equal formal, procedural, legal and contractual rights and opportunities. They are seen as socially embedded, free individuals or democratic organisations that make their decisions and operate in accordance with diverse and multidimensional sets of values, orientations and interests, and on the basis of incomplete and inconsistent information (Vanek 1971 p. 11, Elson 1988, p. 12, Miller 1990, p. 10, Arnold 1994, p. 49, Roemer 1996, p. 13, Milonakis 2003, p. 107). This suggests not only that market participants in the democratic market economy behave and conduct their business differently, but that markets and the economy as a whole function differently and produce different outcomes – as we will see in the following.

### **First institutions of the free market: Norms and rules**

#### *Markets are institutionalised markets*

The market and market mechanisms outlined above might look, or be portrayed, like some ‘value-free’ description of, or statements about an objective phenomenon – as it has been proclaimed by neo-classical and neo-liberal ideologists for a very long time. That could not be further from the truth. ‘The market’, *all* markets and market mechanisms, are *social constructions* and (organised) arenas of social interaction (Granovetter 1985, Fligstein 2002, p. 67, Beckert 2009, pp. 247–248, Warner 2009, p. 135, Redmond, 2010, p. 338). As arenas of and for actors’ social actions and interaction, markets are based on and defined by norms and rules.<sup>207</sup> The norms the free market is based on, *any* market is based on, are *institutions* – and market participants behave and market mechanisms unfold accordingly.<sup>208</sup> The very first assumptions a social system like the market is built on are institutions. The free market actually is an *institutionalised* market. *All* markets are *institutionalised* markets.<sup>209</sup> In this sense, the ‘free’ market is *not* free because of an *absence* of norms, rules and regulations, but *because of the presence* of *specific* norms, rules and regulations (i.e. institutions) the market is built on, defined and maintained by (see below). Or, to put it differently: Markets are free not in the sense of ‘free *from*’ but ‘free *because of*’ particular norms, rules and regulations.

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<sup>206</sup> All differences between the neo-classical and free market model, the neo-liberal and democratic market economy respectively, are listed in Table 16 ‘Neo-liberal and democratic market economy in comparison’ towards the end of this part of the book.

<sup>207</sup> Even electronic trading platforms run by stock exchanges or algorithm-based trading programmes used by institutional investors, banks and trading houses to buy and sell commodities, currencies, equities, bonds, options, derivatives or other financial instruments are still designed, configured, applied and supervised by humans and according to human norms and values. Restakis (2010, p. 9) argued that ‘Markets have never been “free” in the normal sense of the term, nor will they ever be. They have always been, and will always remain, subject to external constraints – legal, political, cultural, religious. The question is to what degree and for what ends these controls operate.’

<sup>208</sup> Institutions as they were defined in section ‘Institutions and (their) legitimacy’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>209</sup> But not all institutionalised markets are *free* markets. For instance, a planned market economy, monopolies or oligopolies are also institutionalised markets, but they are not free.

The following two sub-sections will shed some light on what kind of social norms are relevant or even necessary to constitute especially a free market (i.e. the normative basis of and for a free market) and which minimal rules are required in respect to ownership (property rights) and contract law to make market activities and transactions happen (i.e. the legal basis for market activities and transactions).

*Social norms: The normative basis of and for a free market*

The founding propositions about market participants and the market mechanism – whether it is the ideal-typical neo-classical or the realistic free market model – are actually *norms* – *social* norms. (Social) norms can be defined as collective understandings or representations of expected and accepted (as well as not expected and unaccepted/unacceptable) behaviour that govern, steer and shape the behaviour of members of a social system where these norms prevail.

Social norms encourage actors to demonstrate expected and appreciated behaviour – especially when social norms are internalised by members of the social system (in this case by participants in the free market) and are reiterated and enforced on a daily basis. In this sense, social norms are crucial for making a social system last. Norms constitute an essential part of any social system since it is created and maintained by people, human action and interaction – which means that also the free market, *any* market, is based on, structured and governed by social norms.<sup>210</sup> *Any* market is *always* and *with necessity* based on, embedded in, enabled, confined and shaped by social norms that define socially expected, acceptable and unacceptable customs and behaviour.

The fundamental assumptions about the free market and a functioning market mechanism outlined earlier are actually *specific* norms about market participants and their economic behaviour, the market mechanism and related outcomes. In particular, the norms state that:

- 1) All market participants shall be as free as possible from external pressure, shall be able to make their own decisions and to act accordingly (*freedom*);
- 2) Decisions shall be made in decentralised ways; there shall be no central authority or powerful market participant that would tell (other) market participants which decisions to make (*democracy* in the sense of ‘power of the people’);
- 3) There shall be as many market participants (producers and consumers, buyers and sellers) as possible so that all market participants have equal power and equal opportunity (*equality*);

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<sup>210</sup> It is one of neo-classical economists’, neo-liberal market proponents’ great deceptions, if not straightforward lies, when they claim that their model of the ‘perfect’ market (or all their other models) is ‘abstract’ and ‘value-free’. The model of the ‘perfect’ market actually is based on ludicrous, hopelessly unrealistic, explicit and implicit assumptions, norms and value statements about ‘rational’ actors and their ‘rational’ behaviour (which in large part is rather irrational, anti-social, amoral or even immoral behaviour), actors having ‘complete information’ (which is not only impossible from a logical point of view but simply nonsense), and ‘utility maximisation’ or ‘profit maximisation’ (short for unrestrained greed and egoism). But their refusal to mention that the ‘perfect’ market is based on social norms *with necessity*, their denial to admit that their models are thinly veiled value statements and economic-political ideologies helped them *massively* to ignore all the issues that are related to markets and market behaviour, such as legitimacy; regulation and governance of markets, industries, contracts, products and services; freedom, democracy, equality, justice, exploitation, externalities or environmental issues.



- 4) For their economic activities market participants shall get what they rightfully deserve (*justice*); and
- 5) Supply and demand shall be flexible and in a market-clearing equilibrium (*sustainability*).

The key characteristics of the free market are its *normative basis*. Without these norms, *any* of those norms, a market would be *dysfunctional*: 1) market participants would not be free, or not as free as possible and necessary; 2) decisions would be inefficient because they were not made in decentralised ways; 3) the market would be a monopoly or oligopoly, 4) there would be market failure, or 5) the market would be imbalanced and not sustainable. The free market is based on norms of freedom, democracy, equality, justice and sustainability *with necessity*.

#### *Entitlements, rights and law: The legal basis of and for market activities*

With its social norms about actors/market participants, their processing of information, decision-making and behaviour the free, institutionalised market is a self-perpetuating system. Market participants mostly behave following social norms and as expected. However, informal/implicit social norms (alone) might not be (strong) enough when it is about influencing and shaping behaviour of independent and autonomous actors – especially not when people are as free as in a free marketplace. Hence, (some) social norms need to be formalised, codified so that they become stronger and more applicable, explicitly enforceable and possible non-compliance punishable. This can be done by turning them into formal or even legal *rules* (i.e. law). Social norms are changed from *implicit* into *explicit* institutions, for example in the case of markets from customs and expectations into civil and business law, industry regulations or economic policies. Both norms and rules provide actors with ‘Dos and Don’ts’. But in contrast to (social) norms, formal or even legal rules are more direct, strict and binding and deviant behaviour is punished in more formalised ways.

In the case of the free market, explicit institutions in regard to two aspects are of fundamental importance. One is rules or laws about *ownership* (and related property rights), *private* ownership. The institution of ownership and related property rights establish, guarantee and protect the status, rights and interests of free individuals concerning material and immaterial things as well as concerning others (persons or institutional actors) who might have an interest in those things.<sup>211</sup> The second is rules or laws in respect to *contracts*. Commercial and contract law provides the framework for market participants to conduct economic activities, and to apply, grant or transfer ownership and property rights.

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<sup>211</sup> It is possible to imagine a social or socio-economic system (or ‘market’) where free private actors make decentralised decisions about the supply and demand of things (goods and services), transfer things as well as the responsibilities and entitlements in regard to them, produce and use things, *without* the institution of private ownership and related property rights. For instance, this is the case when a collective as a whole ‘owns’ everything, makes all decisions and manages everything collectively (communism), or when people, either individuals or a group of people, are appointed democratically to be responsible concerning certain things and to make all relevant decisions. However, since one of the fundamental ideas of Pentoutopia and the democratic market economy is to make individuals as free, autonomous and strong as possible in an existential as well as in an institutional sense, all individuals must be able to enjoy the rights of and to private ownership and related property rights (in addition to their rights of self-ownership and related human, democratic and civil rights).

i) Rules and laws in respect of ownership

*Ownership* primarily means the (legally enshrined) *right* of private ownership of identifiable tangible or intangible things – and it means *property rights* in regard to those things, i.e. legal rights, entitlements and responsibilities to possess, use and manage a thing as one sees fit, the right to the income from the thing owned and used as well as to transfer any of those rights to other actors (Hohfeld 1913, 1917, Honoré 1961, Arnold 1994, p. 44, Christman 1994, p. 227, Ingram 1994, p. 30, Learmount & Roberts 2006, p. 146).<sup>212</sup>

The question is how private ownership and property rights are allocated. There are some fundamental differences between a neo-classical/neo-liberal market model and the free market/democratic market economy market model concerning the allocation of private ownership and property rights:

In the neo-classical/neo-liberal market model there is only a *small minority of owners* that possess most capital, land and the means of production. Capital and private ownership of land and means of production is allocated (very) unequally. Property rights related to private ownership as well as management and control rights *are limited to a small minority of stakeholders* to varying degrees (present owners/owner-managers, senior, middle and lower managers, absent owners).<sup>213</sup> Only owners are legally entitled to the ‘fruits of their own labour’ and to a ‘fair share’ of any outcomes achieved through collaborative work within organisations (‘profits’, ‘capital gains’).

In contrast, in a free market/democratic market economy *everyone* is an owner. Capital and private ownership of land and means of production is *widely dispersed*. Private ownership (of the means of production), property rights related to private ownership, management and control rights *are legal and statutory rights of every* market participant as well as of *every* member of an organisation.<sup>214</sup> In the case of a truly free market, however, private ownership and property rights are widely dispersed and belong to every single market participant. Consequently, *everyone* is legally entitled to the ‘fruits of their own labour’ and to a fair share of any outcomes achieved through collaborative work within organisations.

ii) Rules and laws in respect to contracts

In a free market there is *freedom of contract*; people are free to decide with whom to contract about what and on which terms without restrictions other than those set out by the relevant laws. Any contractual agreement must be made *voluntarily*, i.e. free from any direct or indirect coercion (duress or undue influence). If market participants (want to) transfer any kind of property rights (for instance, in connection with an exchange of goods or services as such or against payment, making a thing available to another party), or want to conduct any other type of market activity with others, they need to agree on the terms of the exchange, i.e. they need to negotiate, conclude and execute a *contract*. Thus, any kind of free market based on private ownership and property rights needs to have explicit rules that specify

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<sup>212</sup> For some more description of property rights related to private ownership see sub-section ‘Private ownership and property rights’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>213</sup> This is ensured by the legal and organisational design of the capitalist firm, the legal status and related rights of employer and employees as well as traditional employment contracts.

<sup>214</sup> This is ensured by a libertarian constitution of the democratic organisation and a partnership agreement that grants everyone who works for the democratic organisation equal partner status and the related ownership rights (see chapter ‘Libertarian constitution and democratic governance’ in Part II, ‘Democratic organisations’).

the rights and responsibilities, relations and behaviour of actors engaged in any kind of market activity (exchange of goods, i.e. trade, sales, purchases, conduct of business, work), how they can come to binding agreements with other actors and how they can fulfil their contractually agreed obligations. Free markets need to have, and be based on, some form of commercial and contract law. Contract law and commercial law provide the framework in which market activities can take place. In a free market (as part of a free and democratic society) commercial and contract law (and authorities) make sure that form, objects, substance, terms and conditions of contracts are legal and legitimate, i.e. in compliance with the relevant laws, the inalienable human, civil and democratic rights of individuals, and the fundamental principles and norms of freedom, democracy, equality, justice and sustainability.

Altogether, one can say that any free market needs explicit formal and substantive rules, commercial and contract law, that specify and make sure that the:

- a) Institutions of private ownership and related property rights;
- b) Negotiation, conclusion, execution and completion of contracts and contractually agreed obligations, form, objects, substance, terms and conditions of contracts;
- c) Rights and responsibilities, contractual relations and behaviour of market participants engaged in any kind of market activity; and
- d) Market activities and transactions (production, provision, supply, demand and exchange of goods and services, i.e. merchandise, trade, sales, purchases, conduct of business, work)
  - Are legal and legitimate (i.e. in compliance with all relevant laws and regulations);
  - Are consistent with the inalienable human, democratic and civil rights of individuals as well as the fundamental principles and norms of freedom, democracy, equality, justice and sustainability; and
  - Appreciate the equal formal and legal status of market participants as free actors and as members of a free and democratic society.

### **Basic norms and rules constituting the free market**

As demonstrated above, markets, market-related issues and activities are based on, embedded in, defined, shaped and sanctioned by institutions, particularly implicit and explicit norms and rules. They set the general standards and guidelines for free individual or collective actors exchanging goods (products, services, money) via the market. Any market or market exchange is based on, and defined by norms and rules *with necessity*. As institutions, norms and rules outline explicitly how market participants are expected to behave, and what is, and is not, legitimate, expected and appreciated behaviour. Without such guidance, market participants would not be able to formulate reliable expectations about others' behaviour, develop their own intentions and act accordingly – especially not as (equally) free actors (individuals and organisations). The market – *any* market – as such, its fundamental structures and mechanisms as well as the status of market participants, their rights and responsibilities, attitudes and behaviour are – and need to be – defined and clarified, organised and regulated by (social) norms, (formal/legal) rules, i.e. institutions (Fligstein 2002, p. 30). In order to be a *free* market a market *must* be based on implicit and explicit, comprehensive and robust institutions (norms and rules) equally relevant for everyone that

provide *all* market participants with the greatest possible amount of freedom, democracy, equality, justice and sustainability so that *all* market participants (can) make their own decisions, act and interact as autonomous actors in decentralised ways in regard to the supply and demand of goods and services.

Thanks to such norms and rules in respect to market participants, the market mechanism and economic activities, a market is a truly *free* market that is characterised by the following features:

1. *All* market participants are as free as possible, are able to make their own decisions and act accordingly. Especially in respect to everyone's inalienable rights of self-ownership, the establishment and protection of private ownership and related property rights, the right to the fruits of one's labour, and the legality and legitimacy of economic behaviour and contractual agreements the free will and freedom of every individual are guaranteed, enabled and protected as much as possible (*freedom*).
2. Decisions about what goods and services are offered and demanded by whom and in what ways are made by all market participants in decentralised ways according to their own considerations. There are no powerful actors (central authority or powerful market participants) telling market participants what decisions to make. Market participants organise themselves, and conduct their economic and market-related activities, in accordance with the principles of democratic governance and management (*democracy*).
3. There are many market participants (producers and consumers, buyers and sellers) offering or demanding goods or services so that all market participants have equal power and equal opportunities. All market participants enjoy in principle the same range of legal entitlements and duties, rights and responsibilities to conduct business (*equality*).
4. Private ownership, property rights, management and control rights *are legal and statutory rights of every* member of every single market participant. *Everyone* is legally entitled to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through collaborative work within organisations. Explicit formal rules and regulations specify, and make sure, that private ownership, property rights, contracts (their negotiation, conclusion and execution), economic activities and exchanges of goods and services (based on contractual agreements) are consistent, and in compliance, with the inalienable human, democratic and civil rights of individuals and the fundamental principles of freedom, democracy, equality, justice and sustainability (*justice*).
5. The prices and quantities of goods and services offered or sought (supply and demand) depend on market participants' behaviour and decisions, as well as other factors and are flexible, transparent and tend towards a market-clearing equilibrium. Via legitimate and appropriate settings, incentives, control and sanctions, market participants' economic and market-related activities are balanced and sustainable (*sustainability*).

## Legitimate and illegitimate participants in the free market

After having established the free market as the core element of a democratic market economy, the next question is who could participate in the market, i.e. be a market participant. 'Free market' could be interpreted that literally everyone would be entitled to participate in the market and to conduct every economic activity imaginable and doable. Unfortunately – or luckily – it is not as simple as neo-classical economists, neo-liberal ideologists or market anarchists proclaim. To conduct economic activities is not only a question of feasibility but also of *legitimacy*. This chapter especially focuses on interrogating who can be *legitimate* participants in the free market on which grounds. It investigates the criteria that organisations and autonomous individuals must meet in order to be legitimate market participants in a democratic market economy. In particular, it analyses the *substantive legitimacy* of different types of organisations (*radical, profit-maximising, conservative, alternative and democratic* organisations) and of autonomous individuals participating in the market as self-employed.

### Legitimacy of market participants

In respect to conducting economic or market-related activities, people can work either on their own or together with others in formalised and organised ways, i.e. they can be either *self-employed* (i.e. freelancers, contract workers or sole proprietors) or establish, or become a member of, a formal *organisation* (i.e. private or public sector organisations of various legal forms). The question is whether they do so *legitimately*, i.e. whether and in which way(s) self-employed and types of organisations are *legitimate* participants in the free market.

Conservatives and neo-liberals usually take 'free market' literally in a simplistic understanding of freedom and claim that everyone is entitled to participate in the market and to conduct every economic activity if it is their 'free will', their wish to do so – and 'freedom of contract' would offer the universal justification and cover for any activity. For a long time, right-wing libertarians, radical conservatives, extremist neo-liberals, capitalists and anarchists have thus argued that *any* form of contract, and *any* type of organisation, should be possible (even and especially radical, maximising or otherwise extreme forms of contracts and types of organisations). According to them, 'freedom of contract' supersedes all (other) principles and values of a free and democratic society. Mayer (2001), a typical proponent of this position, claimed that organisations, for example, do not need to be democratic (in order to be legitimate and legal) as long as they are established, run and joined by people under the 'freedom of contract' doctrine. He argued (Mayer 2001, p. 240) that 'Clubs [organisations] do not have to be democratic, even in a democratic society. Founders are free to craft the governance structure they deem best, and new members have no moral right to require political equality where it does not exist as long as they have been accorded a subjection option. Once members are admitted they may press for democratic rights, but no fundamental injustice is done to them if equal voice is not granted.'

It is certainly true that for any kind of formal social relationship (e.g. people agreeing on something, concluding a contract, joining or setting up an organisation), to be established legitimately, the free will

of the parties involved and freedom of contract are paramount. Freedom of contract allows for organisations to be set up for very different purposes and for them to be designed and run in very different ways. Of course, the right of freedom of contract also – and especially – counts for private organisations. Founders and/or members of organisations *in principle* are entitled to design and maintain organisations and their constitution, governance, management and conduct of business as *they* deem right. *However*, the free constitution and maintenance of institutions and organisations have their limits.

According to the minimal criterion of legitimacy – *external formal legitimacy*, to be more precise<sup>215</sup> – in order to be legitimate, institutions and actors (e.g. individuals or organisations) need to be consistent with the larger system they belong to (e.g. a society, economy or nation-state), i.e. their principles, norms and values, actions and behaviour *must* correspond to the fundamental principles, rules and regulations of the legitimate legal, political, economic and socio-cultural environments in which they exist and operate. Establishing contracts or setting up an organisation does not happen in a value-free and lawless vacuum where everything is possible. Even if the founders, owners or members of private organisations want to shape the internal design and workings of their organisation as *they* deem appropriate, they *still* need to comply with the principles and laws of the wider social system(s) they belong to and operate in, since otherwise the organisation's internal agreements and arrangements would be illegitimate or even illegal.

And *substantive* legitimacy means that a specific actor's values, orientations and behaviour must be consistent with the specific prevailing norms and values, organisational institutions, policies and regulations of the larger system the actor belongs to. Assuming that a free market and a democratic market economy are part of a fully fledged free and democratic society, substantive legitimacy means that actors have to adhere to the principles of a free and democratic society also as market participants. It implies that they need to comply with the fundamental principles of freedom, democracy, equality, justice and sustainability, that they must appreciate, meet, enable, protect, promote and put into practice people's fundamental and inalienable human, democratic and civil rights and democratic standards in their purpose(s), (formal and legal) constitution, governance and management as well as in their (economic) behaviour and conduct of business. Hence, in order to be, and to remain, legitimate in a free and democratic society and free markets, *any* individual and organisation *must* appreciate, respect, comply with, protect, promote and support the freedom and the fundamental human, democratic and civil rights of each and every individual as well as the universal principles of freedom, democracy, equality, justice and sustainability in their constitution, governance, management, behaviour and conduct of business.<sup>216</sup> This is *not* a choice – or an optional feature under the 'freedom of contract' doctrine – but a *constitutional condition* for *any* individual or organisation.

For instance, in order to be legitimate market participants; organisations need to comply with, and apply

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<sup>215</sup> See chapter 'Institutions – *legitimate* institutions' in Part I, 'Free individuals and legitimate institutions', where various types of legitimacy were defined and analysed.

<sup>216</sup> This is consistent with the principle of substantive legitimacy as it was defined in the section 'Types of legitimacy' in Part I, 'Free individuals and legitimate institutions': '*Substantive legitimacy* means that an institution is designed, managed and maintained, that it operates and produces outcomes and consequences in accordance with universal rights and principles (such as the fundamental principles of freedom, democracy, equality, justice and sustainability, people's human, democratic and civil rights) and that it propagates, enables, protects and strengthens these universal rights and principles.'

*democratic standards* (i.e. a libertarian constitution, democratic governance and democratic management). Held (1987, p. 259) argued that ‘For self-determination to be achieved, democratic rights need to be extended from the state to the economic enterprise and the other central institutions of society.’ One might call it ‘correspondence argument’: An organisation that exists and operates in a democratic society *must* be democratic. Or, to put it differently: In a free and democratic society any formally established organisation *must* be a democratic organisation since this is the *only* form that is consistent with the fundamental principles and values of a free and democratic society, democratic governance and management, and the *only* form that accommodates, protects and enables free individuals, their fundamental human, democratic and civil rights and provides them with equal rights and opportunities for their existence and personal development (Bowles & Gintis 1993, p. 98, Harrison & Freeman 2004, p. 52, Malleson 2014, p. xii).<sup>217</sup> To be democratic in a free and democratic society is not a choice but a constitutional necessity. Democracy and the market, democratic institutions and market participants are not antithetical but two sides of the same coin (Restakis 2010, p. 19).<sup>218</sup>

Altogether, in respect to the legitimacy of actors within a free and democratic society, of market participants in a democratic market economy and free markets respectively, it can be propositioned that:

*Within a free and democratic society, no individual or organisation can be anti-libertarian or anti-democratic.*

Or, to formulate the proviso positively:

*Within a free and democratic society, any individual or organisation must adhere to libertarian and democratic principles, standards and practices.*

In this sense, it can be said that within a free and democratic society (and free markets and a democratic market economy as sub-systems of that society), the decisive criteria for the legitimacy of an individual or organisation (as market participants) are that they adhere to the fundamental principles of freedom, democracy, equality, justice and sustainability, that they appreciate, meet, enable, protect, promote and put into practice people’s fundamental and inalienable human, democratic and civil rights and

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<sup>217</sup> This argument is similar to the ‘constitutional argument for democratic organisations’ I put forward in the chapter ‘Libertarian constitution and democratic governance’ in Part II, ‘Democratic organisations’: ‘Any organisation formally established and run by free individuals *must* be a democratic organisation since this is the *only* type of organisation that guarantees, accommodates, protects and enables the status, inalienable rights and responsibilities of free individuals.’ In other words: Whether one argues in a *deductive* way as here (democratic organisations are social systems within a free and democratic society) or in an *inductive* way as in Part II (democratic organisations constituted by free individuals) – the result is the same; in a free and democratic society organisations *must* be democratic.

<sup>218</sup> Restakis (2010, p. 21) argued that ‘there has never yet been a convincing answer to the question: “If democracy is good for politics, why is it not equally good for economics?” After all, the operations of the economy and the connection that people have with its institutions on a daily basis have a far more significant impact on the quality and conduct of their daily lives. We exercise our democratic right to vote for public officials once every three or four years. Yet we spend most of our waking hours in our workplaces, which are still run like dictatorships, day in and day out. And finally we might ask, “How is it that a *free market* is run along authoritarian systems of command and control and personified by tyrannical models of power in the individual firm?” It is a fundamental contradiction so elementary a child could see it, and one that free market mythology cannot resolve. If markets should be free, they must also be free in their constituent institutions.’

democratic standards in their purpose(s), (formal and legal) constitution, governance, management as well as in their (economic) behaviour and conduct of business.

The following sections interrogate the legitimacy of various types of organisations (radical, profit-maximising, conservative, alternative, democratic) and individual market participants (i.e. self-employed, freelancers, contract workers, sole proprietors).

### **The legitimacy of various types of organisations**

In respect to the legitimacy of organisations, the crucial question is how libertarian, democratic, equal, just and sustainable an organisation *should* – or *must* – be in order to be considered a *legitimate* organisation – and when it can no longer be regarded as legitimate and perhaps should even be outlawed. Organisations are particularly judged for how much they appreciate and realise people’s fundamental human, democratic and civil rights (in their constitution, governance, management, behaviour and conduct of business) and how much they adhere to democratic standards (i.e. how much they have, or have not, a libertarian constitution, democratic governance and democratic management).

In the following five types of organisation – radical, profit-maximising, conservative, alternative and democratic organisations – are interrogated in terms of how well they appreciate, meet and put into practice people’s fundamental rights and democratic standards.

#### *1) Radical organisations*

Organisations can be set up for purposes that constitute a legal and/or moral wrong (or that come *very* close to being a legal and/or moral wrong), such as: criminal organisations or networks pursuing illegal activities (e.g. the Mafia, drug cartels, human trafficking rings, pyramid schemes and white-collar crime); terrorist organisations (e.g. the Ku Klux Klan and ISIS); extremist political organisations, parties or movements (e.g. violent far-left or far-right parties); or other totalitarian organisations (such as ultra-orthodox faith-based orders or communes) (Powell 2007, pp. 6–7, Wright 2010, p. 146, Kohn 2011, p. 238, Nicholls 2011, p. 88, Lewis 2014, pp. 71–72).

Together, such organisations might be called ‘radical organisations’. Their prime purpose(s) are to pursue extremist values and agendas that are ‘above’ or outside the law; go *directly* against (certain) other people’s human, civil or democratic rights; and inflict *deliberately* physical, psychological, emotional and/or financial harm on (certain) other people. Usually, such organisations are organised in extremist or totalitarian ways; they have highly authoritarian organisational structures and processes, are extremely hierarchical and centralised, and require total commitment and obedience from their members and followers. In this sense, they also harm (most of) their own people, although this may not be portrayed or perceived so (on the contrary; very often, their members and followers see it as a privilege and deem themselves lucky to belong to the radical organisation and to serve its purposes – and its leaders!). In order to pursue and achieve their goals and purposes, radical organisations encourage, and often force, their members and followers to use methods and to conduct activities that are illegitimate or even illegal.

It can be difficult to determine whether or not a particular organisation is radical (Held 1992/2006, p. 692, Bob 2011, p. 215). Some organisations and movements have extreme, and extremely contested, agendas (e.g. the eugenics movement), may even use unlawful actions in order to highlight certain issues



or causes (e.g. activist organisations), or may be portrayed as ‘radical’ by their opponents (e.g. political groups striving for change in government or even systems change) – but they *still* may be regarded as legitimate, may pursue (from *their* perspective and according to their beliefs) ‘higher’ causes, and may even be necessary to highlight pressing plights and address certain problems that otherwise would not be tackled sufficiently. Or there may be organisations that are truly radical (and bad in both their purposes and their deeds) but fairly successful in conveying images of decency and correctness (all of the examples of organisations mentioned at the beginning of this sub-section, but also others) and manage to exist and operate for quite a long time while avoiding prosecution.

Nonetheless, despite the ‘technical’ difficulties in precisely pinning down whether a particular organisation is or is not radical, there definitely is a category of organisations that are radical in the sense that their purpose, orientation and activities harm, limit or threaten (certain) other people and/or their fundamental human, democratic and civil rights *deliberately*; that their design and functioning is authoritarian and anti-democratic *in principle*; and that they use unlawful means and crude force *regularly* in order to achieve their goals. Such *radical organisations* are not only illegitimate, but in most countries, especially in free and fully fledged democratic societies, deemed illegal in principle because of their criminal, terrorist and/or totalitarian purposes, design and activities. Such organisations must be outlawed, terminated and prosecuted.

## 2) *Profit-maximising organisations*

Then there are organisations that also pursue extremist values and agendas – but they do not do so ‘above’ or outside the law (at least not officially). On the contrary, they exemplify, practise and deliver the prevailing ideology of a particular epoch or society – and are celebrated for doing exactly that. The best example of such an organisation is the *profit-maximising organisation* – the (neo-classical) ideal-typical model of the *capitalist firm*.<sup>219</sup> As its name indicates, it has the single purpose of maximising profits (for its owners). The profit-maximising organisation is overwhelmingly seen as legitimate (from a conservative, capitalist or right-libertarian perspective), even ‘necessary’ (from the perspective of the neo-classical ‘perfect market’ model and ‘theory of the firm’), and legal on the basis of corporate and business law – largely against the backdrop that maximising profits and/or utility, unhindered (quantitative) growth, the celebration of greed, and the pursuit of happiness via monetary means have become the prevailing values and ideologies of our age.

As history has shown – and still demonstrates in many respects and many corners of the world – even when its purpose has been legalised, the profit-maximising organisation can, and often does, pursue its purpose very aggressively and violently and can operate in semi-legal or even illegal manners. But even if it operates within the legal boundaries it still deviates fundamentally and in principle from libertarian and democratic standards in various ways. The main reason for this is that the for-profit or profit-maximising organisation is set up for the sole purpose of generating as much profit as possible for a few people, its owners, by exploiting (many) others, the employees. To do this, it must maximise income

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<sup>219</sup> The capitalist firm might be defined as a formally constituted enterprise where one actor (a natural or legal person) or a group of people (‘owners’) provides capital and uses (‘employ’) other people (‘employees’) in order to make a profit out of, and via, some economic activity.

and minimise costs by all and any means. Therefore, the profit-maximising organisation is, and *must* be, exploitative *with necessity*, i.e. it must ask for the maximum possible prices and it must pay all factors of production the absolute minimum. Concerning the latter, to illustrate, this means that employees *cannot* be remunerated for their actual contributions to the generation of value-added and cannot be given their fair share of the profits but only their minimal salary. The profit-maximising organisation *must* take advantage of its employees systematically and in principle and *must* exploit them (just as it must also exploit social and natural resources in a similar vein).

The purpose of enriching a few *by using, and at the expense of others* (workers, employees) is achieved by utilising a range of different means: illegitimate standard employment contracts (or similar exploitative contractual arrangements); anti-libertarian and strictly hierarchical organisational structures and processes of governance and management; opportunistic behaviour; and exploitation of natural, human and social resources. While this is done under the pretence of legitimacy, the profit-maximising organisation at the same time deliberately ignores people's human, democratic and civil rights. It *must* ignore them because these rights either mean costs or may threaten the exploitative character of the relationship between employer and employees (or it only acknowledges such rights if they 'pay off', i.e. to comply with labour laws or with social or environmental rules and regulations in order to avoid penalties or punishment, or to have a corporate social responsibility agenda in order to increase the organisation's competitiveness and attractiveness).

The exploitative character and nature of the profit-maximising organisation is also reflected in its organisational structures and processes. In order to have employees functioning smoothly, behaving subserviently, and fulfilling their duties diligently, the for-profit organisation is structured in a strictly hierarchical and authoritarian manner and is based on highly unequal superior–subordinate or master–servant relationships in which the former is in complete control of the latter.

With its strict legal (standard employment contract) and organisational (hierarchy) basis, the profit-maximising organisation not only establishes highly asymmetrical relationships between owners and workers and between employer and employees but also goes against the spirit of freedom, democracy, equal rights and equal opportunities *in principle*: the absolute majority of its members (the employees) do not have equal rights and equal status, freedom of thought, freedom of opinion and expression, or the right to participate in collective decision-making, democratic governance, self-management, participative or representative management, or democratic control and accountability. The organisation is not only 'not democratic' but *anti-democratic* and *authoritarian* in the very meaning of the word; it gives *all* power to make decisions, govern, manage and control only to some (the owner(s), employer, and superiors), and it leaves no power for the many (employees and subordinates). The absolute majority of its members are systematically excluded from basic human, democratic and civil rights, from their fundamentally and actually inalienable rights. Such an organisation is inconsistent with the Universal Declaration of Human Rights, the constitutions and founding principles of democratic nation-states, and the principles and standards of democratic governance.<sup>220</sup>

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<sup>220</sup> Radical and profit-maximising organisations are different in the sense that the former harms people (others as well as their members and followers) and ignores, even attacks, their fundamental human, democratic and civil rights *deliberately* and *directly* whereas the latter harms people (employees but also external stakeholders) more indirectly by using and exploiting them and accepts such harm and human suffering as a (perhaps unfortunate, but

Altogether, *profit-maximising organisations* are illegitimate. Because of their principle-based exploitative and oppressive character and their anti-libertarian and anti-democratic organisational structures and processes of governance and management, profit-maximising organisations are alien to any society and economy that upholds the principles of freedom, democracy, equality, justice and sustainability. They should therefore be rendered illegal, outlawed and terminated.

### 3) *Conservative organisations*

In contrast to radical and profit-maximising organisations, which have single and one-dimensional purposes that they pursue uncompromisingly, there are many organisations that have multiple, and multi-dimensional, purposes and are more moderate in their orientations, design, and workings. Such organisations might be called '*conservative organisations*'. There are various types of conservative organisations.

For instance, the absolute majority of private organisations operating in market economies and society are *not profit-maximising* (large) corporations but *profit-oriented* small and medium-sized enterprises, local businesses, family businesses, partnerships or cooperatives. Their owners and members may want to generate *some* income and want to make *some* profit, but they do not want to maximise it 'at all costs'. Profit is seen as a means, not as an end. The main purposes of these organisations are, for instance, to generate a steady flow of income, to continue a tradition and traditional businesses, to create and offer certain products or services as part of one's identity or creativity as a lifestyle, to be independent and/or to serve members, customers, the local community or society in general.

Then there are conservative private *not-for-profit* organisations, such as Civil Society Organisations (CSOs – see chapter 'Alternative types of organisations – *democratic* organisations' in Part II). These organisations largely operate in the social realm (the so-called third sector besides the market and the state) and have a strong community orientation and local embeddedness, and are primarily concerned about and work for the well-being of their members, supporters, community, neighbourhood, clients and customers (Nembhard 2008, p. 212, Groeneveld 2011, p. 533, Gibson-Graham et al. 2013; see also chapter 'Considerate conduct of business' in Part II). Their purposes are multiple, such as improving the conditions of individuals, supporting groups and certain ways of life, promoting traditions, traditional social institutions, social stability, continuity, political, cultural or environmental purposes.

And then there are 'public sector organisations'. Public sector organisations are government and government institutions (such as parliaments, ministries, government departments and agencies, administrative organisations and offices, local authorities), independent national and regional institutions (such as courts, national banks, regulators), or public organisations and service-providers (such as police and other law enforcement agencies, military, utility providers, communal, regional and national infrastructure providers, public transport, postal services, hospitals, emergency units, kindergartens, schools, colleges, national media, news media and information agencies).<sup>221</sup> Public sector organisations are designed

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unavoidable and actually irrelevant) side-effect of economic efficiency and productivity. The radical organisation harms people purposely for ideological reasons, the profit-maximising organisation harms people coincidentally for technical reasons.

<sup>221</sup> In some respects, public sector organisations are fundamentally different from private sector organisations in

and function according to the traditional model and understanding of *public administration*, Weber's model of *bureaucracy*, Chester's model of *public sector organisations*, and managerial concepts of public management, in particular *New Public Management* (Hughes 1994, Diefenbach 2009b). Hughes (1994, pp. 43–44) argued that 'the traditional model paradigm can be characterized as: an administration in the strict dictionary sense, under the formal control of the political leadership, based on a rigidly hierarchical model bureaucracy, staffed by permanent, neutral and anonymous officials motivated only by the public interest, serving any governing party equally, and not contributing to policy but merely administering those policies decided by the politician'.

Whether it is for-profit or not-for-profit private sector organisations or public sector organisations; many of their founders, owners, members, managers and even employees have fairly traditional and conservative values and orientations. And they have set up, run and maintain these organisations accordingly. Conservative values and purposes provide the basis for, and are reflected in, how these organisations conduct their business. Conservative organisations often develop and demonstrate relatively prudent, decent, cooperative, balanced and sustainable business models and business practices; they do business based on traditional values, and a strong sense of duty and responsibility.

Such conservatism is also reflected in the governance and management structures and processes of these organisations; conservative organisations are fairly rule based, thoroughly structured and hierarchical, with clear roles and responsibilities, and (respect for) authority, law and order, established institutions and procedural routines. For example, because of conceptual reasons (public sector organisations are established and designed according to the law and are rule-bound) and historical reasons (public sector organisations are established and designed by the state or powerful rulers in order to execute their will) public sector organisations have fairly conservative values, a relatively authoritarian constitution, governance and management, a strong and comprehensive formal hierarchy, and demonstrate conservative, rule-based conduct of business (Considine & Afzal 2014, Feldman 2014, Lynn 2014). But even private partnerships and professional service firms (such as law firms) can be fairly exclusive (only some of their members are actually partners, while many others are common employees), hierarchical, managerial and very conservative (Schwartz 2012, p. 237, footnote 66).<sup>222</sup>

Conservatism – and conservative organisations – is not actively against or opposed to the human, democratic and civil rights of individuals. These rights are just seen and interpreted differently from a

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the sense that: 1) they are not owned by private actors (individuals or organisations) but by the public; 2) they are not established by a private contractual agreement but constituted by law or through an administrative act; 3) their main goals and purposes are not decided and specified by private actors but by the state and by law, 4) how they function and conduct their business is not decided by those working for them but by government regulations and the law. Nevertheless, there is also some leeway in respect to the design and functioning of public sector organisations, and it even could be imagined that public sector organisations can be *democratic organisations*, if they: a) were set up as legitimate institutions and were designed and maintained in accordance with laws and policies that outline democratic public organisations, b) were based on the principles of good democratic corporate governance and were governed in democratic ways, c) had democratic management structures and processes in place that promote non-hierarchical participation in decision-making and workplace democracy, d) had an organisational culture of equal(ising) power where all their members are equally empowered, and e) provided their public services in a considerate conduct of business way.

<sup>222</sup> For some further description and analysis of professional partnerships and professional service firms and how they resemble corporations, see, for example, Lancaster and Uzzi (2004) or Empson and Chapman (2006).

conservative perspective (compared to, say, a progressive perspective), i.e. they are understood and interpreted in rather narrow and limited ways: human rights are reduced to the absolute minimum of *negative freedom rights* (but not equal rights of positive freedom for all), civil rights are reduced to those of a *well-functioning and obedient citizen* (but not the rights of free and independent citizens), and democratic rights are mostly understood as the basic rights in and needed for a *representative democracy* (but not for democratic self-governance or participatory governance).

With their multidimensional social and economic purposes and traditional values, their strong sense of duty and responsibility, and their mostly decent and moderate conduct of business, conservative organisations contribute to society and individuals' well-being in many ways *positively*. The flip side, though, lies in their relative strictness and rigidity, rule orientation, strong hierarchical order, authoritarianism and oppressive culture. Conservative organisations are both a blessing and a curse – for individuals who need order and stability more of the former, and for individuals who strive for independence and their own development more of the latter.

One can conclude that *conservative organisations* are legitimate because of their multidimensional social purposes, moderate orthodoxies and value-based considerate conduct of business. However, their often autocratic, oligarchic or otherwise non-democratic governance and management cause serious harm to many people, especially to their members and followers but also to people outside the organisation. Conservative organisations can be tolerated but must be challenged and encouraged to change their strict and rigid policies, cultures, structures and processes.

#### 4) *Alternative organisations*

The different types of organisations discussed so far (radical, profit-maximising or conservative) have in common that they are fairly narrow in their orientations and quite hierarchical and authoritarian in their organisational design and functioning. They therefore might be understood as variants of the same orthodox, hierarchical and managerial 'standard model' of organisation (Diefenbach 2013) – although of different degrees and intensities and, hence, legitimacy.

Obviously, in both theoretical and practical terms, fundamentally different models of organisation can be imagined and are possible. Such types can be called 'alternative organisations'. Alternative organisations have, and pursue, multiple and multidimensional social values and purposes – all understood in a broad and comprehensive sense. These values are reflected in their libertarian constitutions and the fundamental goals they aim (or claim) to pursue. For instance, in contrast to *conservative* (civil society) organisations, many *alternative* CSOs (e.g. *progressive* cooperatives, not-for-profit organisations, social enterprises, non-governmental organisations and activist organisations) as well as alternative business or for-profit organisations not only want to 'do good' but also want to change the conditions of individuals in particular and society in general. The notions of freedom, democracy, equality, justice and sustainability are explicitly included in their purposes and they try to realise these, or similar, principles in the ways they work and operate. Accordingly, their internal formal structures and processes are fairly non-hierarchical (e.g. 'flat' or network organisation), their governance quite democratic and their management participatory.

*In reality*, though, alternative organisations might not live up to (their own) expectations. They may not be structured or governed sufficiently democratically and their internal democratic processes may

function poorly. Such organisations do not allow for democratic participation, do not give their members any meaningful roles or say in governance, and (therefore) have a largely passive membership (Anheier & Themudo 2002, pp. 210–211, Fung 2003, p. 524, Halpin 2006, pp. 920–922, Greenwood 2007, p. 348, Rodekamp 2010, pp. 1, 5, Wright 2010, p. 213, Bob 2011, pp. 212–213, Rosenblum & Lesch 2011, p. 290, Connelly et al. 2012, p. 102, Kokkinidis 2012, p. 249, Smith & Teasdale 2012, p. 165, Lewis 2014, pp. 74, 221–223). In this sense, alternative organisations may not be as democratic, participatory and egalitarian as they claim to be, could be, or should be.

Moreover, there is compelling evidence<sup>223</sup> that in alternative organisations socially problematic phenomena can emerge: there might be (open or hidden) criticism and conflict; internal politics and political game-playing; mutual monitoring and control of employees professionally, socially and psychologically; abuse of power, paternalism, a tendency towards oligarchisation and/or social dominance of informal groups and elites, or even authoritarianism.<sup>224</sup> Despite (or because of) the absence of *formal* hierarchy and hierarchical control systems, *informal*, individualised and subjectivised forms of hierarchy, power and control can occur that make the alternative organisation even *more* controlling and oppressive than orthodox types of organisation.

Although alternative organisations officially have, and uphold, fundamental values of wide-ranging freedom, democracy, equality, justice and sustainability, and although they pursue good causes and conduct their business largely in considerate and decent ways, they *can* be hierarchical, oligarchic, exclusive and oppressive, and might be ruled by the few – either because of insufficient *formal* organisational structures and processes of (democratic) governance and management or because of (the emergence of) *informal* hierarchies and social dominance (probably because formal and informal phenomena are related and often work together). Even (allegedly) ‘alternative’ or ‘progressive’ organisations can be fairly orthodox and nightmarish places to be.

To sum up: *Alternative organisations* are legitimate because of their values and purposes of freedom, democracy, equality, justice and sustainability, and their libertarian and democratic constitution. Nonetheless, they can have relatively insufficient formal structures and processes of democratic governance and management and can degenerate into informal hierarchies and oligarchisation. They therefore should be propagated, but also supported in staying or becoming (more) libertarian and democratic.

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<sup>223</sup> For example, Kanter (1972, p. 203), Rothschild-Whitt (1976, p. 82), Cornforth et al. (1988, p. 141), Barker (1993), Cheney (1995, p. 175), Cornforth (1995, p. 508), Jacques (1996), Jermier (1998), Courpasson (2000), Nelson (2001), Akella (2003, p. 52), Kärreman and Alvesson (2004), Varman and Chakrabarti (2004, p. 183), Anderson and Henahan (2005), Ekbia and Kling (2005), Leach (2005, pp. 312–314, 330–331), Ravlin and Thomas (2005, p. 969), Bogason and Musso (2006, p. 14), Courpasson and Clegg (2006), Guimerà et al. (2006), Hernandez (2006), Osterman (2006, pp. 623–625), Ackroyd and Muzio (2007), Atzeni and Ghigliani (2007, pp. 11–13), Singh et al. (2007, p. 286), Oberg and Walgenbach (2008), Rank (2008), Sausser (2009, p. 155), Tolbert and Hiatt (2009), Kienle (2011, p. 153), Rosenblum and Lesch (2011, p. 290), Crowley (2012), Martin (2015, p. 60).

<sup>224</sup> These phenomena also happen in radical, profit-maximising and orthodox organisations – they are even quite common and accepted there. But whereas such phenomena are consistent with the purposes, principles and workings of such organisations, they are inconsistent with the purposes, principles and (intended) workings of alternative organisations.

### 5) *Democratic organisations*

Finally, there is the democratic organisation as outlined in Part II. The democratic organisation is actually a type of alternative organisation – but a much better one because of its distinct features; its libertarian constitution, its all-embracing democratic governance and democratic management, its equalising empowerment, and its considerate conduct of business. In this sense, it is qualitatively different from all other alternative organisations and is listed here as a separate type.

The democratic organisation has its *constitutional foundations* (i.e. its legal, formal and substantive foundations) in libertarian values and concepts of self-ownership, individual and collective private ownership, and a partnership agreement that specifies and guarantees the equal legal and formal status, rights and responsibilities of all people who collectively and democratically own, manage and control the organisation, its properties and assets and its activities and results (*libertarian constitution*).

Based on its libertarian constitution, this type of organisation is a fully fledged democratic system. The democratic organisation is based on, and governed by, the principles of *democratic governance*, i.e.:

- a) Its *democratic institutions of governance* (boards, committees, councils or assemblies) are designed and function according to democratic standards and the principles of separation of power or ‘checks and balances’, and subsidiarity.
- b) Its *legitimate authoritative sources* (partnership agreement, mission and vision statements, strategy and operational plans, codes of conduct, and ethics and compliance statements) are drafted and applied democratically and provide the basis for the functioning of the institutions of governance, governance and management in accordance to democratic standards.
- c) The *governing* of the organisation and organisational affairs happens *democratically*, i.e. on the basis of democratic decision-making, transparency and accountability.
- d) Democratic governance is ‘good governance’, i.e. the organisational institutions of governance and management are designed and work on the basis of democratic standards and apply democratic rules according to the rule of law in formal and substantive terms.

Moreover, the democratic organisation has *democratic management* in place that allows for heterarchical structures and processes and consists of three parts:

- 1) *Self-management*: Individuals and groups of people are entitled, encouraged and enabled to organise and manage their own work, work-related issues and organisational affairs as much and as far as possible.
- 2) *Representative management*: Organisational affairs that go beyond individuals’ or groups of people’s wills and capacities to self-manage are managed by formally established organisational institutions or individual management positions that are designed, staffed and function in line with democratic principles.
- 3) *Participative management*: All members of the democratic organisation have equal rights and opportunities to participate in all formal decision-making processes at all levels of the organisation.

Together, self-management, representative management and participative management establish *democratic management* as *one comprehensive and consistent concept*. In the democratic organisation, management is done by the people – all people. They manage their work and organisational affairs either

directly (self-management) or, if this is not possible or efficient, via representatives who execute the people's will and act in their name (representative management). *Full* (voluntary) participation of all members of the organisation in management and decision-making makes sure that individuals are (still) in charge (participative management).

Besides its democratic *institutions* (libertarian constitution, democratic governance and democratic management), it is the *people* that make the democratic organisation truly democratic. The democratic organisation is built on the notion that all of its members are not only equal and have equal rights but also (should) have *equal power*, i.e. that they are *formally, psychologically and socially equally empowered (equalising empowerment)* so that they can fully participate in the governance and management of the organisation:

- *Formally* by configuring all formal roles, positions and organisational institutions of governance and management according to the fundamental ideas and principles of democratic governance and democratic management (i.e. to confine the formal power of office-holders and increase the formal power of those who are not formal office-holders);
- *Psychologically* by increasing individual members' self-esteem, sense of an internal locus of control, and sense of goal attainment via self-management and participative management;
- *Socially* by promoting the ideas of self-management, self-managed groups and full participation, which help members to develop a strong social identity and orientation, confidence, the ability to manage and maintain social relationships and interactions, and the ability to pursue their interests within a social context and by challenging overtly (self-)empowered members (e.g. 'leaders', 'aggrandisers') and confining their social dominance through demystification, social control and social actions.

Finally, the democratic organisation is designed and maintained in order to pursue and achieve multidimensional, i.e. social, environmental and economic goals and purposes (the 'triple bottom line' concept of 'people, planet, profit') in balanced ways and to act in accordance with their fundamental values (considerate conduct of business). In particular, the democratic organisation demonstrates more socially oriented, community-based, community-oriented, cooperative and considerate conduct of business, and practises more decent and prudent management; shows more pro-environmental behaviour in its internal and external activities, products and services; and achieves higher efficiency, productivity and organisational performance and is also economically more successful and sustainable than orthodox organisations.

All in all, *democratic organisations* are legitimate because of their values and purposes of freedom, democracy, equality, justice and sustainability; their libertarian and democratic constitution; their democratic governance and management; their equalising empowerment; and their considerate conduct of business. Nevertheless, they can come under threat of disproportional empowerment and oligarchisation and need protection and support. They should be pursued and propagated so that they become the prevailing standard model of organisation.



### Different types of organisations – different levels of legitimacy

The sections above have briefly described and analysed five different types of organisations (radical, profit-maximising, conservative, alternative and democratic), in particular by focusing on the legitimacy of their primary values and purposes, formal structures and processes of governance and management as well as their internal workings and conduct of business. The table below summarises the main findings concerning the legitimacy of each type of organisation.

Level	Type of organisation	Organisation's main characteristics relevant for its legitimacy
5	Democratic	Values and purposes of freedom, democracy, equality, justice and sustainability; libertarian and democratic constitution; democratic governance; democratic (self-, representative and participative) management; equalising empowerment; considerate conduct of business.
4	Alternative	Values and purposes of freedom, democracy, equality, justice and sustainability; libertarian and democratic notions, but the possibility of insufficient formal structures and processes of democratic governance and management; emergence of informal hierarchy or oligarchisation; largely considerate conduct of business.
3	Conservative	Conservative values and multidimensional purposes; relatively authoritarian constitution, governance and management; strong and comprehensive formal hierarchy, autocracy and/or oligarchy; conservative, rule-based conduct of business.
2	Profit-maximising	One-dimensional purpose of maximising profits to be achieved via exploitative agreements, exchanges, and activities; anti-libertarian, anti-democratic and autocratic/hierarchical organisational structures and processes of governance and management; exploitation of natural, human and social resources (externalisation of internal costs).
1	Radical	Values and purposes that constitute a legal and moral wrong (criminal, terrorist or extremist political agendas and violent activities); totalitarian institutions, structures and processes of governance and management; violence and anti-human conduct of business.

Table 12: Levels of legitimacy of organisations.

The five types of organisations cover the whole spectrum in regard to respecting libertarian and democratic standards and people's rights from completely disregarding these rights and standards (levels 1 and 2 – radical and profit-maximising organisations), formally acknowledging them (level 3 – conservative organisations), to actively promoting them (levels 4 and 5 – alternative and democratic organisations). In this sense, the table represents not only a *continuum* but *levels* and a *ranking* (with level 1 the lowest and level 5 the highest) of how well organisations do in their purposes, design and functioning in regard to appreciating and putting into practice the fundamental values and principles of freedom,

democracy, equality, justice and sustainability as well as people's human, democratic and civil rights. The more an organisation appreciates and puts these values, rights and principles into practice, and the more it meets libertarian and democratic standards, the higher it ranks – and the more legitimate it is.

Ideally, organisations are democratic organisations (level 5). In order to be *fully* legitimate in a free and democratic society, organisations have to strive to meet the standards of the democratic organisation in their design, functioning and practices. In particular, organisations should:

1. Have a libertarian constitution (partnership agreements) and should be owned and controlled collectively by all of their members;<sup>225</sup>
2. Be based on the principles of democratic governance and should be governed democratically;
3. Have democratic management structures and processes in place that provide for non-hierarchical participation in decision-making and workplace democracy;
4. Have an organisational culture of equal(ising) empowerment where all their members are equally empowered; and
5. Demonstrate considerate conduct of business across all of their operations and activities.

In a free and democratic society, organisations are deemed (the most) legitimate if they resemble as closely as possible the model of the democratic organisation. Organisations should develop and converge towards this highest level of legitimacy.<sup>226</sup>

The framework – or ranking – also offers some guidance in respect to how (various types of) organisations should be seen and treated. Organisations should be judged and treated according to, and consistent with, their level of legitimacy. The basic and leading principle is that in free and democratic societies, a democratic market economy, only *legitimate* organisations can partake in the free market because only these types of organisation have the blueprint and conditions for adhering to the fundamental principles and values of freedom, democracy, equality, justice and sustainability, in particular for protecting and promoting people's inalienable fundamental human, democratic and civil rights (e.g. no unequal social relationships, no exploitation) and for upholding democratic standards (e.g. organisational structures and processes of democratic governance and democratic management). Consequently, in the democratic market economy only conservative (level 3), alternative (level 4) and democratic (level 5) private and public sector organisations are regarded as legitimate market participants. In contrast, organisations that

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<sup>225</sup> Obviously, in this respect public sector organisations are an exception because they are established by law (i.e. they cannot be based on a partnership agreement) and they employ civil servants/can't be owned by their members (i.e. people working for them cannot have the legal status of owners or partners). Nevertheless, the constitution of public sector organisations *can* meet libertarian and democratic standards and civil servant contracts *can* be drafted in ways so that they do *not* establish superior/subordinate or other exploitative relationships.

<sup>226</sup> For example, it should be attempted to change conservative and alternative organisations over time into fully fledged democratic organisations. As indicated earlier in this chapter, conservative and alternative organisations can have serious flaws in their internal structures and workings, and would need to change in order to be fully legitimate (e.g. they would need to get rid of illegitimate employment contracts and replace them with legitimate partnership or membership contracts, convert their hierarchical structures and processes into more democratic and participative ones, change their autocratic and authoritarian management styles into self- and participative management practices, and equally empower all of their members).

do not grant their members fundamental rights and freedoms, and do not meet democratic standards, i.e. radical (level 1) and profit-maximising (level 2) organisations, are deemed illegitimate and are not permitted to exist and to conduct their dubious activities.

Altogether, the framework or ranking developed in this chapter provides clear guidelines for handling organisations according to their level of legitimacy: 1) outlaw, terminate and prosecute radical organisations; 2) deem illegal and terminate profit-maximising organisations; 3) tolerate but challenge and change conservative organisations; 4) promote but improve alternative organisations; and 5) pursue, propagate and support democratic organisations.<sup>227</sup> A democratic market economy means a free market economy without radicals and capitalists (Chartier & Johnson 2012). In a free and democratic society there is no place for organisations that do not adhere to libertarian and democratic principles and standards.

### **The legitimacy of the self-employed**

#### *The self-employed and their formal and substantive legitimacy*

People do not necessarily need to conduct economic activities as members of (or for) an organisation, but can offer products, services or their work on their own.<sup>228</sup> It actually is the very idea of free markets and market economies that *individuals* create and exchange goods – and that they do so as *free* individuals.

Individuals who conduct economic activities formally and legally on their own are *self-employed*, i.e. *sole proprietors* with their own business ('business owners'), professional *freelancers* or independent *contract workers*.<sup>229</sup> The self-employed offer their products, work or services on their own account and on a contract basis and get paid for the *output* of their work (i.e. their productivity or performance), *not*

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<sup>227</sup> And it is possible to do so. As Hirst (1994, p. 202) argued: 'The public power has the right to set limits to the conduct of associations and ... the foundation of that right is the liberty of citizens and of future citizens.' In a similar vein, Rosenblum and Lesch (2011, p. 287) asked: 'What constraints should government impose on the formation, internal life, and activities of groups and associations, and what limits should it set to the authority that groups exercise over their own members and outsiders?' Free and democratic societies based on the formal and substantive rule of law have the means, even the responsibility, to make available the appropriate constitutional, legal, and regulatory frameworks for organisations – such as corporate laws, labour laws, tax laws and other national policies, laws and regulations concerning organisations in general, or certain types of organisations specifically (such as specific laws and regulations regarding for-profit organisations/corporations, professional partnerships, sole proprietorships, cooperatives, associations, not-for-profit organisations, special purpose organisations, clubs and charities). Via such laws and regulations, the purposes, design, workings and conduct of business of organisations can be specified, and certain types of organisations or activities can be legalised or outlawed relatively easily.

<sup>228</sup> In the democratic market economy individuals can work as: a) *self-employed* (sole proprietors, freelancers, contract workers) on their own account, b) *owner-managers* (associates or partners), *members* or *volunteers* for democratic private sector organisations, or c) *civil servants* for democratic public sector organisations.

<sup>229</sup> There are some legal and practical differences between sole proprietors, freelancers and contract workers. But since the discussion here is more about the status of 'self-employed' as market participants *in general*, it is abstracted from a more differentiated elaboration of the various types of self-employed and their differences.

the *input* (for example, time) like employees (Burke 2012, pp. 3, 75).<sup>230</sup> All revenues and profit go directly to the self-employed. At the same time, the self-employed bear all costs and risks of their work, i.e. they have to invest in their work equipment, skills and competences, must cover all expenses related to their work, bear the risks of the uncertainty of their work, payments and losses, and have to cope with the irregularities of their work (Burke 2012, p. 76, Independent contractor 2015).

The self-employed, although not so much in the focus of business institutions and news media, actually represent a large part of the economy. In contemporary economies the various types of self-employed (i.e. sole proprietors with their own businesses, freelancers and independent contract workers) make up a large part of the workforce. Depending on the industry, estimates range from 5% up to 50% of the total workforce (Weir 2003, pp. 442–444, Tarantolo 2006, footnote 13, p. 173, footnote 32, p. 177 and footnote 67, pp. 181–182).<sup>231</sup>

The defining characteristic – or ideal – of self-employment is *autonomy*; the self-employed decide and control their work, i.e. what they offer to whom and at what conditions.<sup>232</sup> Having control over their work differentiates independent self-employed from dependent employees (the so-called ‘right to control’ is usually one of the key tests to identify the status of a worker as either self-employed or employed).<sup>233</sup> Self-employed are self-managing; they might collaborate with others but (officially) manage and control their work on their own and make all decisions (together with others).

To be self-employed in a free market is *formally* legitimate because it is consistent with the notions of free individuals as well as the notions of free market participants. However, the self-employed must be also *substantively* legitimate, i.e. they must correspond in their orientations and economic behaviour with the notions of the free market and democratic market economy in order to be legitimate market participants. In the section ‘Legitimacy of market participants’ above, it was specified that ‘in order to be, and to remain, legitimate in a free and democratic society and free markets, *any* individual and organisation *must* appreciate, respect, comply with, protect, promote and support the freedom and the fundamental human, democratic and civil rights of each and every individual as well as the universal principles of freedom, democracy, equality, justice and sustainability in their constitution, governance, management, behaviour and conduct of business. This is *not* a choice – or an optional feature under the ‘freedom of contract’ doctrine – but a *constitutional condition* for *any* individual or organisation.’

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<sup>230</sup> Having said that, the self-employed might calculate their remuneration on the basis of time spent on or for a project (‘billable hours’), i.e. input. Nevertheless, they actually get paid for their performance (‘project completed’), i.e. output.

<sup>231</sup> For reasons for (highly skilled) people to work as freelancers, and the advantages and disadvantages of contract work or non-standard employment see, for example, Kunda et al. (2002) or Burke (2011, 2012).

<sup>232</sup> This corresponds with the constituting principles of the free market I developed earlier (see the sub-section ‘First institutions of the free market: Norms and rules’ above), in particular with the fundamental idea (and social norm) of freedom in the marketplace, that ‘All market participants shall be as free as possible from external pressure, shall be able to make their own decisions and to act accordingly’.

<sup>233</sup> To illustrate, sole proprietors and freelancers are (legally, managerially) entirely independent whereas some contract workers and most contingent workers (temporary, casual, leased or on-demand workers in the so-called ‘gig economy’) factually are dependent employees – though without many of the rights of full-time, permanent employees.

Following this view, the substantive legitimacy of the self-employed as market participants depends on how well they comply in their economic behaviour with people's legitimate rights and interests, including their fundamental human, democratic and civil rights, and the fundamental principles of freedom, democracy, equality, justice and sustainability.<sup>234</sup>

*When the self-employed are illegitimate market participants*

Since the self-employed are individual persons, their economic behaviour – and how they interact with and treat others – to a great extent depends directly on their personality, attitudes and personal orientations. If, for example, the self-employed tend towards the neo-classical ideal of the rational utility-maximiser (read: ignorant egoist) then their mindsets and orientations would entirely be focused on the creation and pursuit of opportunities to maximise utility, *their* utility (in the marketplace utility 'means business', i.e. value from economic activities and transactions, market share, revenues, and especially profits). They would be, and act like, paranoid egoists and would show the same opportunistic behaviour as profit-maximising organisations (see sub-section '2) Profit-maximising organisations' above). In pursuing their purpose of maximising utility, the self-employed would, among other measures, deliberately exploit other market participants (in order to maximise returns or minimise costs). They would use power inequalities and information asymmetries to their advantage and try to put others into inferior positions and exploit them. For instance, the self-employed are fairly free in how they formulate a contract, the conditions of the contract including the price for the product or service, the way(s) in which they provide their service and to what quality, and how much other actors would benefit. Utility- (and profit-)maximising self-employed people see this as an opportunity to maximise *their* utility by providing others with sub-optimal products and services.

It is fairly obvious that such utility-maximising/opportunistic behaviour ignores, and even threatens, other people's legitimate rights and interests. In a free market and democratic market economy neo-classical maximisers/opportunistic egoists – whether business owners, managers or the self-employed – have no legitimacy. They are not legitimate market participants. But even without an orientation towards the ideological ideal of the utility maximiser, the self-employed can understand their professional status and conduct of business in fairly egoistic and egocentric terms. If this is the case, their economic and

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<sup>234</sup> The substantive legitimacy of the self-employed could also be judged against how well they appreciate, comply with and apply 'democratic standards'. The self-employed are not members of a differentiated, formal and institutionalised social system (like an organisation) with institutions, structures and processes of democratic governance and democratic management, and collective, participatory or representative decision-making. Accordingly, it could be assumed that meeting democratic standards is not relevant for the self-employed. But it actually is very relevant because the self-employed often work for/with others (either in direct collaboration with other actors or networks, or with and within established organisations) and hence joint management and governance, participation and democratic decision-making are an issue. Nonetheless, how individuals' actions and behaviour relate to democratic standards will not be discussed here because this has been addressed elsewhere in this book. In respect to individual actors' misbehaviour impacting *negatively* on democratic standards, democratic governance and management (for instance, people striving for social dominance and power, abuse of power, emergence of informal hierarchy, or individuals turning into autocrats or oligarchs) see section 'The formal, psychological and social empowerment of the few' in Part II, 'Democratic organisations'. Regarding individual actors' considerate conduct of business impacting *positively* on democratic standards, democratic governance and management see section 'People: (Pro)social orientation and behaviour' in Part II.

business interests mostly mean *anti-social interests*. ‘Anti-social interests’ might be defined as interests in gaining something for oneself, or for people close to oneself, (e.g. material resources, personal gains, privileges, prerogatives, status, roles, positions, power, influence or other intangible assets) at the expense and to the disadvantage of others or the whole and without taking others’ legitimate rights and interests into account and consideration.

If the self-employed pursue interests that are to a great extent anti-social then they predominantly show egoistic, opportunistic and anti-social behaviour in their economic activities and economic behaviour. *Anti-social perpetrators* – if one may call them so<sup>235</sup> – empower themselves at the expense of others, regard themselves superior to others, and take advantage of others by belittling, exploiting or otherwise disempowering them.<sup>236</sup> Such behaviour and conduct of business disadvantages others considerably, harming them as well as their legitimate rights and interests. Clearly, if the self-employed want to be legitimate market participants they cannot display the personality traits and patterns of behaviour of anti-social perpetrators.

Overall it can be concluded that if the self-employed show predominantly the characteristic traits of utility-maximising actors or anti-social perpetrators, i.e. if they largely pursue anti-social interests and demonstrate corresponding behaviour in their economic activities and economic behaviour, including interaction with other actors, then they harm others’ legitimate rights and interests, even fundamental human, democratic and civil rights. In that case, the self-employed are illegitimate market participants. Actors *cannot* participate in the free market or democratic market economy if they severely hamper or threaten other actors’ free will, legitimate rights and interests.

#### *When the self-employed are legitimate market participants*

Most self-employed don’t show utility-maximising and/or anti-social behaviour. This is not because they are ‘better’ people per se but because of their status and fairly pragmatic reasons; since the self-employed usually don’t have a formal position where they can easily get away with such behaviour (like superiors in a hierarchical organisation) or the economic power that protects them from retaliation (like larger corporations), their professionalism and pragmatism suggest they will act proficiently, i.e. to focus on getting the job done, and to cooperate with others in professional and mutually beneficial ways. For a self-employed person it simply doesn’t make sense to impede others’ fundamental rights.

But there are also more fundamental and principled reasons for that; in general, the self-employed are legitimate market participants. One is that to be self-employed, to work as, and to live the life of a self-employed person is the very realisation of the concept of the free individual.<sup>237</sup> Self-employment provides freedom, independence and control over one’s work and life (Kunda et al. 2002, pp. 248, 255, Guest 2004, p. 2, Burke 2012, p. 23, Independent contractor 2015). People are self-employed because

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<sup>235</sup> The term ‘anti-social perpetrator’ also means egoists, opportunists, careerists, (organisational) psychopaths, sociopaths, petty tyrants, egomaniacs, aggrandizers or autocratic leaders.

<sup>236</sup> See the inquiry of organisational psychopaths’ behaviour in the section ‘The formal, psychological and social empowerment of the few’ in Part II, ‘Democratic organisations’.

<sup>237</sup> See chapter ‘Individuals – free individuals’ in Part I, ‘Free individuals and legitimate institutions’.

they see ‘contracting as a way of gaining independence and distance from the irrationalities of organizational life.’ (Kunda et al. 2002, p. 248).

And if the self-employed understand their economic existence and activities (also) as a realisation of the notion of the free individual then they will show this in their behaviour. Many self-employed people demonstrate a social or even prosocial orientation and behaviour, i.e. they take other actors’ existence and genuine interests explicitly into account in their economic behaviour in non-instrumental and cooperative ways, and might even try to actively improve others’ existence or the conditions of their existence. Such self-employed people show concern and consideration, have a more collaborative mind-set, cooperate with others in reciprocal, mutually beneficial ways, and demonstrate decent and responsible conduct of business in their economic activities, exchanges and socio-economic relationships.<sup>238</sup>

The ‘free individual’ outlines what kind of actors can participate in the democratic market economy, what kind of individual actors are legitimate market participants. The self-employed – *the free and self-employed* – individual resembles this notion of the free individual. The self-employed who have internalised the notion of the free individual; demonstrate social, or even prosocial orientation and behaviour, care about themselves, others and the socio-economic relationships and interactions they have with others, are legitimate market participants.

### **Legitimate market participants**

Based on the notion of the free market, the democratic market economy provides ample opportunities for individuals and organisations to be or to become market participants, to conduct economic activities and to participate in the market in various legal forms. Crucially, market participants have to be *legitimate* in order to participate in the market economy. This means that market participants – i.e. autonomous individuals, private and public sector organisations – have to adhere to the minimal standards of the democratic market economy. The previous sections analysed the legitimacy of various types of private and public sector organisations and self-employed individuals as market participants in a free market. Their legitimacy was particularly scrutinised in respect to how they appreciate, enable, comply with, protect and promote in their constitution, governance, management, behaviour and conduct of business people’s legitimate rights and interests, in particular their fundamental and inalienable human, democratic and civil rights. The list below shows the range of possible<sup>239</sup> market participants.

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<sup>238</sup> See section ‘People: (Pro)social orientation and behaviour’ in Part II, ‘Democratic organisations’, especially sub-sections ‘Collaborative minds and cooperative behaviour’ and ‘Decent business practices, responsible and ethical behaviour’.

<sup>239</sup> ‘Possible’ market participants in the sense of ‘*possibly* legitimate’ market participants, i.e. if they meet the criteria of formal and substantive legitimacy as outlined above. So, the self-employed should not be utility-maximising actors or anti-social perpetrators but must show the notions of the free individual and (pro)social orientation and behaviour. Private for-profit or not-for-profit organisations cannot be radical (level 1) or profit-maximising (level 2) organisations, but must be at least conservative (level 3), if not alternative (level 4) or democratic (level 5) organisations. Also, public sector organisations must be at least conservative organisations (level 3).

- Self-employed: sole proprietors, freelancers, contract workers;
- Private *for-profit* organisations: profit-oriented individual and family businesses, partnerships/professional service firms, cooperatives, worker-managed companies, employee-owned companies, participatory and self-managed firms, collectivist organisation/democratic workplaces;
- Private *not-for-profit* organisations (NPOs): Civil Society Organisations (CSOs)/non-governmental organisations (NGOs)/Social and Solidarity Economy (SSE) organisations, such as: mutuals (e.g. self-help groups, exchange networks, time banks, consumer retail societies, mutual savings banks, credit unions, building societies, mutual insurance companies), neighbourhood organisations, community projects, community development trusts, community-based organisations, volunteer groups, private voluntary organisations (PVOs), business associations, charities, trusts, foundations, housing associations, religious organisations, voluntary enterprises, social enterprises, ethical businesses, micro-financed businesses, fair trade organisations;
- Public sector organisations: government and government institutions (such as parliaments, ministries, government departments and agencies, administrative organisations and offices, local authorities), independent national and regional institutions (such as courts, national banks, regulators), or public organisations and service providers (such as police and other law enforcement agencies, military, utility providers, communal, regional and national infrastructure providers, public transport, postal services, hospitals, emergency units, kindergartens, schools, colleges, national media, news media and information agencies).

Table 13: Legitimate market participants in the democratic market economy.

Self-employed and (conservative, alternative and democratic, for-profit and not-for-profit) private and public sector organisations stated in the list are able to meet the minimal standards of a free and democratic society, and the democratic market economy, and are, thus, *legitimate* market participants. In fact, quite a broad range and diversity of autonomous individuals and organisations can participate in a democratic market economy.

Evidently, if only legitimate market participants conduct economic activities as in the democratic market, then economic markets would be very different to the ones we know (the neo-liberal, highly competitive, unfair and unsustainable markets). The next chapter will analyse market participants' economic behaviour, actions and interactions, will show the behavioural and microeconomic workings of the democratic market economy, and how this all leads to economic growth and social, environmental and economic development.



## The workings of the democratic market economy

After having established who are, or can be, legitimate participants in a democratic market economy, it now shall be looked at what kind of behaviour these market participants demonstrate, how their individual economic behaviour creates what forms of business practices and patterns of economic activities. Moreover, it will be demonstrated how these behaviours and patterns shape whole industries and markets, how they, in so doing, constitute the behavioural and microeconomic foundations of the democratic market economy, and how this leads to macroeconomic outcomes like economic growth and social, environmental and economic development.

### Individual market participants' economic behaviour

As it was established above (see chapter 'Foundations of the free market'), 'the market' is not (only) an abstract, decentralised price-setting process but a reflection and result of actual behaviour of real people (individual and collective actors) who act and interact with each other in certain ways based on, and shaped by a set of formal and informal, official and unofficial values, norms and rules. The economy, or economic system, therefore starts with individual or institutional actors conducting (their) economic activities (within the institutional settings of a market environment).<sup>240</sup> It is about their 'economic behaviour'. 'Economic behaviour' can be understood as the ways individual or collective actors behave and operate while pursuing their objectives and conducting economic activities and their business. Viewed in this way, 'economic behaviour' does not only mean economic activities in a narrow or 'technical' sense (i.e. sourcing, production, provision, exchange, transportation, allocation, usage, disposal and/or recycling of goods and services), but *all* of actors' actions and behaviour that are related to their conduct of business – and especially *how* they perform economic activities and conduct their business.

As it had been argued in Part II,<sup>241</sup> democratic organisations – the most relevant *legitimate* market participants – have multidimensional orientations (Utting 2015, pp. 1–3) and conduct their economic activities and business along three dimensions: 1) *economic*, 2) *social* and 3) *environmental*.

- 1) Democratic organisations are set up for purposes that are more decent, fair and just than mere profit-maximisation. Their prime purpose is to serve key stakeholders (their members, clients, customers or a community) and/or the natural environment. In accordance with their purpose(s) and objectives, democratic organisations demonstrate predominantly a *considerate, responsible and sustainable conduct of business*; they don't pursue ambitious profit-maximising or growth strategies but follow decent business practices, responsible and ethical behaviour, practices of cooperation, solidarity, ethics, democratic self-management and active citizenship (Defourny &

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<sup>240</sup> For example Vilchez (2017, p. 247) defined economics as 'the science that studies human behaviour in the production, distribution, commerce and consumption of goods and services'.

<sup>241</sup> See chapter 'Considerate conduct of business' in Part II, 'Democratic organisations'.

Delveterre 1999, p. 16, Smith & Teasdale 2012, p. 155, Nadeau 2012, pp. 2, 17, Lans 2013, pp. 166-167, Utting 2015, p. 2, North & Cato 2018, pp. 6-7). Democratic organisations do business decently. They produce and offer products and services that are useful, value for money and sustainable. In their operations and daily activities they take great care to protect and to enhance social, economic and environmental values. Kelly (2012, pp. 38-39) called it 'generative design at work' and explained: 'Instead of being about ignoring harm to others, it is about being of service to others. Instead of being about maximizing financial gains, it is about being financially self-sustaining over the long term. ... This is an ownership model that isn't about extracting as much wealth as possible and then dispensing a few drops with a benevolent hand. Instead, these designs prevent wealth from concentrating in a few hands in the first place. They keep economic activity rooted in its original purpose of meeting human needs. Living Purpose is at the core of this archetype, in the sense of helping people to buy homes, start businesses, run day-care centers. This archetype is about generating the conditions for life to flourish.'

- 2) Most democratic organisations show a *social* or even *prosocial* orientation and behaviour, i.e. they take other actors' existence and interests into account in their reasoning and actions in non-instrumental ways or even actively try to change and to improve the conditions of other actors' existence (Van Lange 2000, Grant & Berg 2010). They have a strong stakeholder orientation and genuinely care about those who are engaged with them. Many democratic organisations are locally embedded and oriented towards the community, *their* community (such as family businesses and community-based organisations, farmer, producer, housing, banking or consumer cooperatives, social enterprises or some types of CSOs and non-profit organisations). Against the backdrop of their (pro)social orientation and (local) embeddedness and connectedness, democratic organisations prefer social/socio-economic relationships of solidarity, have a strong sense of cooperation, demonstrate cooperative and reciprocal behaviour naturally and act in mutually beneficial ways (Allard & Matthaei 2008, p. 6, Benkler 2012 pp. 303-312, Ould Ahmed 2015, p. 428, North & Cato 2018, pp. 6-7).
- 3) Many democratic organisations also have a pro-environmental orientation, i.e. they ascribe an intrinsic value to the natural environment and are of the opinion that the natural environment (or parts of it) should be protected, preserved and nurtured for its own sake/intrinsic value (Purser et al. 1995, p. 1077, Smith 2003, pp. 8-9, 12, Connelly et al. 2012, p. 32). On average, owners, managers and members of democratic organisations are more able and willing to recognise environmental issues,<sup>242</sup> to understand the relevance of these issues and that businesses and economic activities, the way(s) organisations and humans conduct their activities, are closely related to these issues (i.e. are often their causes). And they are able and willing to do something about environmental issues, and the human impact on the environment. Accordingly, democratic organisations often show *pro-environmental behaviour*, i.e. the protection of the natural environment (or parts of it) is included in their goals and objectives, pro-environmental behaviour is a fundamental and

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<sup>242</sup> Such as climate change, global warming, use of fossil fuels, CO<sub>2</sub> emissions/greenhouse gases, exploitation of natural resources, water scarcity, water pollution, sea level rises, flooding, air pollution, air quality, intensive farming or monoculture, use of pesticides, deforestation, land degradation, habitat destruction, genetically modified crops and food, loss of biodiversity, extension of species, consumerism, production and use of plastic and plastic materials, creation and disposal of waste, legal and illegal landfill sites.

inherent part of their conduct of business, and accordingly they use the natural environment or parts of it in balanced and sustainable ways and try to minimise the negative impacts of human actions on the natural environment (Kollmuss & Agyeman 2002, pp. 240, 251, Parry 2012, p. 220, Raymond et al. 2013, pp. 537–538). They aim for use of renewable energies, (more) sustainable production, ethically sourced goods, environmentally friendly resources, alternative supply chains, green technologies, appropriate technology, fair trade and sustainable consumption (Goodman & Bryant 2013, pp. 86, 104).

All in all, it can be said that in the democratic market economy individual market participants/democratic organisations show economic behaviour that is *fundamentally different* compared to the profit-maximising, competitive and unsustainable conduct of business actors of the neo-classical market model/neo-liberal market economy. Legitimate market participants like democratic organisations: 1) pursue decent purposes, have a well-balanced business model, and conduct their business in economically considerate and responsible ways; 2) are locally embedded, have a social or even prosocial community and stakeholder orientation, a collaborative mind and demonstrate cooperative behaviour; and 3) have a pro-environmental orientation and pro-environmental goals, show environmentally friendly behaviour and conduct their business in balanced and sustainable ways.

### **Cooperative actions and interactions between market participants**

Democratic organisations conduct business decently on their own – but also in respect *to* others and *with* others. This section looks at how market-related actions and interactions unfold *between* legitimate market participants.

#### *Cooperation/cooperative mind*

Democratic organisations have a cooperative mind. They cooperate, and are keen to cooperate, because this is in their fabric, this is the way they work *internally*, the way they *want* to conduct business and the way they actually *do* business. Because of their internal design and functioning, which largely follows the rationales of (democratic) collaboration and joint decision-making, their stakeholder orientation and predominantly (pro)social orientation and behaviour, democratic organisations have a strong sense of cooperation, solidarity and active citizenship, and are able and willing to understand, appreciate and accommodate others' positions, needs and interests. They find more common interests with others and (therefore) act and collaborate more in mutually beneficial ways, conduct (their) business in more collaborative ways that are beneficial, balanced and sustainable for themselves *and* for others.

Thus, in the democratic market economy a large part of the dynamic relationships and interactions between market participants centres on *cooperation*, i.e. the identification of common goals by actors and their collaboration towards achieving these goals in mutually beneficial ways. Reed (2015, pp. 105–106) stated that such cooperation 'expresses itself in a number of ways:

- Partnership and shared decision-making over the terms of trade, rather than an imposition of terms based on market power;
- Transparency and knowledge-sharing, leading to shared autonomy;

- Commitment to fairer distribution along the value chain, which includes ensuring that the full costs of production of small producers are covered by the price that they receive;
- Trade based on long-term relations, rather than contracts with a one-year horizon;
- Commitment to supporting capacity-building and local development, including support for social and physical infrastructure as well as efforts by small producers to capture more value-added by moving up the value chain and developing their own brands and new product lines – this frequently entails the mobilisation of resources from other actors and support groups;
- Long-term relationships with consumers, involving loyalty, more direct trade relations that cut out intermediaries, a commitment to quality products, as well as openness and transparency ...’

Democratic organisations’ way of doing business will lead to higher levels and intensity of cooperation and collaboration among market participants, more long-term oriented, (economically, socially and environmentally) sustainable, collaborative business relationships between individual or collective actors.<sup>243</sup> Doran (2013, pp. 87–88) pointed out that ‘co-operativism posits that the voluntary and autonomous association of individuals on the basis of equal, democratic and economic participation, will provide the material basis for the development of a critical consciousness and the establishment of links with other co-operatives, resulting in further co-operation’. In the democratic market economy, market participants seek to cooperate with other market participants. Cooperation and cooperative behaviour are the prevailing mode of conduct of business.

### *Patterns and networks of cooperation*

Cooperation that becomes more established among multiple actors leads to patterns, clusters or networks (Elson 1988, p. 22, Novkovic & Holm 2011, p. 5), i.e. non-hierarchical structural relationships of various actors formed and maintained by their common goals, characteristics and repeated interactions.<sup>244</sup> Already in contemporary neo-liberal market economies one can find such clusters or networks of alternative and democratic organisations, for example the well-known Mondragón cooperative in the Basque

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<sup>243</sup> Market participants can cooperate in regard to (almost) every issue and in (almost) every market (Nadeau 2012, p. 104), especially with respect to the development, management and use of (common) resources, creation or dissemination of products and services, collaborative work, projects or enterprises and the governance of systems and issues. However, in order to keep the market mechanism functioning, cooperation should not happen in a market environment if it would impact negatively on, or circumvent, the flexibility of the price-finding mechanism (e.g. when cooperation creates illegitimate market dominance or turns into illegal cartels).

<sup>244</sup> An early advocate of the notion of an economy (and society) based on networks was John Francis Bray, who developed the idea of a ‘system of communities’, a ‘system of community of possessions and equality of rights’ (Bray 1839/2013, p. 132). He (p. 178) imagined ‘that society is comprised but of one class, labourers mental and manual, who are united together in an indefinite number of communities or joint stock companies, in which labour is universal and the remuneration in proportion to the time of labour that these communities hold possession of the land and the productive capital of the nation that they are likewise possessed of a circulating bank-note or paper medium, amounting to two thousand millions of pounds sterling and that they mutually and universally produce or distribute wealth, and exchange their labour and their productions on one broad principle of equality’.

region of Spain, clusters of cooperatives in the Emilia Romagna region in northern Italy, or networks of worker-owned companies in South American countries.<sup>245</sup> Such networks of democratic organisations collaborating with each other routinely can be fairly loose or institutionalised, but they all show more or less the same following characteristics (Desjardins 2005):

- Sharing of resources (inputs are assembled in groups, access to support services, collective ownership);
- Standardised operations (standardisation of operational systems, policies and norms, products, institutional image);
- Contractual solidarity (control over opening service outlets, balancing base unit size, dues, communicating vessels, internal security measures, central agency);
- Internal governance (structure for democratic representation and centralisation of authority, respecting the principle of subsidiarity, surveillance, mechanisms for affiliation and disaffiliation).

The emergence and development of such networks further increases the collaboration and coordination of democratic organisations and produces additional benefits (Meurs 1996, p. 117). For instance, Novkovic and Holm (2011, p. 6) found that ‘When a larger group of cooperatives are present in a region, a number of positive network externalities emerge. These include access to particular management skills, social networking and learning, social capital, access to finance, supply chain linkages, and others (...). There is also the ability to share knowledge with like-minded organizations and compete against (potentially more capitalized) investor-owned firms (...). In cases where there are supporting institutions/networks, such as federations or leagues, the advantages of network externalities are particularly accessible.’

It is important to note that the cooperation between individual market participants as well as (cooperation via) more institutionalised networks of democratic organisations must be based on, and must happen, in accordance with the same principles of democratic governance, democratic management and considerate conduct of business that are relevant for democratic organisations (see Part II). Networks created and maintained by free individuals and democratic organisations cannot, and should not be, hierarchical, autocratic or oligarchic, closed and secret societies.

#### *Non-combative competitive mind*

In a democratic market economy, direct cooperation, cooperative clusters and networks represent some of the prevailing modes of market participants’ market-related interactions with other actors. Nonetheless, this should not give the impression that the markets of the democratic market economy are only about collaboration. Of course, also in Pentoutopia resources are limited, prices (and other terms) have to be negotiated and there are many buyers and sellers with differing ideas and intentions pursuing

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<sup>245</sup> For a good analysis of the Mondragón cooperative see Azevedo and Gitahy (2010) or Forcadell (2005), for a conceptual model of a small-firm network see Mazzarol et al. (2013), for an analysis of some worker cooperative networks at neighbourhood, municipal or regional level see, for example, Iuviene et al. (2010), and for a list of the strengths and advantages of (cooperative) networks see Novkovic and Holm (2011, pp. 8–9).

different interests. In one word, in a democratic market economy market participants (also) *compete*. What is crucial to stress, though, is the fact that in a democratic market economy they compete *differently* than, say, profit-maximisers in neo-classical/neo-liberal markets.

In the neo-classical ('perfect') market model and according to neo-liberal market ideology competition means that actors (will) strive to gain an advantage by fighting and defeating others who are seen and portrayed as (equally) hostile and dangerous (because they allegedly live and act according to the same competitive rationale). Despite perhaps some 'win-win' rhetoric, utility- or profit-maximising actors see market participants' actions and interactions as a 'zero-sum' game. According to such a logic – actually, *ideology* – one can make a gain only against and at the expense of others. The US economist Michael Porter's famous/infamous 'Five-forces analysis', prevailing marketing concepts and practices and profit-maximising companies' actual strategies and behaviour in the marketplace (whether along their supply chains, in respect to competitors, customers, government agencies or the natural environment) are telling examples for this kind of competitive mind and business practices.

In the democratic market economy, the microeconomic behaviour of market participants is different. With their prevailing social or even prosocial orientation, democratic organisations understand doing business not as maximising their gains against and at the expense of others but as offering products and services that are 'value for money' – and that other market participants reason and act similarly. I call such an attitude 'non-combative competitive mind'. With such a non-combative competitive mind – and corresponding attitudes, and strategic and tactical behaviour of market participants – competition in the marketplace of democratic market economies is not about actors trying to maximise their returns at the expense of others, establishing superiority over, or even destroying others, but about market participants offering and exchanging services and products among and beside others on equal terms and in non-invasive, fair and just, honest and transparent ways. They compete - but on a 'live and let live' basis.

### **Whole industries transformed**

Legitimate market participants' economic behaviour and collaboration, and their non-combative competitive minds let them conduct their business largely in considerate and decent, responsible and sustainable ways. Moreover, the ways legitimate market participants operate in the democratic market economy changes how whole industries and markets work. In the following it will be shown through some examples how industries (can) look and function when all, at least a large majority, of the actors are legitimate market participants demonstrating considerate conduct of business.<sup>246</sup>

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<sup>246</sup> Industries are classified, for example, by the United Nations' *International Standard Industrial Classification of All Economic Activities* (United Nations 2008). The selection of industries depicted here follows Nadeau (2012) and some arguments put forward there, in particular in respect to: agriculture (pp. 42–45, 94–97), housing (pp. 57–58, 100), banking (pp. 78–79) and social services (p. 92). Material added from other sources is referenced in the text. For the sake of simplicity, it is abstracted from the international dimension of (some) industries, namely the impact of international trade and globalisation, online business, large multinational corporations (MNC) and how they operate in industries and markets. A more differentiated analysis of industries would also need to take these – and other issues – into consideration.

### *Agriculture: Family businesses and agricultural cooperatives*

Since in a democratic market economy private property is widely dispersed (also private ownership of land) and people own the means of production and (their) subsistence, the agricultural sector would be made up mostly of small and medium-sized agricultural cooperatives and family businesses. For such farmers, i.e. farm *owners*, farming not only provides the livelihood for themselves and their families but *is* their (way of) life, embedded in local communities. They own the land and livestock, they work and live on it, they *care*. Individual and cooperatively organised farmers, therefore, usually have a stronger (pro)social and pro-environmental orientation, and do their work and conduct their business in more conservative, considerate and sustainable ways. The vast majority of private farm owners are inclined to produce quality products. For this, they perform primarily regenerative and sustainable farming. But even if they did use intensive farming it would be still done in socially, economically and environmentally more balanced and sustainable ways than many large agricultural corporations.

However, also in the democratic market economy, individual farm owners would be in a relatively weak position in respect to other market participants and the market in general. They can't decide the price for (most of) their products and have difficulties coping with price fluctuations. On their own, they are price-takers, not price-setters. Moreover, many farmers lack resources, information and access to purchase and distribution channels (Shi et al. 2019, p. 3061). This is why many farm owners would join, and be organised in agricultural cooperatives or farmers' cooperatives. Shi et al. (2019, p. 3060) argued that 'the objective of a cooperative is to empower the farmers to collectively realize their economic aspirations while strengthening their social/human capital and developing their communities'. In practical terms, agricultural cooperatives are mainly meant to help their members to pool and share resources and to conduct certain activities collectively, in particular: Provision of basic infrastructure and facilities, collective purchase and supply of machinery, seeds, fertilisers, fuel and other resources, finance of individual or collective investments, representation and (price) negotiations on behalf of their members, marketing and sales activities, or support in logistics (e.g. packaging, transport and distribution of the products) (Agricultural Cooperative 2020). It is especially local and regional organisations of farm owners such as agricultural cooperatives that (further) increases farmers' abilities to produce and sell products more efficiently and that strengthen their position and competitiveness in the agricultural industry along the whole value chain. (Members of) agricultural cooperatives conduct all parts of the business in more collaborative and sustainable ways. Thus, in the democratic market economy agriculture would be defined largely by sustainable business models, extensive cooperation between individual farm owners and farmer cooperatives, and non-competitive competition.

### *Housing: Private owners and housing cooperatives*

In the democratic market economy, the housing sector is characterised by people owning the place where they live. All housing is based on the fundamental principles of (individual or collective) ownership and related property and occupancy rights belonging to the people who live in the property. Consequently, individuals (or groups of individuals) own and manage their accommodation (either as individual units or as a share of the whole) as individual private owners, via housing cooperatives or associations.<sup>247</sup>

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<sup>247</sup> In the section 'Private ownership and property rights' (in Part I, 'Free individuals and libertarian institutions')

As legal entities, housing cooperatives pool members' (financial) resources and thus leverage their buying power considerably as well as lowering the costs for their members related to all products and services associated with home ownership (e.g. costs for management, maintenance, utilities and repair of the property) (Housing Cooperative 2020). Beside higher competitiveness, efficiency and cost advantages, housing cooperatives mean notable individual and social advantages (Housing Cooperative 2020):

Research from Toronto, Canada found that housing cooperatives had residents rate themselves as having the highest quality of life and housing satisfaction of any housing organisation in the city. Other research among older residents from rural USA found that those living in housing cooperatives felt much safer, independent, satisfied with life, had more friends, had more privacy, were healthier and had things repaired faster. Australian researchers found that cooperative housing built stronger social networks and support, as well as better relationships with neighbours compared to other forms of housing. They cost 14% less for residents and had lower rates of debt and vacancy. Other research has found that housing cooperatives tended to have higher rates of building quality, building safety, feelings of security among residents, lower crime rates, stable access to housing and significantly lower costs compared to conventional housing.

Through pooling of financial resources via housing cooperatives or communal associations, people who can't afford to buy property are enabled to own private property and live in it. In this sense, housing cooperatives combine cooperative *and* competitive elements in a part of the economy that is literally essential for people – and they produce a lot of additional benefits, especially for those who are no longer reduced to supplicants (i.e. tenants) but are now home owners.

#### *Retail: Family shops, consumer cooperatives and partnerships*

In a democratic market economy, the retail sector is dominated by (small, medium and large) family businesses, consumer cooperatives and partnerships. These retailers are socially embedded and understand themselves as part of their communities – be it the immediate neighbourhood or other (online)

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it was argued that 'In a situation or context where ownership and property rights matter, individuals *must* own (individually or collectively) what they use in order to conduct their life and work, since without such rights (the full range of property rights) individuals are not entitled to make decisions about those things and, thus, they are not (entirely) free and sovereign.' Housing, and land and real estate in general, is such a context where ownership and property rights matter (a lot) – especially for those who use particular land or buildings for private or commercial purposes. For historical reasons it is often different actors who own ('landlord') and who occupy and/or use ('tenant') land or buildings. However, the legal and social status and relationship of 'landlord' and 'tenant' is highly problematic. It is an anti-libertarian, anti-democratic, unequal, unfair and unjust construct that goes against the fundamental principles and rights of self-ownership, private ownership, and the inalienable human, democratic and civil rights of people. In a democratic market economy, tenancy agreements (and the legal fictions of 'landlord' and 'tenant'), therefore, would be deemed illegitimate and would be rendered unlawful (this follows the same logic and line of argument as there no longer being 'employer' and 'employee', rendering the employment contract unlawful). Consequently, in the democratic market economy there are no 'landlords' and 'tenants', only owners.



communities. For instance, some cooperative retailers collaborate actively with community-based groups in order to establish democratic cooperative businesses or strengthen civil society organisations.

With their sustainable business model, cooperative retailers are more competitive because of the higher quality of their products and services as well as the cooperative conduct of business they practise along their whole value and supply chain. Member- or employee-owned retailers show more economically prudent, socially responsible and environmentally friendly conduct of business across the whole range of their offerings and activities:<sup>248</sup> Retailers show pro-environmental behaviour along their whole value chain; they buy and sell mostly products produced in environmentally friendly ways (e.g. organic or eco-friendly products, ‘green brands’, no genetically modified food) and cooperate with their suppliers to implement pro-environmental policies, such as monitoring, restricting or banning the use of pesticides at farms, minimising the use of chemicals, applying sustainable farming or fishing methods, or improving the welfare standards for animals at all stages of the food chain (e.g., ban on use of antibiotics or artificial substances to achieve abnormal animal growth, regulated transport of livestock). Many retailers source renewable energy, might even invest in own renewable energy generation facilities and in reducing their carbon emissions/carbon footprint. Cooperative retailers adhere to the ideals of ethical trading, i.e. they don’t use deceptive marketing practices but provide honest and informative product labelling and transparent prices and terms of trade. (Almost) all products are ethically sourced (e.g. on Fairtrade terms). The products they sell are long-lasting, reusable or recyclable. Waste reduction (product packaging, packaging material, carrier bags), reuse, recycling and distribution of food waste are other key objectives of their value chain and logistics model.

Overall, in a democratic market economy retail is of much higher quality because of the better, longer-lasting, more sustainable and environmentally friendly products and services on offer as well as because of the more considerate conduct of business family businesses, consumer cooperatives and partnerships demonstrate.

#### *Banking: Cooperative banks, credit unions, savings banks and building societies*

As explained earlier in the chapter ‘Legitimate and illegitimate participants in the free market’, *profit-maximising* or *for-profit* banks, such as commercial banks, investment banks or private banks, would be deemed illegitimate market participants and rendered illegal because they do not comply with the legal and ethical standards, rules and regulations of a democratic market economy. Hence, in the democratic market economy, banking and finance is primarily provided by *democratic* financial institutions, such as cooperative banks, credit unions, savings banks or building societies.

Democratic financial institutions offer the same basic banking and financial services like universal for-profit banks (e.g. savings, loans, investments, financial transactions), but they have a different purpose, are based on a different business model and conduct their business in a different way (compared to profit-oriented banks). For example, according to the World Council of Credit Unions (2020, no page

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<sup>248</sup> The following examples are drawn from/about the British retailer The Co-operative Group (The Co-operative Group 2020) and mainly illustrate considerate conduct of business in food retail. The specific examples might be different if it was about retailers in other industries (e.g. clothes/fashion, books, consumer electronics, household goods, sports & outdoors and so on), but the principles are the same.

numbers): ‘A credit union is a customer/member owned financial cooperative, democratically controlled by its members, and operated for the purpose of maximizing the economic benefit of its members by providing financial services at competitive and fair rates.’ Democratic financial institutions serve people, not profits. Carnoy and Shearer’s (1980, pp. 91–92) description of how a cooperative bank conducts its business, although already some years old, still succinctly captures the gist of cooperative banking:

Workers’ banks often operated as yardstick competition for private banks by offering better consumer services to working class and small business customers. They paid higher interest on savings than private banks (4 percent compared to 3 or 3.5 percent), offered lower service fees on checking accounts, inaugurated banking by mail, facilitated the transfer of funds to relatives overseas in Europe (an important service for immigrants), and created life insurance programs through monthly set-asides at a time when many working men and women could not obtain life insurance from private companies. In their loan policies, the workers’ banks provided credit to companies that employed union labor and/or treated their employees decently. They helped to finance a number of consumer cooperatives and invested heavily in farmers’ banks and farmers’ cooperative institutions, as part of labor-farmer solidarity. The workers’ banks refused to loan money for ‘speculative’ purposes or for the production of luxury goods. They pioneered in the provision of small consumer loans to workers.

In general, democratic financial institutions offer better conditions, better personal services, serve individuals and local communities, and conduct their business in honest, decent, reliable, low-risk, trustworthy and sustainable ways – and their customers, who are at the same time their owners, appreciate this form of collaborative banking. According to Credit Union (2020, no page numbers) ‘Surveys of customers at banks and credit unions have consistently shown significantly higher customer satisfaction rates with the quality of service at credit unions. Credit unions have historically claimed to provide superior member service and to be committed to helping members improve their financial situation. In the context of financial inclusion, credit unions claim to provide a broader range of loan and savings products at a much cheaper cost to their members than do most microfinance institutions.’ With their different business model, democratic financial institutions are simply more professional, competitive and attractive than orthodox banks.

#### *Social services: Not-for-profit social services organisations*

As in developed welfare states, in the democratic market economy social services (e.g. health care, childcare, care of the elderly, care of people with disabilities, family support) are provided by three different actors:

- *Public sector agencies:* Social services are provided extensively by (local, regional or national) governmental and municipal agencies as part of their formal, statutory public sector responsibilities and welfare state policies;
- *Volunteers:* Informal, voluntary care and personal social services are given and received on the basis of personal relationships, in particular by partners, family members, friends, neighbours, self-help groups, community-based associations or support networks;

- *Private social services organisations*: Personal social services might be made available to dependent people/people in need directly in their own homes, communities or in special care facilities by specialised private care providers.

The focus here is on private social services organisations because they offer social services in the most market-like ways. In the democratic market economy, most private care providers will be not-for-profit (registered as charities, private voluntary organisations or other not-for-profit entities), some for-profit (though not profit-maximising) organisations, ranging from conservative over alternative to fully fledged democratic organisations.

Private care providers fill a gap between the formal, statutory public sector organisations and the informal, voluntary care providers because the former can't offer highly personalised services (efficiently) and the latter can't offer highly professional services because of a lack of skills, training and equipment, time constraints or other (resource) limitations. With the provision of professional, personalised social services, private care providers not only fill a gap between the formal and informal sectors of social welfare but also provide crucial *links* between statutory public services and voluntary carers via supplementing their activities and cooperating with both providers.

The provision of personal (and personalised) social services and residential care is very time- and labour-intensive, and expensive, and requires professional, i.e. well-trained and highly motivated people. Moreover, social services require people that *care*. For-profit/profit-maximising organisations might be able to offer social services at low cost, but they are not able to guarantee *quality* (because this takes time, i.e. increases costs) and *compassion* – both are essential for the care of people. That is, they are neither willing nor able to provide the whole package of social services.

In contrast, especially not-for-profit social services organisations are set up, and run, by people who care, who have strong prosocial orientations. Staff and members of these care providers are specially trained and are committed to providing professional and compassionate care work; and they are willing to collaborate (with public sector organisations and voluntary private care providers) in order to offer the best and broadest care possible. Only such *not-for-profit* organisations (or moderate for-profit organisations) can offer social services in a professional, reasonably priced, efficient *and* compassionate manner because this corresponds with their own business model, with their norms and values and how they conduct business. Hence, they provide much, much better services, higher quality and 'value for money' than private profit-maximising organisations.

Altogether, the examples above span all sectors of a developed economy (agriculture as an example of the primary sector, housing as an example of the secondary sector, and retail, banking and social services as examples of the tertiary sector). These examples illustrate not only how democratic organisations function and interact with other market participants, but how their distinctive ways of doing business define how *whole industries* work. It is important to note that such different functioning of industries and markets in a democratic market economy is neither normatively demanded nor authoritarian planned or ordered but emerges naturally. It is the result of legitimate market participants' individual economic behaviour. Their cooperative and competitive actions and interactions create patterns of economic behaviour and interactions, structures and processes that define how industries work – which in turn shape market participants and their individual and interactive economic behaviour. In this way, activities at

individual and micro-economic levels are mutually reinforcing. Together, they constitute the behavioural and microeconomic workings of the democratic market economy.

### **From economic growth to social, environmental and economic development**

As outlined above, the democratic market economy is a fully fledged and vibrant market economy with fully functioning markets, a broad and diverse range of legitimate market participants with their individual and interactive (cooperative and competitive) microeconomic behaviour creating and shaping different markets and industries. The question then is which macroeconomic outcomes such a democratic market economy would produce.

There is a range of macroeconomic aspects and indicators that are usually used to give an idea of how well – or badly – an economy does at aggregated levels, i.e. as a national economy, for example: growth (rate of change of the GDP – Gross Domestic Product), inflation (rate of inflation), employment/unemployment rate, wages/household incomes, savings and consumption (rate) – just to mention the most conservative and established indicators that make it onto the frontpages of newspapers. Here, the focus will be on *growth (economic growth)* because it is the prevailing (economic) indicator and ideology of our time that sees (quantitative) economic growth as the *sine qua non* of the economy (and even of society). The following sub-sections look at economic growth as defined and seen from a traditional, narrow perspective as well as from a more comprehensive, multidimensional perspective.

#### *Traditional economic performance and economic growth*

Traditionally, the economic performance of an economy is mainly seen in *growth – quantitative growth*. *GDP*, the *Gross Domestic Product*, as an aggregated number of the market value/market prices of all finished goods and services produced within a certain geographical area (nation-state, economic region) within a certain period of time (calendar or fiscal year), is the most common, and commonly used, indicator. To be more precise, though, it is not so much the *absolute* number that is of interest but the *change* (year on year, on a quarterly or monthly basis) of the aggregate, i.e. a *relative* number that gets so much interest and attention. The (usually positive, rarely negative) *growth of GDP* is the mantra of the market economy and global economy as we know it. How would the *democratic market economy* fare in this respect?

The democratic market economy is based on functioning markets, free markets (see the earlier chapter ‘Foundations of the free market’). The free market – *if* it is functioning properly – is growth-oriented – not because of some authority declaring growth as an objective but because a free market with its decentralised, flexible and transparent market mechanism simply provides space and opportunity for people to produce and to offer products and services on a daily basis, to come up with, and to try out new ideas (i.e. to innovate), and to produce and sell *more* (if there is a demand, or demand can be generated). If there are no external or internal shocks, major obstacles, or other detrimental effects, a free market grows and develops over time. In general, free markets grow more than a monopoly, oligopoly or planned economy. Because of its free markets and well-functioning market mechanisms this would also, and particularly, be the case in the democratic market economy.

However, there are at least three reasons why a democratic market economy would *not* produce as much quantitative economic growth as a neo-classical/neo-liberal (‘capitalist’) market economy.

- In the democratic market economy there are only *legitimate* market participants, i.e. no illegitimate market participants such as radical or profit-maximising organisations. Because of their competitive, uncompromising and opportunistic goals and behaviour of maximising returns and profits, such illegitimate types of organisations are extremely growth-oriented; they usually want to grow their business, sell more products, gain a larger share of established markets, even create new markets and launch new products simply for opportunistic reasons, for generating profits. In a capitalist market economy, whole industries and markets thrive on such illegitimate companies and business practices. *This dynamic is absent in a democratic market economy; some products and services (with which companies ‘only make money’) would not be created and offered, some economic activities would not be conducted, or not carried out in highly competitive and aggressive ways – which means that some business expansions, and thus quantitative economic growth, would not happen.*
- The market participants in the democratic market economy are *different* compared to, for example, a neo-classical or neo-liberal market economy – and they behave *differently*. Market participants in the democratic market economy are either free individuals (self-employed) or conservative, alternative and democratic organisations (see the chapter above ‘Legitimate and illegitimate participants in the free market’). As outlined in the chapter ‘Considerate conduct of business’ in Part II, ‘Democratic organisations’, and the sections above, these legitimate market participants demonstrate economic behaviour on their own, interact with other market participants, and operate in markets and industries that can be described as considerate, responsible, ethical, sustainable and long-term oriented. They are *not* maximisers and/or opportunists, they are *not* growth-oriented as such and do *not* (aggressively) try to expand their business (it *might* happen, but this is then a consequence or by-product, not a primary goal or even purpose). Legitimate market participants do not have, and do not follow, an explicit ‘growth mantra’. Quantitative economic growth as such is neither a single goal nor a prime outcome of economic activities or economic behaviour of legitimate market participants.
- In addition, external stakeholders would not support quantitative economic growth (as much as in most contemporary market economies and economy-oriented societies). In a free and democratic society like Pentoutopia (most) politicians, political parties and the government would not see GDP growth as their number one priority. Industry policies, market regulation and government spending would not (pro-)actively support ‘big business’ or growth-oriented industries and companies but smaller, alternative and democratic businesses that conduct decent and sustainable business. GDP would not be the top story and main concern in the media and societal debates.

Because of these, and other, reasons, it can be assumed that a democratic market economy *might* generate *some, fairly moderate* quantitative economic growth in the traditional sense because of its functioning markets and market mechanisms. But because of its market participants’ goals and orientations (legitimate market participants have primarily (pro)social, pro-environmental and balanced economic orientations), their economic activities and economic behaviour (legitimate market participants largely demonstrate considerate conduct of business), the democratic market economy’s quantitative economic growth (measured by GDP in its traditional form) would be relatively low, not considered as crucial or important, and not pursued by relevant parties and stakeholders – especially not pursued in such uncompromising ways as in contemporary (neo-liberal) market economies.

### *Measuring economic growth and performance via GDP and beyond*

That a blunt quantitative economic growth measured in the traditional way of GDP would not be regarded as exceptionally important is not only because of market participants' factual orientations and behaviour but also because of conceptional and methodological reasons. It is well known that the GDP in its traditional design and format is a highly insufficient, actually rather inconsistent and misleading concept to indicate economic output, economic performance or economic growth. In particular, its shortcomings are:

- The creation or emergence of welfare-increasing 'goods' (decent and useful products and services) and welfare-decreasing 'bads' (destructive events, useless or harmful items), costs and benefits are all added together in one aggregate (GDP as an absolute number of a monetary/monetised value);
- Some negative issues (e.g. negative externalities such as damage or destruction of the natural environment or people's property; people's illnesses and poor health; social issues; harmful or questionable activities, fraudulent or sub-standard products or services) enter GDP as a 'good' if they produce direct or indirect costs (and thus increase GDP);
- Some positive issues and developments (e.g. increase in efficiency and productivity, cost-saving measures or prudent economic behaviour) are seen, and influence, GDP as a 'bad' (because they reduce GDP);
- The commons (e.g. natural resources and the environment; public, cultural or social spheres and goods); non-market economic activities and transactions (domestic work, family care, volunteer work, informal economy); social and environmental costs, social and economic inequalities or regional disparities; and individual and/or social creation, consumption and developments (e.g. learning, well-being, quality of life) are not accounted for and not included in GDP.

In this sense, it might be said that the concept of GDP (and the whole idea of understanding economic growth in purely quantitative terms as defined and evidenced by GDP) has not only 'technical' but *conceptional* problems and shortcomings. Traditional economic measures and performance criteria like GDP are insufficient to capture and to reflect appropriately the economic growth of any economy, let alone a democratic market economy *in principle*.

It therefore comes as no surprise that there have been manifold suggestions to adjust, supplement or even to replace GDP with other concepts (Lawn 2003, Schepelmann et al. 2010). According to Schepelmann et al. (2010, pp. 24–50):

- 1) Approaches that *adjust* traditional economic performance measures like GDP by incorporating in monetised form economic, social and/or environmental factors which are not included in the conventional measure, for instance: Measure of Economic Welfare (MEW), Index of Sustainable Economic Welfare (ISEW) and the Genuine Progress Indicator (GPI), Genuine Progress Indicator (GPI), Green GDP or Green National Accounting, or Genuine Savings (Adjusted Net Savings).
- 2) Approaches that *replace* traditional economic performance measures like GDP with indicators that try to assess well-being more directly than GDP, such as: Human Development index (HDI), Ecological Footprint (EF) and Happy Planet Index (HPI), Quality of Life Index, Gross National Happiness, Environmental Sustainability Index (ESI), or the Environmental Performance Index (EPI).

- 3) Approaches that *supplement* traditional economic performance measures like GDP by complementing the indices with additional environmental and/or social information, for example: System of integrated Economic Environmental Accounts (SEEA), National Accounting Matrix including Environmental Accounts (NAMEA), System of Economic and Social Accounting Matrices and Extensions (SESAME), Sustainable Development Indicators (SDI), Political and Civil Freedom Indicators (Freedom House), or Millennium Development Goals (MDGs).

It really makes sense, and is necessary, to adjust and to supplement the traditional concept of GDP with multidimensional sustainability- and development-oriented measurement frameworks (Schepelmann et al. 2010, pp. 51–52). It is not only about getting (much) better data, but a *different* – and *better* – understanding of economic growth, a more sophisticated and differentiated definition, understanding and interpretation of economic performance and outcomes at an aggregated level. The concept of *quantitative economic growth* needs to be replaced by a concept of *social, environmental and economic development*.

#### *Social, environmental and economic development*

Alternative concepts like those just mentioned – or a multidimensional concept of GDP adjusted and supplemented by some of these alternative concepts – comprehensively and appropriately capture and represent the multidimensional outcomes of economic activities and economic behaviour of legitimate market participants at an aggregated level. They show not only the *economic growth* and performance of a market economy in a narrow sense but the *social, environmental and economic development* of an economy and society.<sup>249</sup>

In order to give a complete and true picture of the social, environmental and economic development of a democratic market economy at a macroeconomic level, a concept should capture and represent at least (the value of) the following items and processes:

- a) Welfare-increasing goods: value-adding products and services;
- b) Positive issues and developments: E.g. increase in efficiency and productivity, cost-saving measures or prudent economic behaviour;
- c) The commons: E.g. species, natural resources, ecosystems and the environment; public, cultural and social spheres;
- d) Individual and/or social welfare-enhancing issues and activities: E.g. learning, individual and social welfare and well-being, quality of life.
- e) Non-market economic activities and transactions: Domestic work, family care, volunteer work, informal economy;
- f) Welfare-reducing costs: Negative externalities such as damage or destruction of the natural environment or eco-systems, species or people's property (environmental

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<sup>249</sup> *Growth* and *development* are rather distinct. For example, according to Daly (1996, p. 1) 'growth is the quantitative increase in physical scale while development is qualitative improvement or the unfolding of potentiality. An economy can grow without developing, or develop without growing, or do both, or neither'.

costs); individual people's illnesses and poor health; social issues, social and economic inequalities or regional disparities (social costs); harmful or questionable activities, fraudulent or sub-standard products or services.

If one looks at the various categories of such a macroeconomic concept of social, environmental and economic development it becomes very obvious that a democratic market economy would do much, much better than any neo-classical/neo-liberal market economy (or planned economy).<sup>250</sup> The democratic market economy is designed for creating social, environmental and economic development:

The objectives of legitimate market participants are to increase the welfare of their main stakeholders (owner-managers, members, customers, clients), society and the environment in general by generating and providing decent and useful products and services. And they do so by demonstrating considerate conduct of business, i.e. showing prudent economic behaviour and raising the individual and social welfare and well-being of their stakeholders. In respect to the creation of value-adding and welfare-increasing goods and activities (points a) – e) above) legitimate market participants are much more productive and successful than orthodox, profit-maximising market participants.

Especially the commons, welfare-enhancing issues and activities, and non-market economic activities and transactions (point c) – e) above) would fare much better in the democratic market economy. This is because they would be explicitly accounted for in the adjusted and supplemented GDP – and what is measured and accounted for is appreciated. And because legitimate market participants with their (pro)social, pro-environmental and complex economic orientations and behaviour also care about these.

Finally, negative issues – such as negative externalities; individual, social and environmental costs (point f) above) – would also be accounted for as what they are: welfare-reducing costs. Despite market participants' largely considerate conduct of business, a democratic market economy, of course, does not produce only positive outcomes. Also in a democratic market economy there are *massive* welfare-reducing costs. Such costs occur simply because of human activity or economic activities as such, natural events, or systemic reasons. To have all major welfare-reducing costs explicitly accounted for and included in the macroeconomic accounting scheme (the adjusted and supplemented GDP) would reduce the annual GDP to a great extent in both absolute and relative terms. But these costs actually reduce growth and welfare in the real economy anyway – they are just not accounted for (properly or sufficiently). To have these costs explicitly included not only provides a true and fair view of the economy but also contributes to a more balanced and sustainable understanding of economic activities and the economy in general.

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<sup>250</sup> For example, Schweickart (1993) put forward quite a detailed argument that a democratic market economy (market socialism) does much better than *laissez faire* (capitalism) in regard to every crucial aspect, i.e. 'hard' measures such as productivity, efficiency, employment and growth as well as fundamental values such as liberty, equality, democracy and autonomy/meaningful work. In a similar vein, Malleon (2014, p. xvi) argued that 'Economic democracy also potentially brings an important range of corollary benefits from environmental protection to increased happiness (that flow from the greater equality, cooperation, and trust which democracy usually brings)'. There is also some empirical evidence for this assertion. For instance, economic and social indicators from North Italian towns where cooperatives and a cooperative economy thrive show that the economy does very well, there is less social inequality, more supportive social networks, stronger belief in people-orientation by political authorities, less crime, higher levels of education and more prosocial behaviour (Erdal 2011, p. 240). Erdal (2011, p. 241) concluded: 'The people in the cooperative town were simply less stressed.'



All in all, a democratic market economy and its market participants would be oriented (steered and governed) towards social, environmental and economic development, i.e. to: 1) account for all phenomena that either have a value or are deemed valuable (products and services; individual or collective issues; ecological, social or cultural commons; market-related and non-market economic activities and transactions); 2) account for all phenomena that either have a negative value or reduce, damage or destroy value (that represent costs in the sense of that they generate negative externalities or cause directly individual, social, environmental and/or economic costs); 3) nurture and develop those phenomena that increase the welfare and well-being of individuals or the whole (whether economic, social or environmental systems); and 4) reduce or terminate those phenomena that reduce, damage or destroy the welfare and well-being of individuals or the whole.

It can be assumed that the democratic market economy will show strong economic performance and that it might produce some quantitative economic growth in the traditional sense (i.e. measured as change in GDP) – though probably not as much as highly competitive neo-liberal market economies. But it would create much more welfare-enhancing growth in respect to individual, social and environmental issues – and it would fare much better in lessening welfare-reducing costs. The bottom line is that a democratic market economy would produce (quantitative and qualitative) social, environmental and economic growth and development at a scope and scale no other economic system does.

## Regulation of markets and market participants

So far, the free market has been described and established as a completely self-sufficient social system; a (well-)functioning market mechanism and legitimate market participants adhering to the principles of the free market and a free and democratic society, demonstrating considerate conduct of business in their economic behaviour, actions and interactions with other market participants and, in so doing, generating positive outcomes that lead to social, environmental and economic growth and development. However, the smooth functioning of the market – or of any social or other system – cannot be taken for granted. Hence, the first section of this chapter analyses those instances when markets don't function properly ('*market failure*'), when market participants don't behave appropriately ('market-related misbehaviour'), in particular *externalisation of internal costs*, *abuse of market power* and *dodgy business practices, products or services*. The next section argues that such market failures and market-related misbehaviour can happen in every market economy and that, therefore, there is a need for governance and regulation<sup>251</sup> of markets and market participants, for *market regulation*. The following three sections then introduce and describe three types of appropriate (and necessary) regulation of free markets and measures against market failure and market-related misbehaviour in turn: 1) *Self-regulation* (actors regulating themselves), 2) *Co-regulation* (actors regulating themselves together with third parties), and 3) *Government regulation* (actors are regulated by government agencies). The final section shows that in a democratic market economy these three types of market regulation together form a concept of *inter-locking regulation*.

### Market failure and market participants' market-related misbehaviour

Everyone who is in favour of markets and a market economy hopes that markets work (although proponents of a market economy might disagree whether markets can work 'perfectly' or 'just ok' and how this can be achieved and maintained). At the same time, everyone knows that markets can have, or can create, 'issues'. The talk is about *market failure* – or market failures (see, for example, Boyer 1997, pp. 76–88). 'Market failure' can be defined as a situation where a market's price mechanism is severely

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<sup>251</sup> One could differentiate between 'governance' and 'regulation' whereby 'governance' means more the *general* configuration and maintenance of a system, its (governing) institutions and elements and 'regulation' more the formulation and application of *specific* rules, parameters, policies and measures in order to steer and regulate a system or some of its elements and processes. However, in regard to markets (and the economy in general) the two are usually not differentiated and it is only talked about 'regulation' (e.g. 'market regulation' or 'regulated markets') - and here it will be followed this custom. In this sense, 'regulation' can be understood as the formulation, implementation and application of specific norms, rules, parameters, policies and measures as 'standards' to define how a system, its elements (or members), processes and/or activities taking place within the system or caused by the system should operate, in order to control and to ensure the smooth functioning of the system, its elements (or members), processes or activities, and the intervention and taking of appropriate measures when certain issues or phenomena are not as they are expected to be, do not function as they ought to function or deviate from the standards set.

distorted or market participants' economic activities and behaviour produce outcomes that are not consistent with the idea of a functioning market mechanism and that are 'inefficient', 'sub-optimal', cause costs or negative consequences for others, the environment or society in general.<sup>252</sup>

Market failure is an issue for *any* type of market. For instance, there are 'imperfect' markets like monopolies or oligopolies that only function (actually, malfunction) via highly distorted market mechanisms (with some of their market participants acting very badly). Even the 'perfect' market has to cope with institutions' or actors' limitations or imperfections and produces outcomes (e.g. externalities) that are far from 'perfect'. And real-existing markets and industries in all types of market economies – even the most developed ones – are rife with market failures. Hence, it is only logical to assume that also in the democratic market economy there *can* be – and *will* be – market failure.

In the following we will first look at market participants' market-related *mis*behaviour as possible sources of market failure, in particular:

- '*Externalisation of internal costs*', i.e. that market participants consciously or unconsciously externalise (their) internal costs at the expense of others, society or the environment;
- '*Abuse of market power*', i.e. that market participants might use their market power to either directly force other market participants to act against their will or to indirectly influence institutions and the market mechanism to their own advantage;
- '*Dodgy practices, products or services*', i.e. that market participants might conduct business in dishonest and unreliable ways, deceive or mislead others and/or offer products or services that are of low quality, dubious or even (potentially) hazardous.

#### *Externalisation of internal costs*

Externalities are costs (*negative* externalities) or benefits (*positive* externalities) that are not incurred or received by the actor that has created and is responsible for the externality but by a third party, society in general or the environment that are not responsible for, and have no control over the creation of that cost or benefit (Externality 2015). Externalities can emerge in the spheres of production or consumption. In respect to the functioning – or malfunctioning – of markets, *negative externalities* linked to the production of goods or services are particularly highly relevant because they cause a lot of environmental damage, such as (Externality 2015):

- Climate change, air pollution, damage to the natural environment, agriculture, built environment, individual and public health as a consequence of greenhouse gas emissions from burning fossil fuels (oil, gas and coal);
- Water pollution, soil pollution or soil contamination, land degradation, damage to plants,

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<sup>252</sup> The argument in the text indicates that it is not actually 'the market' as such that is failing (Simpson 2007, p. 130), but that it is either (some of) its particular *institutions* – i.e. the fundamental principles, rules, norms and values, the conditions or institutional context a particular market is based on, established and shaped by – or certain *actors* (organisations or individuals) – i.e. (some of) the market participants and their market-related decisions, economic activities and behaviour, their *mis*behaviour – that are failing, that are the culprits for market failure respectively.

animals and humans because of chemicals stemming from industrial activity, intensive farming/fertilisers and chemicals used in agriculture, improper disposal of resources and materials used in the production process, improper or illegal waste disposal;

- Destruction of ecosystems and natural habitats (e.g. rainforest) due to illegal logging, extension of farmland, monoculture, depletion of the stocks of fish in the oceans due to overfishing;
- Physiological or socio-psychological issues people face, such as: poor health, exhaustion, burnout, anxieties, depression, low self-esteem and self-efficacy;
- Systemic risks to be covered by society in general stemming from short-term profit maximisation of certain industries or actors (e.g. costs of storing nuclear waste from nuclear plants, handling and disposal of hazardous chemicals or (micro-)plastics, bailing out of private financial for-profit institutions and the banking system).

All these negative effects caused by externalities are *anthropogenic*, i.e. they are *human-made*. They are caused by certain, identifiable actors who perform specific economic activities and conduct their business in particular ways. Nevertheless, the costs related to these externalities are not borne by those actors that caused/cause them in the first place but by third parties, by the general public ('the taxpayer'), by everyone (and in some sense by nature). Internal costs have been externalised at the expense of others or the whole. Such *externalisation of internal costs* can happen 'coincidentally' and unconsciously, but is often done deliberately, or at least knowingly. This is evidenced by the fact that many polluters cause these externalities secretly ('under the cover of darkness'), try to cover them up, employ and pay countless (so-called) industry experts, scientists and lawyers to produce reports allegedly showing the harmlessness of the materials and phenomena in question, use PR managers, marketing and CSR consultants to 'greenwash' their brand, products and conduct of business, misinform the public and relevant institutions, bribe third parties (especially politicians, judges or law enforcement agencies), intimidate or even harm activists and pressure groups, fight accusations in court and finally willingly and happily pay court fines and penalties because usually these are only a fraction of the real costs incurred by those externalities.

Clearly, the notion of a functioning market and price mechanism is that market participants should, and need to, know *the true and full costs and value* of a thing or activity in order to make a sensible decision in regard to (their) supply or demand of this particular activity or thing. For this, market participants need to bear *all* costs, and receive *all* benefits, that are related to their activities. Negative externalities and the externalisation of internal costs distort and confuse the market and price mechanism and, as a consequence, lead to inappropriate and sub-optimal decisions, allocation of resources and economic activities.

Externalisation of internal costs is especially a problem in highly competitive markets and industries (profit-maximisers have to, and will, reduce costs by any means) or in established industries that can hold off internal or external influence and pressure (poorly governed and regulated industries), i.e. in neo-liberal market economies dominated by profit-seeking actors. In contrast, it can be assumed that with their economic, (pro)social and largely pro-environmental orientations and considerate conduct of business, democratic organisations are naturally quite aware of the problem of externalities and inclined to do something about them (see the chapter 'Considerate conduct of business' in Part II, 'Democratic

organisations'). Beside or in addition to their products and services for others they usually want to achieve positive externalities and reduce or even avoid negative externalities as part of their core activities. Thus, there will probably be fewer negative externalities in a democratic market economy (than, say, in a neo-liberal market economy or a planned economy).

Nonetheless, even with all the different, multidimensional business models and decent conduct of business, market failure in the form of externalisation of internal costs would be still an issue in the democratic market economy. Perhaps not so much negative externalities that are caused intentionally or at least knowingly (although even some democratic organisations might be inclined to misbehave, to conduct their business activities in illegitimate or even illegal ways), but externalities that 'just happen'. Externalities (can) emerge almost automatically with economic activities. Because democratic organisations pursue good purposes and demonstrate considerate conduct of business it does not mean that they do not produce (unintentionally) negative externalities. It depends on the individual type and scale of an externality and the severity of the consequences it produces whether or not it would be perceived as relevant enough to be considered a market failure.<sup>253</sup> But despite these problems to operationalise and apply appropriately the concept of externalities, the externalisation of internal costs must be considered a principled possibility, and a possible source for market failure, in the democratic market economy as well.

#### *Abuse of market power*

A second possible source of market failure is *power* – or, more accurately, the *abuse of power*. Following Max Weber's famous definition of power – 'any ability to impose one's own will in a social relationship, even against opposition, regardless of what this ability is based on' (Weber 1921/1980, p. 28, own translation) – abuse of market power could be understood as a market participant influencing *directly* other market participants illegitimately or even illegally to conduct (or not to conduct) certain activities they otherwise would not (or would) do. For instance, coercing market participants into entering into a certain contract or type of contract, accepting a contract with conditions they would not accept if they had the option, or making them conduct certain economic or market-related activities and demonstrating certain behaviour they would not do voluntarily.

*Powerful* market participants (or market participants that are *too* powerful) might also *indirectly* abuse their market power by influencing, or trying to influence, the price-finding mechanism, the conditions, institutional context or institutions of the market or outside the market to their advantage (e.g. through monopolistic or oligopolistic structures or cartels). If they succeed, they have institutionalised their interests. Lukes (1974, pp. 11–25) described this as institutionalised power (the second of three different dimensions of power). In this sense, market power is used/abused for shaping the conditions of the market and influencing institutions to gain an unfair advantage and to secure rents they would otherwise not get if there was a fully functioning and fair market mechanism.

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<sup>253</sup> For example Simpson (2007) argued that an unspecified interpretation and application of externalities would lead to the absurd result that everyone had to compensate (almost) everyone for (almost) everything and he argued that 'In regard to negative externalities, the only ones for which people should be compensated are those that cause demonstrable physical harm to a person or his property and can be traced back to the actions of an individual or a group of individuals working in concert' (Simpson 2007, p. 129). Although his definition falls short (e.g. externalities that harm the commons or the natural environment also need to be prosecuted), it draws attention to the need of defining, specifying and handling/prosecuting (negative) externalities as precisely as possible.

Abuse of power is rife, even systemic, in neo-classical and neo-liberal market economies that are characterised by massive differences in the power that market participants hold. To illustrate, when it comes to the downsides and dangers of market power, using market power for questionable goals and in questionable, if not illegitimate or even illegal ways, especially large, transnational or multinational corporations – ‘powerful corporations’ and ‘big business’ – are widely regarded as one of the big problems of free markets, international business and globalisation (Warwick-Booth 2013, pp. 129–131). Tolbert et al. (1998, p. 402) quipped that ‘large corporations rarely, if ever, make good neighbors’.

However, even the largest and most powerful organisations *can* behave decently and demonstrate considerate conduct of business. As long as (powerful) organisations use their market power only to, for example, achieve economies of scale, have more comprehensive and efficient logistics, push through innovations and/or outcompete others *within* and *according to* the rules of a functioning market mechanism and fair competition, and not interfering with the market mechanism, institutions or policy makers, their dominance and power is not a problem. Market power *as such* is not a problem – but its *abuse* is.

It can be assumed that democratic organisations would *not* abuse (their) power. For one, they simply don’t have the idea of competing and growing aggressively, becoming bigger and bigger, more powerful and to dominate a certain market (segment) or industry (Casparly 2004, p. 239). Elson (1988, p. 7) argued that ‘No consideration is given to more predatory forms of competition: mergers, take-over bids, strategies aimed at bankrupting competitors; nor to measures to restrict competition through collusion between suppliers. The dynamic of centralization and concentration in competitive markets, emphasized by Marx, Schumpeter and Kalecki amongst many others, does not feature at all. Competition is treated as the antithesis of monopoly, not as a potential generator of monopoly; as a process that keeps in check the power of enterprises rather than enhancing it.’

And even if democratic organisations get big, *really* big, they don’t turn into bullies. For instance, the John Lewis Partnership (a British retailer with department stores all over the UK) or the Mondragón cooperative in the Basque region of Spain (that actually is a *federation* of more than 250 worker cooperatives) each have more than 75,000 employees (partners or cooperative members, respectively) and annual revenues of more than US\$10 billion. Obviously, they are quite powerful, but – as far as it is known – there is no evidence of them abusing their market power.

Like Mondragón or the John Lewis Partnership, most democratic organisations and networks will retain their democratic and cooperative spirit and will *not* abuse power, but instead will use their market power to pursue the original goals and purposes and demonstrate considerate conduct of business that is consistent with their principles, purposes and objectives. In that sense, there would be no market failure in a democratic market economy.

Nevertheless, even under such favourable conditions as in a democratic market economy, and even when legitimate market participants stay true to their principles and purposes, there *can* be cases where democratic organisations could abuse their market power. Paradoxically, it might be the very democratic and cooperative principles and purposes that *control* power that might lead to an *abuse* of (market) power. Usually, *if* democratic organisations seek market power (consciously), or gain market power generically, then it is more kind of *collective, collaborative* power, the power of organised *group* interests and networks. In principle, such power adheres to democratic principles, to the principles of democratic organisations (e.g. equal rights for everyone, democratic governance and decision-making,

mutually beneficial cooperation, control by all members). Following and enacting these principles, democratic organisations collaborate ‘in good faith’ with other market participants and institutions, create social capital and trust, ever closer cooperation, (informal) partnerships and federations. But this collaboration might become ‘too close’, these ties might turn into rather closed, illegitimate networks and disadvantage everyone who is not a member. In this case, it is not deliberate conspiracy, direct coercion and a blunt abuse of market power but more indirect, ‘soft’ power, social capital and cronyism. In this way, ‘well-minded’ democratic organisations can abuse their market power and distort the market mechanism or the functioning of relevant institutions. Hence, even in a democratic market economy where *all* market participants are democratic organisations the *possibility* of abuse of market power cannot be completely ruled out.

#### *Dodgy business practices, products or services*

Finally, market participants might conduct business in dishonest and unreliable ways, deceive or mislead others, and offer products or services that are of low quality, dubious or even (potentially) hazardous. To illustrate, in the aftermath of the Global Financial Crisis of 2008 many experts, politicians and citizens around the world were astounded (Erdal 2011, p. 15) when it slowly became clear how greedy, malicious, fraudulent, but also rather incompetent, the majority of the big (mainly American) banks and other financial institutions had shown themselves in conducting some of their core business (especially credit and mortgage lending, investment activities and financing of investment projects). Shiny banks do dodgy business – what a surprise.

In the neo-classical or neo-liberal market economy, highly questionable practices and activities – *dodgy* business practices, products or services – are not the exception but the rule. Deceptive business and marketing practices are rife among profit-oriented market participants: Questionable advertising methods (misrepresenting the value of an investment or purchase, presenting and promoting unrealistic images and lifestyles, dehumanising people as products, abuse of psychological methods to promote products and to increase sales, bait-and-switch advertising, high-pressure sales tactics), misleading or deceptive pricing, advertising, product labelling, packaging, promotion and information practices. The production, marketing and sale of harmful or ethically questionable products is common in almost every industry: Products harmful if taken regularly/in large amounts (e.g. alcohol, tobacco, processed or fast food, products high in sugar, fat or additives), socially controversial products (e.g. clothes or accessories made of fur, products tested on animals, whale meat, shark fins), unsafe or shoddy products (‘cheap’ or ‘one-way’ products, fast fashion), products of little actual use (e.g. supplements, fashion, cosmetics, beauty products), products needing replacement before they should (e.g. products that can’t be repaired, deliberately designed ‘breaking points’ or ‘outdated’ features to make a particular product or model very quickly useless or obsolete), sub-prime treatment of disadvantaged consumers (segmentation/targeted marketing), consumerism (increased materialistic values and orientations) and ‘cultural pollution’ of society.

All such dodgy business practices, products and services – provided that they are still in the range of what is deemed legal – might not severely distort the market mechanism; on the contrary, they often *create* markets (for those dodgy products and services), pretend to be competitive markets, and can thrive (for some individual actors or whole industries). But they mainly mean *very* bad/sub-optimal

outcomes for certain or the majority of market participants – usually consumers in general (or unsuspecting consumers), members of disadvantaged communities or vulnerable individuals who are cheated into certain contracts and economic activities and receive little, if any, value for their money. And it means a misallocation and sub-optimal use of precious resources at an industrial scale.

In contrast, one can reasonably assume that democratic organisations are less likely to engage in dubious business practices because their primary goal is to provide products and services to their members or other stakeholders and they are democratically controlled by their members (Nadeau 2012, pp. 15–17, 22). And, by and large, democratic organisations *do* demonstrate a (much more) considerate conduct of business.

Nevertheless, Hahnel (2005, p. 350) had a point when he mentioned that ‘many of the most powerful law firms in America who defend the most heinous corporate abuses are owned entirely by their employees, or at least by some of them, the senior partners’. It could be argued that democratic organisations may behave inappropriately or even unethically because of the conditions, that neo-classical or neo-liberal market conditions *make* or even *force* democratic organisations to behave questionably. According to Bowles et al. (1993, p. 143): ‘Market competition, it has been argued, will drive worker-managed firms to behave like capitalist firms in all or most respects. For example, they will mimic a capitalist hierarchy to achieve efficiency in decision-making, and they will adopt inegalitarian pay structures as required to attract skilled workers and managers, to reward displays of effort and ability, etc.’

Democratic organisations are autonomous entities and it is their owners, managers and members who decide how they act and operate. And, as argued in Part II, democratic organisations might operate and function internally or externally in ways that are *not* consistent with the fundamental principles, values and prime purposes of a democratic organisation (e.g. when oligarchisation happens). It is probably fair to say, or to assume, that democratic organisations – especially under the favourable conditions of a democratic market economy – will operate in ways largely consistent with their principles and values, and that dubious and unethical behaviour would not be systematic and at an ‘industrial scale’ among a majority of actors, as in the case of the financial institutions in the market for subprime mortgages that triggered the Global Financial Crisis of 2008. The risk of market failure in the democratic market economy because of dodgy business practices is *extremely* low – but it cannot be excluded that (some) democratic organisations might behave unethically, that they conduct their business in questionable ways or provide products or services of poor value – intentionally or unintentionally.

## **Market failure and arguments for market regulation**

### *About the possibility of market failure in the democratic market economy*

As outlined above, in a free market there can be *market failure* due to market participants’ market-related misbehaviour, in particular that market participants:

- 1) Externalise internal costs that stem from their economic activities and cause negative externalities that have damaging effects on other actors, society or the environment (*externalisation of internal costs*);
- 2) Use/abuse their market power to either directly coerce other market participants to act against their own will and/or to influence the conditions and institutions of the market or



the market mechanism in order to gain unfair advantage and to secure rents they would not otherwise get (*abuse of market power*);

- 3) Might conduct business in dishonest and unreliable ways, deceive or mislead others, and/or offer products or services that are of low quality, dubious or even (potentially) hazardous (*dodgy business practices, products or services*).

In neo-classical or neo-liberal market environments (whether it is the ultra-competitive ‘perfect’ market or imperfect markets like monopolies or oligopolies) all three types of market failure are systemic and prevail in markets or industries. Root causes for all three types of market failure described above (e.g. externalisation of internal costs, abuse of market power or dodgy business practices) can be seen in selfish, ignorant, opportunistic, immoral, illegitimate, perhaps illegal or even criminal behaviour conducted by market participants primarily or only for their own benefit and at the expense of others, the whole or the environment. That is, (some of) the root causes of market failures are *anti-social utility maximisation* or *profit-maximisation* conducted routinely by (some or even a majority of) market participants. Neo-classical and neo-liberal markets are rife with market failures;<sup>254</sup> they are fundamentally and comprehensively distorted, dysfunctional markets producing much more bad than good (and, thus, *desperately* need regulation. Neo-classical and neo-liberal markets could not exist without regulation!).

In contrast, democratic organisations do *not* show the orientations and behaviour of anti-social utility maximiser or profit-maximiser. As argued earlier (see especially section ‘Democratic organisations are better, do better and perform better’ in Part II ‘Democratic organisations’), they usually demonstrate *considerate* conduct of business and behave appropriately in the marketplace. It could therefore be argued – or hoped – that if (almost) all market participants were fully fledged and fully functioning democratic organisations or the self-employed demonstrating considerate conduct of business there might be individual cases of misbehaviour but there would be no market failure in the sense of (many) market participants’ systematic market-related misbehaviour.

However, such an assumption would be rather unrealistic. Legitimate market participants in the democratic market economy (whether self-employed or democratic organisations) might not consciously and deliberately harm others, the whole or the environment – but they might do so unconsciously, accidentally (and some consciously and deliberately). Even if all market participants were free individuals (self-employed) and (fully functioning) democratic organisations demonstrating considerate conduct of business, there still can be:

- 1) (Unintentional) *negative externalities* and *externalisation of internal costs* due to how market participants produce or consume products and services;
- 2) (Indirect) *abuse of market power* because of too close a collaboration between (some) market participants (cooperatives, associations, federations or networks) that systematically excludes and disadvantages other market participants;

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<sup>254</sup> Or, as Hirst (1994, p. 78) argued: ‘The evidence of market failure is so widespread now that this proposition cannot be seriously entertained at the level of national economies, and not all of this market failure can be attributed to political interventions in the market to impose administered prices, or to other “distortion”. The myth that the market fails because of non-market factors, that as markets approach perfection they will become more efficient, remains the core of economic liberalism.’

- 3) Unethical and *dodgy business practices, products and services* provided by individual market participants that leave the market mechanism largely intact but hurt other actors (e.g. consumers), society in general or the natural environment.

That is, *all* three types of market failure – externalisation of internal costs, abuse of market power, dodgy practices, products or services – can happen in *any* market or market environment, i.e. also in a democratic market economy. Markets and market economies may differ in the scope and intensity of the problems they face, but the theoretical and practical possibility of these phenomena cannot be ignored or defined away. (The possibility of) market failures are a *systemic* element of *any* market. Who says ‘market’ says ‘market failure’. Market failure and participants’ misbehaviour are problems *every* market might encounter, including markets and industries in the democratic market economy.

Evidently, in a democratic market economy markets function much, much better (than, for example, neo-classical markets or neo-liberal market economies); they do have fully functioning market mechanisms, and market failures, *if* they occur, are far less, and less serious – but market failure *can*, and *will*, also happen in the democratic market economy; there *definitely* will be externalities, there *possibly* can be abuse of power, and (individual) cases of dodgy business practices, products or services *might* happen and can’t be ruled out. Market participants’ market-related misbehaviour and market failures in the democratic market economy might be less, less mean or less severe, or perhaps otherwise different to the market failures typical for neo-classical/neo-liberal market economies, but they *can*, and *will*, take place. In the democratic market economy as well, market failure is a possibility, if not to say a principled certainty.

#### *Arguments for market regulation*

There are various, consequentialist as well as non-consequentialist, arguments for market regulation, for *the need* to regulate markets (Hughes 1994, pp. 28–31). Consequentialist arguments are:

- Market failure and market-oriented misbehaviour – such as externalisation of internal costs, abuse of market power and dodgy business practices, products or services – are bad; they produce a range of negative consequences for the free market itself (distorted market mechanism, false and misleading cost and price signals, sub-optimal supply and demand), individuals (damage to their personal health and well-being, integrity, material possessions or their finances), society as a whole (because it has to bear all the direct and indirect costs related to these market failures), and the natural environment (damage of all kinds). These negative consequences of market failure and market-oriented misbehaviour imply that something needs to be done in order to avoid, or at least reduce, these threats. There needs to be *regulation, market regulation*.
- As outlined earlier, ‘the market’ – a free and fully functioning market – can resolve some issues that are directly linked to the supply and demand of goods, work and services (for example, prices can be adjusted and thus supply and demand can be brought into line). But on its own the market cannot fix most things, for example all kinds of market failures. Even worse, the market often sends the wrong signals in respect to market failure and market-related misbehaviour (for example, externalisation of internal costs, abuse of market power or the offering of dodgy products are ‘rewarded’ with a larger market share and higher demand). The

market does not recognise market failures *as such* as well as the *negative consequences* of market failures (for instance, most of the costs related to market failure and market-related misbehaviour do not show up in market prices). The market is blind, ignorant and incapable in respect to market failures or market participants' market-oriented misbehaviour. Only market regulation can identify and appropriately tackle market failures and/or market-related misbehaviour of market participants.

- And regulation does even more; crucially, it also tackles market failures' *underlying causes* in the form of market participants' market-related misbehaviour. Sud and VanSandt (2011, p. 133) maintained that 'human nature is immutable, and so we must attempt to control its effects through behavioural controls, rather than wishing the basic nature would change. Thus, in the case of economic markets, we must effectively regulate the behaviors of actors to protect the less powerful from the more powerful'. In a similar vein, Erdal (2011, p. 15) warned that 'without that supervision, the markets would not work – they would simply be open to abuse by the powerful and the ruthless'. Regulation can address the economic and market-related misbehaviour of humans (as individual or collective actors) *indirectly* by providing the right conditions, legal, fiscal and administrative frameworks so that market participants are encouraged to demonstrate largely decent economic behaviour and to conduct their business predominantly in legitimate forms. And it can target market participants' misbehaviour that causes market failures *directly* (positively in the form of setting and providing incentives or negatively in the form of punishment). Indirect and direct regulatory measures contribute massively to the reduction, even to the prevention of market-oriented misbehaviour, and thus some of the root causes of market failure.
- Moreover, regulation not only confines, limits or bans certain issues or behaviour but it (also) *creates*, defines and shapes *spaces* – spaces of allowed, appreciated or encouraged issues, activities and behaviour. Regulation defines or clarifies what is *not* allowed, illegitimate or even illegal (i.e. it protects individuals, it provides them with *negative* freedom) *and* it defines and clarifies what is possible (i.e. it gives individuals opportunities, it provides them with *positive* freedom). It therefore can be said that there are not only regulated markets, but that *only* regulated markets are *free* markets. Only markets organised and regulated by explicit, comprehensive and robust norms and rules that strengthen the freedom, equal rights and equal opportunities of and for *everyone* – and are equally relevant for everyone – are *free* markets, i.e. as free as possible for all market participants.
- That market regulation is necessary and works quite well is further evidenced by the fact that markets and market participants are (much) more regulated in developed than in developing countries (Erdal 2011, p. 15). There is much more, and more comprehensive, robust and efficient regulation, in economies that are larger and produce higher (per capita) GDP than in economies that are smaller or poorer. This is not just a coincidence but a self-sustaining interactive process; market regulation positively influences economic growth and development (Bergh 2011, no page numbers). *Market regulation and economic development (or social, environmental and economic development) go hand in hand.*

So, there are some quite compelling (consequentialist) arguments for market regulation, for *the need* to regulate markets. But there are also *non-consequentialist* arguments, *principled* and *essential* reasons

for – and justification of – market regulation. Regulation *enables* markets in the first place. It makes sure that markets and industries *can* and *do* work (Stigler (1971, p. 3, Minogue 2002, p. 652, Stiglitz 2012, pp. 18–22). Regulation establishes, maintains and protects market participants’ rights and responsibilities (e.g. legal and commercial rights and duties, private ownership and related property rights, rule of law, judicial efficiency, but also human and civil rights), defines permissible actions and behaviour, and makes sure that market participants can conduct their economic activities (securely). Regulation is *a necessary component* of the market. Without regulation there would be no exchange, no transactions, no market.<sup>255</sup> Consequently, market regulation is not an option but a must. *Every* system needs to be regulated – and so do social systems like markets. There is not one market imaginable that could function properly, or function *at all*, without regulation (Stiglitz 2012, pp. 14–15). A market without regulation would be not only *dysfunctional*, but simply would not function, or even *exist*. *Every* market requires regulation *in principle*. Markets, market-related activities and economic behaviour are based on, embedded in, enabled, defined, shaped, confined and sanctioned by explicit norms and rules by necessity. A (functioning) market without regulation is simply *unthinkable*. Markets are *always* regulated – and always *need* to be regulated. There can be only *regulated* markets, even the ‘freest’ of all markets is actually a *regulated* market. Altogether, market regulation:

- Helps a market to continue to exist;
- Makes sure that a market is established, and that it is established properly;
- Guarantees that the principles, norms and values, rules and customs on which a market is based and according to which a market functions are legitimate;
- Enables and guarantees that a market and its market mechanisms function properly;
- Makes sure that market participants and their economic activities are legitimate and that market participants conduct their business in legitimate and appropriate forms;
- Provides guidance, support for and control of market participants so that they operate within the legal and regulatory framework and that their design, economic behaviour and economic activities are consistent with the notions of a functioning market and considerate conduct of business;
- Helps to ensure that market failure(s), market-related misbehaviour, and other negative aspects of markets and market activities either do not happen in the first place or are kept to a minimum and perhaps are even extinguished;
- Punishes illegitimate economic activities and market-related misbehaviour.

The existence, even just the possibility of market failure(s) and market participants’ market-related misbehaviour suggests regulation of markets. If taken seriously and implemented robustly, market regulation can fight, perhaps even prevent, market failure(s) like externalities, abuse of power or dodgy business practices quite effectively. The following will look at how markets can – or should – be regulated by whom so that the regulation of markets is consistent with the notion of free markets, functioning

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<sup>255</sup> Even illegitimate or illegal markets (such as markets for drugs, prostitution or human trafficking) have their ‘unwritten rules’ and regulations, according to which they function and which market participants have to obey. If they went against these rules they would certainly be punished.

market mechanisms, a free and democratic society, and democratic governance and regulation.<sup>256</sup> In respect to market regulation three types of regulatory schemes are possible:

- 1) *Self-regulation* – market participants regulate themselves and their market;
- 2) *Co-regulation* – market participants regulate themselves and their market together with third parties;
- 3) *Government regulation* – the government/government agencies regulate markets and market participant.

The next three sections describe these regulatory schemes in turn.

### **Self-regulation: Actors regulating themselves**

#### *The inherent notion of democratic organisations regulating themselves*

Consistent with Pentoutopia’s fundamental ideas and concepts of free individuals, democratic organisations and subsidiarial authority,<sup>257</sup> in the democratic market economy, regulation starts with market participants regulating themselves and their own affairs, i.e. with *self-regulation*. Self-regulation can be understood as the establishment of statutory and regulatory standards of behaviour and the control of compliance with such regulation jointly by actors who belong to a same area or conduct a similar range of activities (e.g. who belong to a same geographical area, profession or trade, and/or who operate in the same market or industry).

In fact, in a democratic market economy, (self-)regulation frequently happens *before* market activities take place; it happens *within* democratic organisations. As outlined in Part II, democratic organisations are governed via *democratic governance*, i.e. they comprise robust organisational institutions of democratic governance (that are based on the principles of ‘checks and balances’, *separation of powers* and *subsidiarity*) that govern the organisation and organisational affairs according to legitimate authoritative sources and in a democratic way. Moreover, democratic organisations are managed via a combination of self-management, representative and participative management. Via these democratic institutions, principles and mechanisms, (all) members of the democratic organisation control the organisation’s business model, economic activities and behaviour, create and enforce rules, and make sure that the organisation demonstrates a conduct of business and economic behaviour that is consistent with its principles, values and objectives. The institutions and mechanisms of democratic (self-)governance and management mean that democratic organisations are regulated internally. Such internal self-regulation is part of organisational design and fabric, a value and mode of functioning that is *inherent* to democratic organisations.<sup>258</sup> Self-regulation, thus, comes naturally to democratic organisations, happens regularly

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<sup>256</sup> Or in a more technical sense: Which issues or aspects of markets, market mechanisms, market participants and their economic activities and behaviour should be regulated for which reasons, by whom, in what ways, to which extent, and with what (intended) outcomes and consequences?

<sup>257</sup> See chapter ‘Individuals – *free* individuals’ in Part I, ‘Free individuals and legitimate institutions’ as well as section ‘The principle of subsidiarity: Subsidiarial authority’ in Part II, ‘Democratic organisations’.

<sup>258</sup> This is another *large*, and *fundamental*, difference to orthodox, profit-oriented, hierarchical, anti-democratic organisations; in such organisations there is only authoritarian rule and governance, *no* democratic governance

(via the institutions and mechanisms of democratic governance and democratic management), and is fairly comprehensive and robust (because of the involvement and participation of *all* members of the democratic organisation).

The mode of self-regulation is then extended *beyond* the boundaries of the organisation because in their voluntary occupational participation/formal occupational involvement in the collective governance and regulation of their organisation, members of the democratic organisation have the mindset, skills and experience to be involved in the governance and regulation, management and organisation of matters of common concern, to establish and participate in collective decision-making, to associate and to be politically active (civic virtues and the sense and capacities of political efficacy).<sup>259</sup> In this sense, market participants jointly pursue regulatory or standard-setting activities (Garvin 1983, p. 37), i.e. self-regulation happens *among* market participants. Crucially, such self-regulation must adhere to the principles of democratic governance and management. This can be achieved if self-regulation takes place via *horizontal institutions*, e.g. communities, networks or especially established self-regulatory organisations such as associations (Meurs 1996, p. 117, Balleisen 2012, p. 447, Van Waarden 2014, pp. 360–363). The next sub-sections elaborate more on how self-regulation works.

#### *Main functions business associations provide*

The classical, and most prominent, type of self-regulatory organisation is the *association*, i.e. ‘a body of people who have voluntarily organized themselves in pursuit of particular goals’ (Berger & Neuhaus 2000, p. 171). Associations can be set up for various purposes (e.g. social, political, economic, professional or private) and they can play a large part in the self-governance and self-regulation of actors.<sup>260</sup> Associations can be found in every free society and market economy. Even in highly competitive markets, as in a neo-classical/neo-liberal market economy, there are quite a few associations. In the context of the economy, it is especially *business associations* – such as employers’ associations, associations of certain industries, trades or professions, trade unions or consumer associations – that emerge in many industries and markets, or with regard to certain issues. The table below shows the main services and functions such business associations provide (Ostrom 1971/1987, p. 37, Garvin 1983, p. 37, Cohen & Rogers 1995, pp. 42–44, 55, Doner & Schneider 2000, pp. 263–272, Fung 2003, p. 515, Dyce 2006, p. 3, Wright 2010, p. 180, CIPE & WCF 2011, p. i, Balleisen 2012, p. 447):

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and democratic management. Because of their autocratic/oligarchic, maximising and opportunistic concepts of organisation and conduct of business, orthodox (hierarchical and/or profit-maximising) organisations lack the principles and capabilities of (internal) self-regulation – they even lack the *awareness* of the need for, and the *will* to self-regulation.

<sup>259</sup> This is the so-called Tocqueville’s ‘schools of democracy’, ‘transmission belt’, or ‘spill-over effect’ theorem (Tocqueville 1835–1840/2003, Sobel 1993, p. 341, Eberly 2000, p. 7, Van der Meer & Van Ingen 2009, pp. 282, 284, Warren 2011, p. 381, Rosenblum & Lesch 2011, pp. 290–291, Minkoff 2016, p. 429).

<sup>260</sup> Section ‘Self-governance of the local public sphere: Free individuals and associations’ in Part IV, ‘Civil democracy’, discusses the importance and relevance of associations, *associationalism* and *associative democracy* for civil society and for the democratic (self-)governance of the public sphere and society in general.

Main services and functions business associations provide is to:

- Help and support their members in regard to specific economic, market- or business-related activities, such as: Research and market intelligence, identification and contacting of potential business partners, access to third parties, trade negotiations/negotiating and entering into contracts, legal advice and support, purchasing and procurement, exhibition and marketing of products and services, distribution, logistics, import/export procedures, (getting or providing) licences, certificates, warranties;
- Offer opportunities, capacity, infrastructure and resources to their members for common activities, for horizontal coordination and for individual members to engage, collaborate and deliberate;
- Generate, make available and disseminate information to their members, make recommendations, give advice, provide education and training;
- Provide (additional) incentives for membership, administer members;
- Oversee and enforce the implementation and administration of policies, rules and regulations;
- Monitor developments in, or relevant for, the industry or profession;
- Monitor market participants' economic behaviour and conduct of business, enforce compliance with policies, rules and regulations, punish deviance and misconduct, impose penalties;
- Represent and advocate the interests of their members and the industry or profession internally, to external stakeholders and to the general public;
- Address matters of public concern in the relevant industry or profession, formulate proposals, make suggestions, advance agendas, develop and establish industry standards, policies, rules, regulations, guidelines, codes of conduct;
- Contribute to the governance of public affairs, social and political issues.

Table 14: Services and functions provided by business associations.

By and large, associations help and support their members to conduct their specific activities, represent their interests, and attempt to influence relevant institutions, policies and society in their members' favour. Thus, there are good reasons for market participants to establish or join an association and to participate in such form of self-regulation (Wotruba 1997, p. 42). Gupta and Lad (1983, p. 421) argued that 'industry self-regulation is more likely in those situations in which the externally imposed costs from not undertaking such self-regulation would be greater than the cost of undertaking such self-regulation'. In a similar vein, Garvin (1983, p. 44) proposed that 'in general, the greater the benefit industry members expect to receive, the lower the costs of organizing on an industrywide basis, and the higher the probability of more stringent federal or state standards being enacted, the more likely it is that some form of self-regulation will appear'.

### *The calculus of self-regulation*

Of course, market participants regulate themselves and engage with associations for different reasons and to various degrees. For instance, actors or market participants that act and operate primarily on the basis of a cost–benefit calculus (i.e. follow and reflect the calculus of the classical ‘rational’ utility-seeker) participate in self-regulation only if – and as long as – it offers benefits conditional to their participation that exceed the (opportunity) costs of participating (Lenox 2006, p. 677).<sup>261</sup> They are mostly, if not solely, interested in getting support and services that directly benefit them (i.e. the first bullet points in the list above). For such actors it is enough to be an official member of the association in order to reap the benefits of their membership – and for the association it is enough to have actors as (passive) members in order to appear useful and powerful. This calculus also explains why many associations in a neo-classical/neo-liberal market environment are fairly focused on serving their members and why many of their members are *passive* members; associations are largely seen as of only *instrumental* use, i.e. their purposes are *solely* about serving the immediate interests of their members. Accordingly, the association’s functions are very specific and clearly demarcated or confined to the pursuit of their instrumental purposes.

In contrast, in the democratic market economy there would be many more associations with many of their members being quite actively involved in all forms of self-regulation in their relevant market or industry (i.e. to provide and actively pursue the whole range of functions listed in the table above). In the democratic market economy, associations present something else *in addition* to their instrumental use and the benefits they make available to their members; associations contribute to the *democratic governance of the economy* – which resonates well with legitimate market participants’ understanding of governance and regulation. As argued above in respect to internal self-regulation, democratic organisations are designed to regulate themselves – and they have the *innate* capabilities and willingness to regulate themselves and the conditions they exist and operate in because of their principles and values as well as their organisational institutions and means of democratic governance and democratic management. Thus, they will also be inclined to govern common affairs democratically and collectively, to govern and regulate market affairs, and (for this) to be actively engaged with the association(s) they are a member of and to contribute to that association’s activities. In other words: Market participants committed to the principles of the democratic organisation will initiate, participate in and strengthen self-regulation quite considerably and regularly since such a concept of governance and regulation corresponds with their internal values, democratic governance and democratic management as well as the way they operate and conduct business. Therefore, it can be expected that in the democratic market economy there will be (much) more voluntary institutions of democratic self-regulation (such as communities, networks or associations), and that (much) more self-regulation will take place.

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<sup>261</sup> And Lenox (2006, p. 678) explained further: ‘As long as these participation-contingent benefits exceed the cost of participating, firms will participate, even if some of the benefits of self-regulation (e.g. forestalling government regulation or improving the industry’s reputation) spill over to nonparticipants.’



### *Possible downsides of self-regulation*

In many respects self-regulation – i.e. market participants regulating themselves directly and/or via associations – works and is beneficial not only for the market participants themselves but also for the functioning of markets and industries as well as the economy and society in general (Garvin 1983, p. 40, Prosser 2008, p. 102, Balleisen 2012, pp. 457–458). However, self-regulation – if not governed and regulated properly – can be, or can become, rather dysfunctional and can produce detrimental effects (Garvin 1983, pp. 38–49, Doner & Schneider 2000, pp. 262, 271, Balleisen 2012, p. 462, Delmas & Toffel 2012, p. 236). To illustrate, associations – or other (special) interest groups – can pursue very narrow interests, policies and outcomes that are only good for them and their members, but not necessarily for others, the economy, the wider public or society as a whole (Hughes 1994, pp. 182–183, Hutter & O'Mahony 2004, p. 9).<sup>262</sup> There is a concern that industry or trade associations turn from industry self-regulation to industry protectionism (Maitland 1985, p. 137), i.e. that self-regulation largely protects established market participants, their businesses and market positions, and mutes competition and innovation (von Nordenflycht 2010, pp. 163–164). Self-regulation might:

- a) Only be conducted in order to strengthen association members' position illegitimately, gain preferential treatment or unfair advantages at the expense of others;
- b) Impair the market mechanism or competition (e.g. via the creation of a monopoly, oligopoly, cartel or price setting);
- c) Be quite anti-democratic in the ways self-regulation is organised and conducted (e.g. oligarchisation, non-transparent decision-making, obscured accountabilities);
- d) Avert better regulation (e.g. self-regulation establishes watered-down standards, foot-dragging on enforcement and/or might prevent the imposition of more substantial or stringent external oversight and regulation), goes against the common or public interest or society as a whole.

These possible negative aspects and effects of self-regulation show its limits, i.e. *when* – and *until* – self-regulation can be applied as a positive force. In this sense, market participants should regulate themselves only if – and as long as – their self-regulation:

- a) Also increases the welfare of other market participants, society as a whole and the environment;
- b) Is consistent with the fundamental principles of the free market and a functioning market mechanism;
- c) Corresponds with the fundamental principles of democratic governance and democratic management;
- d) Provides regulation that is effective, appropriate, substantial, efficient and advantageous for individual actors, the market and society as a whole.

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<sup>262</sup> For more on interest groups, networks, collaboration, co-production and (self-)regulation see Hughes (1994, pp. 147–150, 172–179).

### Co-regulation: Actors regulating themselves together with third parties

Where self-regulation of an industry, market or profession reaches its limits – i.e. when it is solely or primarily self-interested, impairs the market mechanism, is rather anti-democratic and/or averts better regulation – then regulation from outside is required (Garvin 1983, p. 46, Van Waarden 2014, p. 359).

In the spirit of democratic governance and democratic management of the democratic market economy (and the principles of autonomy and cooperation), involvement of third parties in regulation first suggests *horizontal* regulation or *co-regulation*. In an economic context, co-regulation means the voluntary interaction and cooperation of actors concerning the regulation of a particular area (e.g. a market or an industry) or certain (political, legal, social, economic or environmental) issues (e.g. certain types of economic activities or conduct of business, or the outcomes or consequences of such economic behaviour), whereby at least one of the actors is the one whose behaviour causes, or contributes to, the emergence of the particular phenomenon in question and, thus, should be regulated, and another actor – ‘third party’<sup>263</sup> – who is *not* involved in that particular area, form of activities or behaviour, but has a vested interest in that particular area, issue and/or the actors operating in that area and how they operate.

Co-regulation means the joint development and implementation of principles, norms and values, policies and measures to monitor, manage, regulate and sanction certain and specified behaviour of particular actors as well as the conditions for, and consequences of their behaviour. In a market economy co-regulation is mainly about: a) setting the conditions for market participants’ economic activities and economic behaviour (e.g. via jointly developed and promoted guidelines, industry standards or codes of conduct), b) regulating (certain) market participants’ economic activities and economic behaviour (e.g. via voluntary agreements and independent oversight), and c) reducing, minimising or even avoiding market failure and/or the negative consequences of market failure (e.g. via individual or concerted actions).<sup>264</sup>

Co-regulation can happen in various ways. For instance, the parties involved in co-regulation might collaborate closely and directly, or they collaborate more openly in advisory and expert panels, forums or public gatherings. Some stakeholders might try to get actors agreeing to, and complying with regulations more indirectly via lobbying policy-makers, mobilising public opinion, using news media and social media, or by social activism.<sup>265</sup> If it works and is taken seriously by all parties involved, co-

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<sup>263</sup> Third parties participating in co-regulation can be market constituents (investors, shareholders, financial institutions, suppliers or customers), auditors (e.g. industry experts, editors, appraisers, accreditors, certifiers, rating agencies, brokers, dealers, product-comparing websites, independent institutes, think tanks, networks), Civil Society Organisations (NGOs, civil associations, social movements, pressure groups, activist organisations, local or online communities), or individual citizens (Lehmann Nielsen & Parker 2008, p. 313, Delmas & Toffel 2012, p. 240, Beer et al. 2014, pp. 329–331, Van Waarden 2014, p. 359).

<sup>264</sup> Schuler and Christmann (2011, p. 133) argued that ‘market-based social governance schemes like fair trade aim to change the behaviors of producers and traders in international trade by establishing production and transaction standards such as environmentally-friendly production methods, minimum age for work, and fair prices paid to producers as well as mechanisms to enforce these standards ... in order to improve the lives of the producers and their communities’.

<sup>265</sup> According to Lehmann Nielsen and Parker (2008, p. 313): ‘The tools of monitoring and “enforcement” available to each type of stakeholder are likely to differ by reference to the resources of the stakeholder, the nature of the relationship between the stakeholder and the regulatee, and how frequent and close their contact is. Thus, *social* stakeholders might use shame, publicity, and the grant or withdrawal of friendly and cooperative relations to obtain leverage over regulators. *Economic* stakeholders can use interest rates, share prices and the refusal of

regulation can influence substantially how individual organisations conduct their business (Schuler & Christmann 2011, pp. 136, Soule 2012). For example, Delmas and Toffel (2012, p. 229) found ‘that firms’ environmental strategies and practices are influenced by external stakeholders and institutional pressures, including from regulators and competitors’, and concluded (p. 234) that ‘there are many examples where companies have amended their environmental practices in response to environmental group pressures’.

In this sense, co-regulation means *democratisation of regulation* (Hutter & O’Mahony 2004, p. 8). It is the fundamental idea of co-regulation that co-regulators might have distinct, or even diametrically opposed interests in a particular issue, market, industry or the economic behaviour of certain market participants, and they may differ in how they interpret the phenomena that need to be regulated and might come up with very different solutions. These differing views and aims of co-regulators need to be ‘somehow’ aligned. Co-regulation implies (mechanisms of) deliberation, negotiations and democratic decision-making. This democratisation of regulation is consistent with the principles and values of democratic governance and a democratic market economy.

In the democratic market economy, market-related co-regulation would be relatively widespread, collaborative and intense because the notions of democratic governance, cooperation and participative decision-making are deeply embedded in actors’ minds and conduct of business (Meurs 1996, p. 115, Hutter & O’Mahony 2004, p. 8). Market participants will regulate themselves together with non-governmental third parties mainly because of their high(er) degree of social orientation, in particular their greater interest in voluntary, mutually beneficial cooperation, their stronger community orientation and greater concern about the common good and community well-being. In the democratic market economy there is a *culture of cooperation and co-regulation* – cooperation as a value in and for itself – that most market participants and third parties cherish (Lehmann Nielsen & Parker 2008, p. 310).

By and large, co-regulation means *better* regulation. This is so mainly because the parties involved in co-regulation contribute *different* perspectives and interpretation in regard to the issues at stake, *different* types of knowledge and expertise. This enhances the spectrum of aspects considered, the ways in which they are considered as well as the spectrum of possible solutions – ‘Two heads are better than one’, as the old adage goes. The higher quality of regulation is (also) a consequence of democratic collaboration and co-regulation.

Nonetheless, as with self-regulation, there are *limits* to, or weaknesses of, co-regulation. One is that co-regulators probably do not have equal status and power. Very often, the actor or actors (e.g. single market players or whole industries) whose actions and economic behaviour are to be regulated are larger organisations with quite a lot of economic and political power. In contrast, the co-regulators are often small voluntary organisations with rather limited resources and capacities. So, the parties participating in co-regulation are not ‘equals’. The weaker party usually has little or no power or institutional authority

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investments, loans or sales to enforce their expectations. *Legal and regulatory* stakeholders use moral persuasion and protest, regulatory inspection, and civil or criminal legal action to enforce the terms of the ‘legal license to operate. ... Each set of stakeholders might also seek additional influence via the resources of other groups of stakeholders. So political activists (social stakeholders) do not merely use moral protest and shaming publicity to achieve their goals, but might also seek to persuade consumers (economic stakeholders) to boycott a business. Competitors, customers or business partners (economic stakeholders) might complain about non-compliance to the regulator (legal stakeholder)’.

to get the stronger party to cooperate, to agree to particular regulatory concepts or measures, to implement and comply with them – which means that decision-making happens, or can happen, in rather ‘unbalanced’ and ‘one-sided’ ways.<sup>266</sup> In that sense it might be said that although co-regulation contributes considerably to the *democratisation of regulation*, at the same time it can be a rather asymmetrical social relationship and imbalanced process of deliberation. That could also be the case in Pentoutopia.

In addition, co-regulation makes things more complex and, hence, more complicated – especially for the stronger party. Without co-regulation it would be relatively easy for market participants to develop and implement regulatory policies because they would not need to take into account differing positions and interests (or would do so only if they wanted to). Co-regulation puts pressure on market participants, pressure they probably dislike and try to circumvent. Deliberation and negotiations as part of co-regulation thus might produce not so much clear and coherent solutions but rather window dressing, ‘bad’ compromises and watered-down solutions and policies that largely serve the interests of the market participants. It might be reasonable to assume that in a democratic market economy the differences between the parties involved in co-regulation would not be as fundamentally different – and opposing – as the interests of parties in a neo-classical or neo-liberal market economy (as, for example, the interests of Greenpeace and Shell in regard to oil exploration and protecting the natural environment). Market participants as well as third parties share the norms and values of democratic governance and considerate conduct of business. Nevertheless, despite those common beliefs and orientations, also in Pentoutopia co-regulators would have different interests and understandings in respect to the issues at stake.

All in all, in the face of both the strengths and weaknesses or limits of co-regulation it can be proposed that market participants should regulate themselves and their economic behaviour together with non-governmental third parties if – and as long as – this co-regulation corresponds with the fundamental principles of democratic governance and democratic decision-making (democratisation of regulation) and produces outcomes that take into account, and reflect, the willingness and diverse contributions of all actors involved in the co-regulation (quality of regulatory proposals).

### **Government regulation: Actors regulated by government (agencies)**

By and large, market participants’ self- and co-regulation works well mainly thanks to actors’ beliefs in, and adherence to, democratic governance and democratic management. Nonetheless, as argued above, self- and co-regulation *can* malfunction and *can* have limited or even detrimental effects, i.e. they *might*:

- a) Be advantageous only for a few – they might increase the welfare only of some market participants or an industry at the expense of others, society or the environment;
- b) Not be consistent with the fundamental principles of the free market and a functioning market mechanism;
- c) Function and work against the fundamental principles of democratic governance and democratic management;
- d) Be ineffective, inappropriate, inefficient or otherwise disadvantageous for individual actors, markets or society as a whole.

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<sup>266</sup> However, civil society organisations might have (great) ‘moral power’ that can put quite some pressure on co-regulators and other stakeholders and can convince them to agree to, and to adapt, certain regulatory measures.

If self- and co-regulation function inefficiently, and/or have reached the limits of their regulatory functions, the democratic market economy needs additional, *external* oversight and regulation. It requires *government regulation*. ‘Government regulation’ means that ‘the state’ – i.e. national governments and government agencies – formulates, implements and monitors regulation (laws, policies, rules, norms, standards and the like) that governmental and non-governmental actors have to apply and comply with.

When it comes to government’s role in (market) regulation, people might think first about government banning certain things. Indeed, government regulation can mean that certain (economic or commercial) activities or issues, even whole markets or industries, are made illegal. The table below lists some examples of activities that are, or should be, outlawed.

<b>Unlawful activity</b>	<b>Examples of outlawed (economic or commercial) activity</b>
Trade, abuse, exploitation or other inhumane treatment of human beings	Slavery, forced labour, child labour or other forms of child abuse and exploitation, commercial surrogacy, people trafficking, sexual exploitation, inhumane, unsafe or health-threatening work conditions.
Trade of human bodies or body parts	(Unauthorised) trade or use of human bodies or body parts (human organs, tissue, egg cells, sperms) not for scientific or medical purposes (e.g. medical research or treatment of patients) but for commercial purposes (i.e. making a profit).
Inappropriate treatment of animals and rare species	Hunt, possession, trade or use of endangered and protected species (animals, plants), inadequate keeping or treatment of livestock or pets.
Illegitimate handling of protected valuable assets	Unauthorised collection, storage, use or trade of protected cultural artefacts, national treasures, (certain) antiquities, trade secrets, confidential or personal information.
Handling of illegal, harmful or dangerous goods	Possession, trade or use of (certain) drugs, illegal goods or counterfeits, unauthorised possession, trade or use of radioactive material, (certain) hazardous biological, biochemical or chemical materials, some small arms, weapons, military equipment.
Illegitimate economic or commercial activities	Practices or commercial activities that unfairly disadvantage or harm others, others’ assets, the common good or nature, e.g. buying votes, buying favours (bribing), money laundering, dealing with illegal goods or counterfeit (money or products), smuggling, trafficking, unlawful logging, poaching, insider trading.
Illegitimate organisations	(Some) cartels, Ponzi schemes, (some) sects or secret societies, criminal, terrorist or otherwise dangerous organisations.

Table 15: Economic or commercial activities outlawed by government regulation.

Whether it is the inappropriate handling and treatment of human beings or species (animals or plants), illegitimate handling of certain categories of goods (protected valuable assets, illegal, harmful or dangerous goods), illegitimate economic or commercial activities or other unethical and/or undesirable activities – *all of these activities could, and would, be conducted in unregulated, even in self- or co-regulated markets (because some actors would deem such activities advantageous for them). Only government regulation can – and must – outlaw such activities and make them hugely unattractive and costly (and, indeed, the more highly developed a country and society is, the more of these activities are outlawed).*<sup>267</sup>

But government regulation is much more, and much more fundamental, than outlawing and prosecuting illegitimate and despicable activities. In respect to markets, market participants and their economic behaviour or economic activities, the main aims of government regulation are to:

- 1) Establish a market, i.e. to specify the fundamental principles and rules that define a market and its market mechanism and that clarify what are – and what are not – legitimate and legal activities and economic behaviour in that market;
- 2) Enable the functioning of the market, i.e. to provide a policy framework and specific guidelines that outline market participants' formal, legal, procedural and factual rights and responsibilities;
- 3) Support and reinforce market participants' economic behaviour so that it complies with all principles of a free market, functioning market mechanism, democratic governance and management as well as actors' rights and responsibilities;
- 4) Monitor market participants and their economic behaviour and punish deviating, illegitimate and illegal economic behaviour.

In every developed market economy there is a plethora of government regulation in respect to these issues so that it is almost easier to list those few exceptions of what is *not* regulated than give an extensive list of what *is* regulated. Actually, it might be rather difficult to find an economic or commercial activity or area that is *not* regulated in some respect. Even the market that comes closest to the 'perfect' market – the stock market – is heavily regulated by the government, it could not even exist without government regulation.

In this sense, government regulation is fundamentally necessary – and it works. Whether it is about outlawing certain (economic or commercial) activities, laying the foundations for people's (economic)

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<sup>267</sup> Neo-liberals, right-libertarians or right-wing market anarchists (such as Friedrich Hayek (1899–1992), Milton Friedman (1912–2006), Murray Rothbard (1926–1995), or the like) tried for decades to make the case for 'unrestricted' freedom (and, thus, 'unregulated' social systems) and rejected government regulation and intervention on ideological grounds. Even some left-libertarian market anarchists argue for radically free markets and oppose any interference in personal and economic affairs (Chartier & Johnson 2012, p. 1, Left-libertarianism 2018), 'rejecting all forms of domination and government as invasions against liberty and violations of human dignity.' (Chartier & Johnson 2012, p. 2). Both left- and right-wing market radicals and anarchists believe in the 'spontaneous order' ideology, i.e. they regard, portray and want the market as an area of economic activities where seemingly anything is possible and nothing is set or regulated. This is a rather naive and misleading understanding. No social system, and markets and economies are social systems, could exist and function without externally formulated, implemented and enforced principles, norms, policies and regulations.

activities, or getting actors to behave in particular ways, government regulation works (more often than not) – and sometimes is the only measure that works considering the shortcomings of self- or co-regulation discussed earlier. According to the American economist Joseph Stiglitz (2012, p. 49) ‘matters are better *with* regulation than *without* it’. In many instances, government regulation produces more advantageous than disadvantageous effects. For example, Delmas and Toffel (2012, p. 233) found manifold empirical evidence in various academic studies that enforced legislation and government regulations pressure organisations to adopt good environmental practices, that ‘more stringent regulatory environments [are] associated with higher levels of adoption of beyond-compliance environmental practices’.

### **The concept of interlocking regulation**

In the democratic market economy regulation of markets, industries and market participants happens comprehensively and robustly via self-regulation, co-regulation *and* government regulation (Eisner 2004, Balleisen 2012, Stiglitz 2012). Such mixed regulatory systems are regarded as ‘the most desirable policy option’ (Garvin 1983, p. 37). Eisner (2004, p. 156) argued that ‘rather than focusing on the relative merits of different instruments as if they had to exist as mutually exclusive alternatives, it is far more useful to consider how they might be combined to provide optimal results’. The question is how exactly self-regulation, co-regulation and government regulation are (to be) linked and together constitute a comprehensive and coherent concept of market regulation. For the democratic market economy, the concept can be described as follows:

1. Markets emerge from initially uncoordinated, and unregulated, economic activities and economic behaviour of individual actors that, if happening repeatedly, transform into routine behaviour, patterns of actions and interactions, expectations, social norms and rules. As outlined at the beginning of this chapter (see sections ‘First institutions of the free market: Norms and rules’ and ‘Basic norms and rules constituting the free market’), such patterns become markets, *institutionalised* markets. The social norms and rules that have emerged not only offer some ideas about what is (and what is not) expected and appreciated behaviour, they also provide a basis for how market participants’ economic behaviour, their compliance (or non-compliance) with the prevailing expectations, norms and rules, is judged – and *sanctioned*; in most instances, there will be (direct or indirect) reactions to actors’ economic behaviour and actions from other market participants. Hence, market participants’ economic behaviour is *regulated* by themselves as well as by other market participants. These social or socio-economic (interactive) behavioural dynamics constitute an early form of *self-regulation*.
2. Most markets exist within larger social systems (i.e. societies, often in form of nation-states) that have established institutions of governance and regulation (in particular: executive, legislature and judiciary). Hence, most markets fall under national governance and jurisdiction, i.e. *government regulation*.<sup>268</sup> On the basis of, and in line with, its own principles of democratic governance, democratic management and a democratic market economy, government sets the regulatory framework for the

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<sup>268</sup> There are also, of course, global industries and markets, cross-border trade and other economic activities that (to some extent and in some respects) go beyond national borders and national governance. And there are binational, multinational or international agreements, governance, jurisdictions and regulations that try to cope with these phenomena. This would be also the case in a democratic market economy. Here in this book, though, for the sake of simplicity it is mainly abstracted from global or international issues.

democratic market economy as a whole as well as specific markets and industries by specifying the fundamental principles and rules that define markets and (their) market mechanisms, enable markets to function properly, outline market participants' formal, legal, procedural and factual rights and responsibilities, and clarify what are – and what are not – legitimate and legal economic activities and economic behaviour.

3. Regulatory frameworks in the democratic market economy aim at strengthening and supporting legitimate market participants, i.e. autonomous individuals and democratic organisations, to make sure that they have equal rights, opportunities and responsibilities, and that they can govern and regulate markets and economic affairs on their own as far as is possible, appropriate and advantageous, for all market participants, society and the environment. This *self-regulation* is largely conducted and achieved via associations or similar voluntary institutions. Such associational self-regulation of markets means that market participants committed to the principles of the democratic organisation are encouraged and enabled by the government to regulate themselves and the market they operate in and to manage their own affairs (via associations or other democratic institutions) within – and because of – the regulatory framework provided by the government.
4. If self-regulation: a) is inconsistent with the fundamental principles of the free market and a functioning market mechanism; b) increases the welfare only of a few or an industry at the expense of other market participants, society as a whole and/or the environment; c) provides regulation that is ineffective, inappropriate or inefficient; and/or d) does not correspond with the fundamental principles and standards of democratic governance and democratic management then it needs to be complemented by other regulatory mechanisms. Since in Pentoutopia most actors believe in, and show, democratic governance and considerate conduct of business, some actors (such as market constituents, auditors, Civil Society Organisations or individual citizens) will be keen to co-regulate those markets and market participants where self-regulation doesn't work (sufficiently). Co-regulation takes place mostly in addition to market participants' self-regulation, but in some instances might even replace it.
5. If co-regulation does not function well because it does not correspond with the fundamental principles of democratic governance and participative decision-making and/or it produces outcomes that do not take into account, and reflect, the diverse contributions of all actors involved in the co-regulation, then *government regulation* in the form of direct intervention is required. In the case of market failure or insufficient self- or co-regulation, government needs to directly regulate markets, market participants and their economic behaviour so that they comply with all principles of a free market, functioning market mechanism, democratic governance and management as well as actors' equal rights and responsibilities. In particular, government will monitor market participants and their economic behaviour, support and encourage organisations, behaviour and actions that are consistent with the fundamental principles of the democratic market economy and considerate conduct of business, and discourage and punish organisations, behaviour and actions that are illegitimate and/or cause, or contribute to, market failure. Government regulation/government itself must adhere to the principles of democratic governance and democratic management. Government regulation, therefore, needs to be done in democratic, cooperative and participatory ways, i.e. it will include self- and co-regulation.



6. If government does not have sufficient knowledge, competences or resources to provide appropriate and efficient direct regulation it needs to set up, or help to set up, institutions of self- or co-regulation that are able to offer this regulation. In a democratic market economy, the government would be willing to delegate some of its regulatory authority because it is based on the notions of democratic, cooperative and participative governance. And many actors (i.e. the market participants or their representatives, associations, auditors, civil society organisations or similar institutions) would be willing to get involved in such regulation, would readily agree to be entrusted with regulatory functions because it would offer them an opportunity to shape and influence regulation which they otherwise would not have. Thus, self- and co-regulation complete or even replace government regulation when the latter has hit its limits.<sup>269</sup>

All in all, in the democratic market economy market regulation is a combination of:

1. Emerging self-regulation (by market participants);
2. Government regulation setting regulatory frameworks (rules, regulations, policies and standards);
3. Systemic internal and associational self-regulation (by market participants);
4. Intensive, largely collaborative co-regulation (between market participants and third parties);
5. Interventional government regulation (actual measures); and
6. Delegated, entrusted self- and co-regulation (by various actors).

This system or concept of regulation can be called *interlocking regulation*. Interlocking regulation applies the principle of subsidiarity;<sup>270</sup> markets, market participants, economic behaviour and issues are regulated first by those institutions and actors (market participants, associations, civil society organisations, government and government agencies) that are closest to (the sources of) the issues that need to be regulated. Hence, in the democratic market economy market regulation happens ‘bottom-up’ (within a regulatory framework initially set by the highest authority); first comes self-regulation, then co-regulation, and only then government regulation.

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<sup>269</sup> For example, Eisner (2004, p. 162) summarised the advantages of delegated regulation succinctly: ‘The benefits of the proposed system are many. Regulators benefit because they can manage information scarcity by delegating authority to associations to tailor regulations to the circumstances of specific industries. ... Associations benefit because they can participate in regulatory design to make regulations more responsive to the needs of their members. ... Corporations interested in environmental management benefit as well. They can reduce regulatory costs by complying with association standards; the returns to green production will be increased via procurement preferences and mandatory information disclosure that prevents their achievements from being obscured by greenwash. Finally, the public will benefit. Existing regulatory standards will constitute a floor rather than a ceiling. The system of incentives could stimulate ongoing innovations in environmental management, reducing the costs imposed on society and achieving higher levels of environmental.’

<sup>270</sup> See section ‘The principle of subsidiarity: Subsidiarial authority’ in Part I, ‘Free individuals and legitimate institutions’.

## The democratic market economy in overview

The chapters above have developed the model of the democratic market economy step by step. This final chapter provides a succinct overview and some analysis of the model. In particular, this chapter: 1) presents the key features and advantages of the democratic market economy, 2) shows how the model of the democratic market economy compares to the model of the neo-liberal market economy, and 3) offers some final assessment of why (and how) the democratic market economy works (so well).

### Key features and advantages of a democratic market economy

In this Part III, the basic elements and mechanisms of the democratic market economy have been outlined along four areas: 1) Foundations of the free market; 2) Legitimate market participants and (their) considerate conduct of business; 3) The workings of the democratic market economy; and 4) Regulation of markets and market participants. According to these features, the *democratic market economy* can be defined as an economy:

- 1) That is based on the notions of a *free market* and a (well) functioning *market mechanism* where all actors/market participants are as free as possible, free to make their own decisions, to conduct economic activities, and to enter into contractual agreements (such as partnership agreements or commercial contracts) that are consistent with the fundamental human, democratic and civil rights of individuals as well as the fundamental principles and norms of freedom, democracy, equality, justice and sustainability. All actors are entitled to the legal and statutory rights of private ownership, property rights, management and control rights, as well as to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through organised work.
- 2) Where only *legitimate* market participants (i.e. democratic organisations or autonomous individuals/self-employed) operate and perform economic activities; pursue social, environmental and economic goals and objectives; and conduct their business in considerate, decent, responsible, balanced and sustainable ways.
- 3) Where cooperation and 'non-combative' competition are the prevailing modes and mechanisms of microeconomic behaviour and interaction between market participants. Market participants have a *cooperative mind*, i.e. a strong sense of cooperation, solidarity and active citizenship, collaborate extensively with others in mutually beneficial ways (i.e. in form of direct cooperation or through partnerships, associations, cooperatives, clusters or networks of cooperation), and compete in non-combative ways. At a macroeconomic level, economic activities, outcomes and performance are measured as *social, environmental and economic development*. The overall focus is on nurturing and developing the welfare and well-being of individuals, the environment or society, and reducing or eliminating those phenomena that reduce, damage or destroy the welfare and well-being of individuals, the environment or society.

- 4) Where regulation happens via *self-regulation* (voluntary regulation jointly by actors with similar and common interests), *co-regulation* (voluntary regulation jointly by actors with differing interests), and *government regulation* (compulsory regulation by government or government agencies). Self-regulation, co-regulation and government regulation complement each other and together constitute a system of *interlocking regulation* that: a) is consistent with the fundamental principles of the free market and a functioning market mechanism; b) corresponds with the fundamental principles of democratic governance and democratic management; c) takes into account, and reflects, the diverse contributions and interests of all actors involved in the regulation and relevant stakeholders; d) provides regulation that is effective, appropriate, substantial and efficient; and e) increases the welfare of the market participants, society as a whole and the environment.

The following sub-sections present in turn the key features of the model of the democratic market economy and its main advantages.

### 1) Foundations of the free market

Consistent with the fundamental ideas of free individuals and legitimate institutions, the democratic market economy is based on the notions of a *free market* and a (well) functioning *market mechanism*. In a free market, supply and demand of goods and services are decided by many market participants (producers and consumers/buyers and sellers) in decentralised ways on the basis of flexible and transparent price and exchange mechanisms. All market participants are as free as possible, free to make their own decisions and act accordingly.<sup>271</sup> The democratic market economy has these basic assumptions and settings in common with the neo-classical model of the market, or any other liberal market model. But the model of the free market as developed here in the context of a democratic market economy is based on *realistic* assumptions, much more realistic assumptions than the neo-classical model especially with respect to market participants and their behaviour. In the democratic market economy model, market participants are seen as *socially embedded* individuals or organisations with diverse and multidimensional sets of values, orientations and interests. They are assumed to have only incomplete and inconsistent information and make their more or less informed decisions according to various rationales.<sup>272</sup> With such realistic assumptions, markets in the democratic market economy resemble neither the neo-classical unicorn of the ‘perfect’ market where ignorant and selfish actors allegedly maximise their profits and utility, nor existing neo-liberal imperfect markets where the rich and powerful, large corporations or other mendacious and greedy profit-hunters exploit the many.

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<sup>271</sup> Carnoy and Shearer (1980, pp. 275–276) commented that ‘Under economic democracy, the rules of the market game would be changed: there would be more players (cooperatives, worker-owned firms, community development corporations, public enterprises), and the relationships between the players would be more balanced. This kind of market actually resembles Adam Smith’s *laissez-faire* vision of the “invisible hand” more than does the existing corporate-dominated US economy. The invisible hand works only when producers and consumers are relatively equal in terms of knowledge and power.’ And Malleon (2014, p. 203) added that ‘there is no reason why such an economy could not function smoothly. Price signals would provide everyone in the economy with information about supply and demand. Workers would have incentives to find jobs. And businesses would have incentives to respond to consumers’.

<sup>272</sup> That is, actors are not (wrongly) imagined as isolated, ‘rational’, utility-maximising individuals or profit-maximising organisations with complete information, as the neo-classical theory does.

Crucially, that there is a free market at all, that actors are equally free and able to make decisions and to act in the marketplace as *they* deem right is thanks to *institutions*, to *specific* social norms, rules and regulations the market is built on, defined and maintained by (and not because the market is based on value-free assumptions and functions according to abstract, 'natural law-like' mechanisms). Any *free* market is *by necessity* based on social norms of freedom, democracy, equality, justice and sustainability. The free market is free *because* of specific social norms, rules and regulations (i.e. institutions), *not* because of an *absence* of norms, rules and regulations. With the explicit inclusion of institutions in the model of the free market it becomes clear(er) that markets *can*, and *must*, be designed, managed and maintained by people – and that markets *can*, and *must*, be designed, managed and maintained of the people, by the people, for the people.

The roles and relevance of institutions – for any social system in general and the market in particular – can't be overestimated. For a free market, legal and contractual norms and regulations are some of the most important norms and regulations. In particular the institutions of *private ownership* and *property rights* – i.e. legal rights, entitlements and responsibilities in regard to things (private property), especially their ownership, possession, use, transfer and the fruits stemming from their use – *commercial* and *contract law* are paramount. Significantly, in the democratic market economy *every* market participant as well as *every* member of an organisation is entitled to the legal and statutory rights of private ownership (of the means of production), property rights, management and control rights. This means that capital and private ownership of the means of production is *widely dispersed*. *Everyone* is *legally* entitled to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through collaborative work within organisations.<sup>273</sup> This guarantees a level of productivity, efficiency and effectiveness, fairness and justice (in respect to the allocation, usage and remuneration of the factors of production, people's participation in the sharing of the value they created respectively) that other models of a market economy can't provide.

In order to enable market participants to conduct economic activities and to ensure the market mechanism functions, freedom of contract is essential – especially in respect to institutions of private ownership and related property rights, work, and the exchange of goods and services – but a freedom of contract that appreciates, acknowledges and guarantees everyone's inalienable human, democratic and civil rights. In a democratic market economy, any contractual agreement has to be legal *and* legitimate (i.e. in compliance with all relevant laws and regulations *and* with the norms and notions of free individuals and democratic institutions). Hence, in a democratic market economy, all contractual agreements (like the partnership agreement) are consistent with the fundamental human, democratic and civil rights of individuals as well as the fundamental principles and norms of freedom, democracy, equality, justice and sustainability. In the free market of the democratic market economy people – *all* people – are appreciated, enabled and respected as free individuals and enjoy the same range of equal formal, legal and factual status and rights. In a democratic market economy there are no employers and employees, no landlords and tenants, no masters and servants, only owners.

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<sup>273</sup> This is another difference from neo-classical/neo-liberal models of a market economy, where only a *minority* of market participants enjoy the legal rights of ownership (of the means of production), related property rights, management and control rights and are legally entitled to the 'fruits of their own labour' and to a 'fair share' of profits (owners and some managers), whereas the *majority* of market participants (employees) are denied these rights.

## 2) *Legitimate market participants and (their) considerate conduct of business*

Crucially, in a democratic market economy there are only *legitimate* market participants (i.e. democratic organisations and autonomous individuals/self-employed with a (pro)social orientation and behaviour). Such legitimate market participants *are* fundamentally different (compared to profit-maximising organisations or corporations), and they *do* business differently. As part of their decent business model and considerate conduct of business, democratic organisations are keen to provide *quality*, (better) products and services that serve their key stakeholders. And there is higher quality in *how* the products and services are produced and delivered. For instance, referring to the industries outlined above:

- The agricultural business is dominated by individual farm owners/family businesses and farmer or agricultural cooperatives. They produce quality products (e.g. organic products), that are more nutritious and healthier, in more socially and environmentally friendly, sustainable ways;
- Private owners and housing cooperatives own, occupy and manage housing. Cooperatives offer affordable housing at significantly lower unit and maintenance costs. The quality of the buildings is higher. And they provide housing with a human touch; living conditions, social relationships and quality of life are much better for occupants;
- Retailers are family shops, consumer cooperatives or partnerships. They offer largely ethically sourced products. The products are of good or superior quality, long-lasting, reusable or recyclable, and represent ‘value for money’. These retailers don’t use deceptive marketing practices and sales tactics, but give transparent price and product information, and honest and informative customer service;
- Democratic financial institutions (cooperative banks, credit unions, savings banks, building societies) offer banking and financial services and products (savings, loans, investments, financial transactions) with better terms and conditions, lower service fees, and their products are fairer and more ethical. They have a much better and more personal customer service and conduct their business in honest, decent and trustworthy ways;
- (Beside, and in collaboration with, statutory and voluntary caretakers) not-for-profit social services organisations provide highly personal (and personalised) social services, the best and broadest care possible. They *care*. They offer and conduct their services in professional, i.e. efficient *and* compassionate ways. They offer (much) better services, higher quality at reasonable prices.

Altogether, one can say that democratic organisations’ better economic behaviour shows in their products *and* in their behaviour; as market participants, democratic organisations conduct their business in considerate, decent, responsible, balanced and sustainable ways. This makes a difference, a *big* difference. It changes the functioning of whole industries and markets. In the neo-classical model of the ‘perfect’ market all market participants *have to* be profit-maximisers, and *must* show corresponding competitive – i.e. aggressive, opportunistic and exploitative – economic behaviour. In neo-classical models of imperfect markets (e.g. monopoly or oligopoly) and existing neo-liberal industries, market participants show predominantly opportunistic, inefficient, illegitimate, immoral and mendacious behaviour. For the majority of market participants (the weaker ones, ones with less status, rights, privileges and power), neo-classical or neo-liberal markets and industries are a nightmare. In contrast, in a democratic

market economy every industry consists mainly of *legitimate* market participants demonstrating *considerate* conduct of business and economic behaviour. Markets (as well as society and the world in general) are so different and so much better when market participants are legitimate actors demonstrating decent behaviour (and not profit-maximising opportunists conducting their business in narrow-minded, greedy, imbalanced and unsustainable ways).

### 3) *The workings of the democratic market economy*

The behavioural and microeconomic foundations and workings of a market economy stretch from individual market participants' economic behaviour via interactions among and between market participants to the emergence and functioning of whole industries and markets. That the democratic market economy functions differently (and so much better) is due to its institutions, but also to legitimate market participants' orientations and behaviour – individual market participants' economic behaviour, the actions and interactions between market participants (direct cooperation, cooperative patterns and networks, competitive behaviour) – the functioning of whole industries, as well as economic growth/social, environmental and economic development as main outcomes of market participants' orientations and behaviour at aggregated level.

First, as argued above, it is about *individual market participants' economic behaviour*, i.e. the ways individual market participants conduct economic activities and their business, operate and behave in a market environment in accordance with their orientations, purposes, goals and objectives. Because of their (pro)social, pro-environmental and socio-economic orientations and objectives, democratic organisations predominantly act, and conduct their business, in considerate, responsible, balanced and sustainable ways.

Moreover, besides their *actions* it is also democratic organisations' *interactions* with other market participants that are different – and make a difference. Because of their predominantly (pro)social orientation and behaviour and their stakeholder orientation – and corresponding internal functioning that largely follows the rationales of (democratic) collaboration – democratic organisations have a *cooperative mind*, a strong sense of cooperation, solidarity and active citizenship. They find more common interests with others and thus act and collaborate in more mutually beneficial ways, conduct (their) business in more collaborative ways. Agricultural, housing, retail and consumer cooperatives, democratic financial institutions (cooperative banks, credit unions, savings banks, building societies) are perhaps some of the most commonly known and long-established forms of organised cooperation between free individuals and market participants. And there are, of course, other forms of organised cooperation that are equally relevant, namely partnerships, associations, community-based networks, clubs, civil society organisations, non-governmental organisations and the like.

These forms of organised cooperation are meant to help their members to pursue common goals and to conduct certain activities collectively, to aggregate, pool and share resources, to achieve economies of scale as well as higher quality in what their members do. Such cooperation leverages individual members' capabilities considerably, offers various advantages and creates new opportunities for them as market participants.

Increased cooperation between individual market participants leads not only to the establishment of organised cooperation (i.e. partnerships, associations, cooperatives, civil society organisations and so

on) but to *patterns of cooperation* that go beyond single organisations or even networks of cooperation. Democratic organisations (and self-employed) often seek to establish patterns, clusters or networks of collaboration. Cooperation transforms how whole industries work. In the democratic market economy, organised cooperation will be the prevailing mode of interactive market-oriented behaviour of market participants in all markets and industries.

Market participants cooperate systematically and routinely not only for reaping the benefits of the actual cooperation but also for being or becoming more *competitive*, that they can *compete* more successfully. Very often, cooperatives or other forms of organised cooperation are particularly established in order to increase the competitiveness of their members, for instance:

- Farmer cooperatives are set up to negotiate prices (on behalf of and for their members) with other market participants and to increase their members' abilities to compete, to strengthen their position and competitiveness in the agricultural industry and agricultural markets.
- Housing cooperatives are created to make their members more competitive, i.e. to enable them to get something in the marketplace (owning property) they otherwise would not be able to achieve on their own.
- Cooperative retailers compete along their whole value chain against other retailers; they need to be attractive for the producers of products, wholesalers and distributors as well as customers and consumers.
- Democratic financial institutions compete against other financial institutions for customers.
- Not-for-profit private social services organisations not only collaborate but also compete with statutory public sector agencies and voluntary social services providers; they need to demonstrate that they can offer the services more efficiently than formal governmental or municipal agencies and more adequately than informal, voluntary caregivers – i.e. in both cases that they provide 'value for money'.

Democratic organisations also compete with other market participants – but if they do so, they compete with a 'non-combative competitive mind' and in non-combative ways, i.e. with an understanding that what they offer, and how they offer it, are *options* for others who also have legitimate interests. As argued above, competition in the marketplace is not about actors trying to maximise their returns at the expense of others and establishing superiority over others but about actors offering alternatives and possible solutions on equal terms and in non-invasive, fair and just ways. Instead of profit-maximising rent-seeking and cut-throat competition, cooperation and 'non-combative' competition are the main and prevailing modes of interaction between market participants. This is a game changer. A market functions much more smoothly, is much more efficient (and pleasant) if market participants cooperate and compete in non-combative ways.<sup>274</sup>

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<sup>274</sup> Nevertheless, it is *still* a free market, i.e. there will, of course, be 'creative destruction' and innovation.

Finally, for the whole economy it is not only about economic *growth* but about *development* – *social, environmental and economic development*. The traditional concept of quantitative economic growth (e.g. as evidenced by GDP) is insufficient, incomplete, inconsistent and misleading as a measure of economic activity and performance at an aggregated level of an economy. In order to get (much) better data about, and a better understanding of economic outcomes and performance it is both sensible and necessary to adjust and to supplement the traditional concept of GDP with multidimensional, sustainability- and development-oriented measurement frameworks. Hence, in the democratic market economy, economic activity, outcomes and performance will be measured at macroeconomic level as *social, environmental and economic development*, accounting for all phenomena that either *have a value* or *are deemed valuable* as well as for all phenomena that either have a negative value or reduce, damage or destroy value. The overall focus is on nurturing and developing those phenomena that increase the welfare and well-being of individuals, the environment or society as a whole and reducing or eliminating those phenomena that reduce, damage or destroy the welfare and well-being of individuals, the environment or society as a whole. And here, i.e. in respect to social, environmental and economic growth and development, a democratic market economy performs so much better than a traditional or neo-liberal market economy because its legitimate market participants predominantly demonstrate that kind of conduct of business that creates positive value, and reduces or even minimises negative value, across the various dimensions.

#### 4) Regulation of markets and market participants

Proponents of neo-classical/neo-liberal market models categorically reject the idea of (external) market regulation in principle for ideological reasons. But it is very obvious that a market without regulation would not only be *dysfunctional* (market failure is a *systemic* element of *any* market and, thus, a principled reason for, and justification of, regulation), it would simply not function, even not exist *in principle*. There can be only *regulated* markets; even the ‘freest’ of all markets is actually a *regulated* market. Moreover, as in regard to any system in general, and any type of economic system in particular, there are good reasons for regulating the democratic market economy.

On the one hand, arguments for regulation are based on, and focus on, the *negative consequences* that free markets and market participants’ individual and interactive (economic) behaviour might produce (for the system itself, for individuals or for the environment), such as: *externalisation of internal costs, abuse of market power, or dodgy business practices, products or services*. Regulation can prevent, or at least reduce: 1) the negative consequences of market failure, 2) the emergence and scope of market failure, and 3) (some) of the root causes of market failure.

On the other hand, regulation is *beneficial* and produces *positive consequences* since it: a) enables and

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Businesses (can) succeed and fail as in a capitalist market economy. Also in a democratic market economy companies go bust, people lose their jobs, the economy might not do well, and there might be no growth, stagflation, or even recession. However, all these ups and downs will be on a smaller scale and at a slower pace than in highly competitive, profit-driven and growth-oriented market economies.



maintains competition and makes sure that the market mechanism, markets and industries work; b) provides robust and comprehensively developed institutions – *good* institutions, *good* governance and *good* regulation – guaranteeing and regulating markets and market mechanisms as well as market participants’ rights and responsibilities; c) positively influences economic growth and development; and d) defines or clarifies what is *not* allowed, illegitimate or even illegal.

In the democratic market economy regulation happens via *self-regulation* (voluntary development, implementation and monitoring of regulation jointly by actors with similar and common interests), *co-regulation* (voluntary development, implementation and monitoring of regulation jointly by actors with differing interests) and *government regulation* (development, implementation and monitoring of compulsory regulation by government or government agencies). In the democratic market economy there will be (many) more voluntary institutions of democratic *self-regulation* (such as communities, networks or associations), and (much) more self-regulation will take place, because market participants committed to the principles of the democratic organisation will initiate, participate in and strengthen self-regulation since such a concept of governance and regulation reflects, and corresponds with, their internal values, democratic governance and democratic management as well as the way they operate and conduct business. Also, market-related *co-regulation* is relatively widespread, collaborative and affirmative because the notions of democratic governance, cooperation and participative decision-making are deeply embedded in actors’ mind and conduct of business. Even *government regulation* is seen as positive and necessary where self- and co-regulation of markets and market participants don’t function sufficiently well or produce detrimental effects in regard to the functioning of markets and the legitimacy and appropriateness of market participants and their economic behaviour.

In the democratic market economy self-regulation, co-regulation and government regulation complement each other and together constitute a system of interlocking regulation that: a) is consistent with the fundamental principles of the free market and a functioning market mechanism; b) corresponds with the fundamental principles of democratic governance and democratic management; c) takes into account, and reflects, the diverse contributions and interests of all actors involved in the regulation and relevant stakeholders; d) provides regulation that is effective, appropriate, substantial and efficient; and e) increases the welfare of the market participants, society as a whole and the environment.

### **Neo-liberal and democratic market economy in comparison**

As indicated above, the democratic market economy is different – *fundamentally* different. How much the democratic market economy is actually different becomes clear when one compares it directly with the neo-classical/neo-liberal market economy, i.e. the currently prevailing type of orthodox market economies. The table below shows what these two different concepts of a market economy have in common, and where and how they differ in regard to: 1) foundations of the free market, 2) legitimate and illegitimate participants in the free market, 3) the workings of the market economy, and 4) regulation of markets and market participants.

Aspect	General description	Neo-classical market model/neo-liberal market economy	Free market model/democratic market economy
<i>1. Foundations of the free market</i>			
Notion of the free market	Definition of the free market and market mechanism/how it works.	In a 'perfect' market supply and demand of goods and services are decided by many market participants (isolated, 'rational' actors) in decentralised ways on the basis of flexible and transparent prices and complete information.	In a free market, supply and demand of goods and services are decided by many market participants (socially embedded individuals or organisations with diverse and multidimensional sets of values, orientations and interests) in decentralised ways on the basis of flexible and transparent prices as well as other incomplete and inconsistent information and aspects.
Actors/market participants	<p>Status – actors' rights and capabilities to reason and to act.</p> <p>Reasoning and interests – rationales how actors make sense of phenomena, formulate and pursue their interests.</p> <p>Number of individual or collective actors offering or demanding goods or services ('market participants').</p>	<p>All actors/market participants shall be as free as possible, shall be able to make their own decisions and act accordingly.</p> <p>Isolated 'rational' utility-maximising individuals or profit-maximising organisations.</p> <p>There are <i>many</i> individual or collective actors (i.e. individuals or organisations as market participants) demanding or offering goods or services (as buyers or sellers).</p>	<p>All actors/market participants shall be as free as possible, shall be able to make their own decisions and act accordingly.</p> <p>Socially embedded individuals or organisations with diverse and multidimensional sets of values, orientations and interests who reason and make sense of phenomena, formulate and pursue their interests according to diverse rationales.</p> <p>There are <i>many</i> individual or collective actors (i.e. individuals or organisations as market participants) demanding or offering goods or services (as buyers or sellers).</p>
Information	Extent of which market participants have information available for making decisions.	All market participants have complete information.	All market participants have only incomplete and inconsistent information (and always will), but they are/shall be enabled to gather information, process information and to make informed decisions as they deem right.
Decision-making	How human actors gather, process and analyse any kind of information, and, based on this,	'Rational' decision-making.	Decisions are made by all market participants in decentralised ways according to various rationales.

	make a decision.		
Supply and demand, price mechanism	Interactive process between supply of, and demand for goods and services, price and other market-relevant factors.	Supply and demand/allocation of goods and services happens on the basis of decentralised decision-making, flexible and transparent prices, and market participants' behaviour.	Supply and demand/allocation of goods and services happens on the basis of decentralised decision-making, flexible and transparent prices, market participants' behaviour as well as other factors.
Social norms and institutions	'The market' and (social) norms and values.	'The market' is an abstract model based on allegedly value-free assumptions and functioning according to abstract, 'natural law-like' mechanisms.	Markets are based, and function, on institutions, i.e. socially defined and upheld norms, values and expectations. <i>All markets are institutionalised markets.</i> The 'free' market is <i>not</i> free because of an <i>absence</i> of norms, rules and regulations, but <i>because of the presence of specific</i> norms, rules and regulations (i.e. institutions) the market is built on, defined and maintained by. The free market is based on, structured and governed by social norms about market participants, the market mechanisms and market participants' behaviour with <i>necessity</i> .
Private ownership and property rights	Legal rights, entitlements and responsibilities in regard to things (private property), especially their ownership, possession, use, transfer and the fruits stemming from their use.	Private ownership (of the means of production), property rights related to private ownership, management and control rights are <i>limited to a small minority of stakeholders</i> in varying degrees (present owner-managers, senior, middle and lower managers, absent owners).  Capital and private ownership of land and means of production is allocated very unequally. <i>Only a small minority of owners</i> is legally entitled to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through collaborative work within organisations.	Private ownership (of the means of production), property rights related to private ownership, management and control rights are <i>legal and statutory rights</i> of every market participant as well as of <i>every</i> member of an organisation.  Capital and private ownership of land and means of production is <i>widely dispersed</i> . <i>Everyone</i> is legally entitled to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through collaborative work within organisations.
Commercial and contract law	Explicit formal and substantive rules that specify the status, rights,	Commercial and contract law – Enables market participants to conduct market	Commercial and contract law – Enables market participants to conduct market activities, especially the exchange of goods and

	relations and responsibilities of market participants; the nature, conclusion, form, terms and execution of contracts; and the nature and legitimacy of market activities and transactions.	<p>activities, especially the exchange of goods and services, on a legal basis, to agree, conclude and execute private contracts;</p> <ul style="list-style-type: none"> <li>– Ensures that form, terms and conditions of contracts are legal and legitimate;</li> <li>– Specifies how market participants and contractual parties can and should comply with the specific terms and conditions of a contractual agreement;</li> <li>– Outlines the procedural legality and legitimacy and diligent execution of what has been agreed.</li> </ul>	<p>services, on a legal basis, to agree, conclude and execute private contracts;</p> <ul style="list-style-type: none"> <li>– Ensures that form, objects, substance, terms and conditions of contracts are legal and legitimate;</li> <li>– Specifies how market participants and contractual parties can and should comply with the specific terms and conditions of a contractual agreement;</li> <li>– Outlines the procedural legality and legitimacy and diligent execution of what has been agreed;</li> <li>– Ensures that market participants, contracts, and economic activities and exchanges (based on contractual agreements) are consistent, and in compliance, with the inalienable human, democratic and civil rights of individuals and the fundamental principles of freedom, democracy, equality, justice and sustainability, and that the equal formal and legal status of market participants as free actors and as members of a free and democratic society is appreciated.</li> </ul>
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*2. Legitimate and illegitimate participants in the free market*

External formal legitimacy of actors	Consistency of an actor or system with the larger system they belong to.	Any actor or system (e.g. an individual or an organisation) is consistent with the larger system they belong to (e.g. a society or nation-state).	Any actor or system (e.g. an individual or an organisation) is consistent with the larger system they belong to (e.g. a society or nation-state).
Substantive legitimacy of market participants	Consistency of a specific actor or system with the specific larger system they belong to.	Market participants adhere to the fundamental principles of the neo-classical 'perfect' market model.	Market participants adhere to the fundamental principles of freedom, democracy, equality, justice and sustainability, i.e. they appreciate, enable, protect, promote and put into practice people's fundamental and inalienable human, democratic and civil rights and democratic standards in their purpose(s), (formal and legal) constitution, governance and management, as well as in their (economic) behaviour and conduct of business.

Legitimate organisations	Organisations that are legitimate market participants in the free market.	Profit-maximising organisations.	Conservative, alternative and democratic private and public sector organisations.
Legitimate individual actors	Individual actors that are legitimate market participants in the free market.	Utility-maximising individuals.	Autonomous individuals with a (pro)social orientation and behaviour.
<i>3. The workings of the market economy</i>			
Individual market participants' economic behaviour	The ways individual market participants conduct economic activities and their business, operate and behave in a market environment in accordance with their intentions, purposes, goals and objectives.	Profit-maximising organisations have a financial orientation. Their prime purpose is to maximise profit/return on investment for their owners and investors. The purpose of profit-maximisation is to be achieved via various strategies and measures (e.g. growth, gaining market share, increasing efficiency, effectiveness, productivity, profitability and reducing/externalising costs). In accordance with their purpose(s), goals and objectives, as market participants profit-oriented organisations show profit-maximising and opportunistic economic behaviour and conduct their business in narrow-minded, greedy, imbalanced and unsustainable ways.	Democratic organisations have a social or even prosocial and pro-environmental orientation and a decent business model. Their prime purpose is to serve key stakeholders and/or the natural environment. Democratic organisations pursue social, (socio-)economic, political and often environmental goals and objectives. In accordance with their purpose(s) and objectives, as market participants democratic organisations show <i>responsible</i> and <i>ethical</i> economic behaviour and conduct their business in <i>considerate, decent, balanced and sustainable</i> ways.
Actions and interactions between market participants	Cooperative behaviour, i.e. interaction of two or more actors toward a common goal that is mutually beneficial.	Profit-oriented organisations show cooperative behaviour only for opportunistic reasons (i.e. if it is advantageous for them) or when they are forced to do so.	Because of their predominantly social and prosocial orientation and behaviour and their stakeholder orientation – and corresponding internal functioning that largely follows the rationales of (democratic) collaboration – democratic organisations have a strong sense of cooperation, solidarity and active citizenship, find more common interests with others and thus will act and collaborate more in mutually beneficial ways, and will conduct (their) business in more collaborative ways.

	Competitive behaviour, i.e. interaction of two or more actors with mutually exclusive goals that advantages selectively.	Profit-oriented organisations have a competitive mind, i.e. under market conditions they see themselves and everyone else competing for limited resources whereby one party's win is another party's loss.	Democratic organisations compete with a 'non-combative competitive mind', i.e. with an understanding that what they offer, and how they offer it – and there are <i>options</i> for others who also have legitimate interests.
Functioning of whole industries	Group of economic actors that provides the same or similar products, services and market-related activities.	In the neo-classical model of the 'perfect' market, all market participants <i>have to</i> be profit-maximisers, and <i>must</i> show corresponding competitive – i.e. aggressive, opportunistic and exploitative – economic behaviour. In neo-classical models of imperfect markets (e.g. monopoly or oligopoly) and existing neo-liberal industries market participants show predominantly opportunistic, inefficient, illegitimate, immoral and mendacious behaviour.	In a democratic market economy, <i>every</i> industry would consist predominantly of <i>legitimate</i> market participants demonstrating <i>considerate</i> conduct of business and economic behaviour. Cooperation and 'non-combative' competition would be the main modes and mechanisms of interaction between market participants.
Quantitative growth	Annual absolute and relative (percentage) change in GDP.	Market participants <i>shall</i> be, even <i>must</i> be, maximisers and/or opportunists, <i>must</i> be growth-oriented and <i>must</i> explicitly try to expand their business by (almost) all means and at (almost) any cost.  The neo-classical/neo-liberal market economy is oriented (steered and governed) towards one-dimensional, quantitative economic growth; industries and markets will grow as much as possible.	Legitimate market participants demonstrate economic behaviour that is considerate, responsible, ethical, sustainable and long-term oriented. Quantitative economic growth is neither a single goal, nor a prime outcome of economic activities or economic behaviour of market participants.  The democratic market economy is oriented (steered and governed) towards sustenance, markets will grow in balanced and sustainable ways.
Measuring economic growth and performance	Concepts for measuring economic growth and performance at an aggregated level of an economy	The concept of GDP – <i>Gross Domestic Product</i> – is regarded as sufficient and appropriate to show economic growth and performance of an economy at an aggregated level.	The traditional concept of GDP is regarded as insufficient, incomplete, inconsistent and misleading. In order to get (much) better data about, and a better understanding of economic growth, it is both sensible and necessary to adjust and to supplement the

			traditional concept of GDP with multidimensional, sustainability- and development-oriented measurement frameworks.
Social, environmental and economic development	Annual absolute and relative (percentage) change in aggregated measures that indicate individual, social, environmental and economic welfare and well-being.	The neo-classical/neo-liberal market economy regards everything as irrelevant that either does not have a market price or is not directly relevant – or instrumental – for the generation of profit and quantitative economic growth.	The democratic market economy and its market participants are oriented (steered and governed) towards <i>social, environmental and economic development</i> , i.e. to: 1) account for all phenomena that either <i>have a value</i> or <i>are deemed valuable</i> (things; products and services; individual or collective issues; ecological, social or cultural commons; market-related and non-market economic activities and transactions), 2) account for all phenomena that either have a negative value or reduce, damage or destroy value (things or issues that represent costs; cause individual, social, environmental or economic costs; or generate negative externalities), 3) nurture and develop those phenomena that increase the welfare and well-being of individuals or the whole, and 4) reduce or terminate those phenomena that reduce, damage or destroy the welfare and well-being of individuals or the whole.
<i>4. Regulation of markets and market participants</i>			
Negative arguments for regulation	Arguments for regulation are based on, and focus on, the <i>negative</i> consequences that free markets, market participants' individual and interactive (economic) behaviour might produce (for the system itself, for individuals, or for the environment).	Proponents of neo-classical/neo-liberal market models admit that there can be 'market failure' and 'market imperfections' – but they (wrongly) assume and argue that regulation is inefficient (or makes things worse) and (wrongly) claim that the market itself – and <i>not</i> regulation 'from outside' – can and should cope with market failure.	Regulation can prevent, or at least reduce: 1) the negative consequences of market failure, 2) the emergence and scope of market failure, and 3) (some) of the root causes of market failure ( <i>negative arguments for market regulation</i> ), in particular that market participants: <ul style="list-style-type: none"> <li>– Externalise internal costs that stem from their economic activities and economic behaviour and cause negative externalities that have damaging effects on other actors, society or the environment (<i>externalisation of internal costs</i>);</li> <li>– Use/abuse their market power to either directly coerce other market participants to act and to demonstrate economic behaviour against</li> </ul>

			<p>their own will and/or to influence the conditions and institutions of the market or the market mechanism in order to gain unfair advantages and to secure rents they would otherwise not get (<i>abuse of market power</i>);</p> <ul style="list-style-type: none"> <li>– Might conduct business in dishonest and unreliable ways, deceive or mislead others, and offer products or services that are of low quality, dubious or even (potentially) hazardous (<i>dodgy business practices, products or services</i>).</li> </ul>
Positive arguments for regulation	Arguments for regulation are based on, and focus on, the <i>positive</i> or <i>beneficial</i> consequences it may provide for the market, market participants and/or the whole.	Proponents of neo-classical/neo-liberal market models reject the idea that market regulation can have positive effects.	<p>Regulation is <i>beneficial</i> (<i>positive arguments for regulation</i>); in particular it:</p> <ul style="list-style-type: none"> <li>– Enables and maintains competition and makes sure that the market mechanism works, that markets and industries work – that they <i>can</i> and <i>do</i> work;</li> <li>– Provides robust and comprehensively developed institutions – <i>good</i> institutions, <i>good</i> governance and <i>good</i> regulation – guaranteeing and regulating markets and market mechanisms as well as market participants’ rights and responsibilities (e.g. human, property and civil rights, freedom and private ownership, rule of law, judicial efficiency), actions and behaviour;</li> <li>– Positively influences economic growth and development (<i>market regulation and economic development go hand in hand</i>);</li> <li>– Defines or clarifies what is illegitimate or even illegal.</li> </ul>
Principled argument for regulation	Arguments for regulation are based on, and focus on, <i>principled</i> reasons.	Proponents of neo-classical/neo-liberal market models categorically reject the idea of (external) market regulation.	(The possibility of) market failure is a <i>systemic</i> element of <i>any</i> market and thus a principled reason for, and justification of, regulation.
Self-regulation	Voluntary development, implementation and	Market participants that act and operate on the basis of a cost–benefit calculus	In the democratic market economy, there will be (much) more voluntary institutions of democratic <i>self-</i>



	monitoring of regulation jointly by actors with similar and common interests.	participate in self-regulation if – and as long as – it provides benefits conditional to participation that exceed the (opportunity) costs of participating,	<i>regulation</i> (such as communities, networks or associations), and (much) more self-regulation will take place, because market participants committed to the principles of the democratic organisation will initiate, participate in and strengthen self-regulation since such a concept of governance and regulation reflects, and corresponds with, their internal values, democratic governance and democratic management as well as the way they operate and conduct business.
Co-regulation	Voluntary development, implementation and monitoring of regulation jointly by actors with differing interests.	The idea of co-regulation does not exist in the neo-classical market model or neo-liberal market economy.	In the democratic market economy, market-related <i>co-regulation</i> is relatively widespread, collaborative and affirmative because the notions of democratic governance, cooperation and participative decision-making are deeply embedded in actors' mind and conduct of business.
Government regulation	Development, implementation and monitoring of compulsory regulation by government or government agencies.	The idea of government regulation is rejected in the neo-classical market model or neo-liberal market economy.	<i>Government regulation</i> is seen as positive and necessary where self- and co-regulation of markets and market participants don't function sufficiently or produce detrimental effects in regard to the functioning of markets and the legitimacy and appropriateness of market participants and their economic behaviour.

Table 16: Neo-liberal and democratic market economy in comparison.

**Why (and how) the democratic market economy works (so well)**

The democratic market economy is not a panacea. It has to cope with many of the problems any other economy creates or faces. It's a free market economy – which means that market participants are exposed to market conditions. Although these will be definitely less 'hyper-competitive' and 'business-oriented' than in neo-liberal market economies, conducting business nonetheless is a daily challenge. Individual or collective economic actors (such as the self-employed or democratic organisations) might do well with their economic activities and are successful or they struggle. Also in a democratic market economy there will be manifold market failures, bankruptcies, unemployment, inflation or deflation, growth or recession, and many more of the usual micro- and macroeconomic problems of market economies. In that sense, the democratic market economy is relatively similar to contemporary market economies.

However, in some crucial respects the democratic market economy is fundamentally different to any market economy as we know it – and these differences also explain why and how it works so well and is (much) better than any other market economy. The main differences are that the democratic market economy has *the right people* and *the right institutions*.

### *The people of the democratic market economy*

All people acting and participating in the democratic market economy are either self-employed or members of democratic organisations (i.e. conservative, alternative and democratic private and public sector organisations). They are *owners* and *owner-managers*, those who make the decisions about economic activities individually or collectively and act accordingly. It is people's constitutional, legal, formal, organisational and factual *status* as free individuals, as owners and owner-managers, and as legitimate market participants that empowers them in the democratic market economy – *all* of them.

People's status as autonomous individuals and owners provides them automatically with the broadest possible range of fundamental *rights* – inalienable human, democratic and civil rights, the right of self-ownership, private ownership (of the means of production) and property rights related to private ownership, the right to the 'fruits of one's own labour', and equal rights as members of democratic organisations (such as governance, management and control rights). All these rights are *legal and statutory rights* of every legitimate market participant, of every self-employed person and member of a democratic organisation. People's status in the democratic market economy and related rights constitute them as free individuals and legitimate market participants, at the same time protecting, empowering and enabling them to conduct economic activities. This makes a difference – a *big* difference.

As legitimate market participants and owner-managers, people have an *inherent* sense of ownership and responsibility; they are committed and put in effort, they care about their work, the things they own, use and produce – and they care about others, who have equal rights, the same status and concerns as them. For the self-employed and members of democratic organisations, the principles of freedom, democracy, equality, justice and sustainability, and people's inalienable human, democratic and civil rights mean something. Free individuals regard these rights and principles as fundamental and they promote, meet, enable, protect and practise them routinely in and via their (economic) activities. They show more decent and honest, fair and just, and responsible and ethical behaviour – *considerate conduct of business*. Considerate conduct of business means that actors demonstrate (pro)social, pro-environmental and multidimensional economic orientation and behaviour, practise decent and prudent management, collaborate with others in mutually beneficial ways, compete with a 'non-combative competitive mind', offer decent products and services, and achieve higher economic efficiency, productivity and performance measured in multidimensional ways.

It is important to note that people's attitudes, behaviour and considerate conduct of business in a democratic market economy does *not* stem (only) from their self-interest or a higher morality but (mostly) from their (self-)ownership status and related rights.<sup>275</sup> That people in a democratic market economy by

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<sup>275</sup> In his *The Wealth of Nations* the great Scottish economist and moral philosopher Adam Smith (1723–1790) established the case for people's self-interest as the foundations of economic activities (Smith 1776/1999, p. 5): 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their

and large show much more enlightened and decent orientations and behaviour, that they act differently and demonstrate considerate conduct of business is not because they are ‘greedy’ people (egoists) or ‘better’ people (altruists) but because they enjoy equal, and equally strong, status (self-ownership and private ownership status) and the whole range of fundamental rights (human, democratic and civil rights, ownership and property rights). The key thing for any decent economy (or social system in general) is actors’ *status* and *rights* – that *all* members of the social system enjoy *equal* formal and legal status and the comprehensive rights of free individuals.

### *The institutions of the democratic market economy*

Beside *people*, it is the *institutions* of the democratic market economy that make a difference.

First, the institution of the market, the *free* market, provides an institutionalised libertarian context and space for economic activities. The free market (i.e. all industries and markets) of the democratic market economy is explicitly based on, structured and governed by formal, social and legal norms that reflect, and correspond with, the fundamental principles of freedom, democracy, equality, justice and sustainability, and the inalienable human, democratic and civil rights of free individuals. The market allows for a variable supply and demand and allocation of legitimate goods and services based on decentralised decision-making of many market participants and flexible and transparent prices. However, not *every* type of organisation or form of economic activity that *is* possible *should* be possible. Only *legitimate* market participants (i.e. the self-employed and the whole range of conservative, alternative and democratic organisations) with diverse and multidimensional sets of values, orientations and interests demonstrating considerate conduct of business are entitled to participate in the free market, in the markets and industries of a democratic market economy. Public, private, commercial and contract law make sure that market participants conduct economic and market activities in a legal, legitimate and diligent manner, that all market participants adhere to the institutions of universal self-ownership, private ownership (of the means of production), property rights, management and control rights that *every* market participant as well as *every* member of an organisation is entitled to, and that market participants demonstrate considerate conduct of business. As a consequence, the markets in the democratic market economy function fairly well – and much better than neo-classical/neo-liberal markets – mainly thanks to fundamental principles and notions of freedom and democracy (free individuals and democratic organisations acting and interacting in legitimate and decentralised ways), a functioning market mechanism, and market participants’ considerate conduct of business.

Second, it is a specific type of organisation, *democratic* organisations, that offers the institutional, legal, formal and organisational context for organised, collective economic activities in a democratic market

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regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages.’ His succinct observation is still one of the most famous and incisive remarks made about economic behaviour and economic activities (although in his *The Theory of Moral Sentiments* Adam Smith rightly argued that people’s social behaviour is based on more than, and goes beyond, pure self-interest). My argument here is not intended to refuse (Adam Smith’s) psychological explanation of people’s economic behaviour but to stress that there are (also) socio-psychological, sociological or institutional factors – such as a person’s (formal, legal and social) status, self-image and self-awareness stemming from one’s status – that play a role in explaining and shaping people’s economic behaviour.

economy. Democratic organisations: 1) are designed, maintained and function on the basis of a *libertarian constitution* that reflects universal libertarian values and concepts of self-ownership and specifies all members' equal legal and formal status, rights and responsibilities; 2) are governed by principles of *democratic governance*, i.e. governed democratically by legitimate institutions on the basis of legitimate authoritative sources while adhering to the principles of 'good governance'; 3) have *democratic management* (i.e. self-management, representative and participative management) in place that allows all members of the democratic organisation to participate in all formal decision-making processes, and to organise and manage their work, work-related issues and organisational affairs as far as possible; 4) make sure that all members are not only seen as equal, and have equal rights, but that they are formally, psychologically and socially equally empowered (*equalising empowerment*); and 5) demonstrate *considerate conduct of business* in all of their internal and external economic activities, i.e. pursue (pro)social, pro-environmental and multidimensional economic goals and purposes and conduct their business in decent, balanced and sustainable ways.

And third, markets and market participants are embedded in, structured and operated by a range of *regulatory institutions* – institutions of self-regulation, co-regulation and government regulation (in that order). Market participants committed to the principles of the democratic organisation regulate themselves, their economic activities and industries via voluntary institutions of democratic self-regulation (e.g. associations or networks) in accordance with the principles of democratic governance, democratic management and considerate conduct of business. Self-regulation is complemented by co-regulation (market participants regulate themselves together with non-governmental third parties) and government regulation when self- (and co-)regulation is insufficient, limited or biased. These regulatory institutions establish and maintain markets formally and legally; enable the functioning of markets and market mechanisms; provide policies and guidelines that outline market participants' formal, legal, procedural and factual status, rights and responsibilities; clarify what are – and what are not – legal and legitimate economic activities and conduct of business; monitor market participants and their conduct of business; support and reinforce market participants' legitimate economic behaviour and activities; and punish illegitimate or illegal behaviour and activities.

#### *Fit between people and institutions*

As has been shown, the democratic market economy has the 'right' people and the 'right' institutions. But what is probably even more crucial is that the people and the institutions of the democratic market economy fit with, complement and mutually reinforce each other.

The free market – *provided* it is designed, maintained and regulated comprehensively and sufficiently by legitimate institutions (libertarian social norms, democratic agencies) that guarantee individuals' fundamental rights and the principles and standards of freedom, democracy, equality, justice and sustainability – offers the best environment and conditions for free individuals to conduct economic activities. And free individuals appreciate the conditions a free, democratic market economy offers them in order to conduct their economic activities. Properly institutionalised and regulated free markets and free individuals as legitimate market participants mutually necessitate and reinforce each other.

And when it is about conducting economic activities jointly with others in organised ways while keeping one's status and rights as owner and owner-manager and being equally empowered, democratic

organisations are the best organisations imaginable for individuals. With its libertarian constitution, democratic governance, democratic management and equalising empowerment, the democratic organisation provides the best institutional and organisational context for free individuals to nurture their sense of ownership and responsibility, to live and work as free individuals, and to conduct business in decent and responsible ways. In turn, the members of the democratic organisation – i.e. its owners and owner-managers – maintain the democratic organisation and its institutions of democratic governance and democratic management, and make sure that the democratic organisation demonstrates considerate conduct of business in all of its internal and external economic activities and social/socio-economic relationships.

The self-employed and democratic organisations, with their considerate conduct of business and legitimate market participants, contribute to, and strengthen, the free market and its institutions – and they are also keen to do so because the free market gives them all the mechanisms and opportunities to conduct (their) business and economic activities according to their principles, purposes and convictions. Legitimate market participants are not only interested in conducting economic activities in the free market, but also to maintain the market, and to contribute to and participate in its regulation because this is how *they* are organised and function. Self- and co-regulation come naturally to the self-employed and democratic organisations because they work and are organised according to the same principles and mechanisms (of democratic governance, democratic management and equalising empowerment). It is their inherent sense of ownership and responsibility that let legitimate market participants participate in the regulation of markets. In this sense, the democratic regulation of markets and industries as well as of market participants and their economic behaviour and activities reflects, and corresponds with, the very ideas of free markets and free individuals.

Altogether, it can be said that the institutions of the democratic market economy (free market, legitimate market participants and democratic regulation) are designed for, enable and accommodate free individuals (in their status, roles and functions as owners/owner-managers), their behaviour and considerate conduct of business – and free individuals (are happy to) maintain and strengthen the institutions of the democratic market economy because these institutions provide them with equal status, equal rights and equal opportunities to conduct their business. This fit between people and institutions explains why and how the democratic market economy works so well – why it works so much better than any other type of market economy. The model of the *democratic market economy* as developed in this part of the book is unique in its comprehensiveness and the way(s) its various elements are intertwined and together constitute a fundamentally different, coherent and viable kind of economy. The democratic market economy is different particularly to the neo-classical or neo-liberal model of the market economy, i.e. to the prevailing profit-oriented, exploitative, competitive, unfair and unsustainable economic system as we know it. With its two main features of institutionalised free markets and democratic organisations, the democratic market economy combines the advantages and efficiencies of functioning markets with the advantages and efficiencies of joint work based on equal ownership rights (Weisskopf 1993, pp. 2–3, Milonakis 2003, p. 98). The democratic market economy is and works simply differently; it is a market economy, but a libertarian and democratic, decent, fair and sustainable one.

## Part IV: Civil democracy

### The public sphere and (the need for) its democratic governance

Beside an *economic sphere* ('the economy'), that was covered in the previous part, one can also identify a *public sphere* ('the public') that is highly relevant for a society.<sup>276</sup> Whereas in the economic sphere economic actors or market participants (individuals and organisations) conduct economic activities, produce and exchange goods and services, in the public sphere political institutions, public and private organisations and citizens shape and govern society and deal with matters of public concern. The public sphere can be described along four dimensions, i.e. it is made of or comprises:

- 1) *Spatial dimension* – The geographical and/or virtual *spaces* or *places* of a society that are (in principle) accessible by every member of the society;
- 2) *Institutional dimension* – The *institutions* or *domains* of a society that constitute, define, govern, shape and maintain society as a whole or parts of it, i.e. principles, values, norms and rules; the constitution, laws and regulations; the political and electoral system; the legislature (especially parliaments); the executive and public authorities (i.e. the institutions of government, ministries, government agencies and public services); the judiciary/judicial system; non-governmental and civil society organisations; the media (especially news media and social media);
- 3) *Thematic dimension* – *Ideas* (thoughts, interests, opinions, policies or ideologies) that are formed or communicated in public, *issues* that are 'of public interest' or a 'matter of public concern' and/or *public affairs*;
- 4) *Behavioural dimension* – People's *behaviour*, *actions* and *activities* in public, i.e. anything that is said or done in public by anyone, in particular that people express themselves, communicate their thoughts and opinions, behave and act in the (potential) presence of others, engage, assemble, unite and/or debate with others publicly, and decide upon institutions, ideas and matters of public concern.

Summarising those four dimensions, the *public sphere* can be defined as the totality of geographical and/or virtual spaces of a society shaped and maintained by institutions (principles, norms and values, public and private institutions of governance, administration, representation, information and communication) where people address, debate and make decisions about ideas (thoughts, interests, opinions, policies or ideologies), issues that are 'of public interest' or a 'matter of public concern' and/or public affairs, and demonstrate any kind of behaviour publicly, i.e. express themselves, their thoughts and opinions, act and interact in the (potential) presence of other members of the public.

The public sphere is where a society's people and institutions are and act *publicly*. Obviously, there is not *one* public sphere in the sense of a single, monolithic and coherent public sphere (this would only

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<sup>276</sup> Commonly, (what happens in) 'the public' often is even equated with 'society'.

be the case in the most totalitarian regime), but *many*, and many *different*, public spheres (e.g. Dahlgren 2005, pp. 148, 152) – and/or many different *understandings* of what public spheres, public affairs, and matters of public concern are, or how they should be.<sup>277</sup>

The question, therefore, is *how* to design and maintain, and how to *govern* the public sphere(s) – and thus society. It's about *the governance of the public sphere*, or society. And how such governance – i.e. the conscious and deliberate design and maintenance of the fundamental principles and institutions of a social system, in this case the public sphere(s) of a society – can be *legitimate*.

That the governance of the public sphere ought to be legitimate can first be established by referring to the criterion of *formal legitimacy*.<sup>278</sup> Governance of society, of its public sphere(s), public affairs and matters of public concern, *must be legitimate* so that in its design and functioning it is consistent with the larger social system(s) it belongs to.<sup>279</sup> Governance – as well as the public authorities and members of the public that establish and provide governance of the public sphere – must correspond to, and comply with, the specific fundamental principles, norms, values and regulations of the legal, political, economic and socio-cultural environments of the particular society in which it exists. In the case of a constitutional state, the most fundamental principles of society and, hence, governance are provided by the constitution or basic law. Viewed in this way, a constitution gives legitimacy; it legitimises formally and substantively everything (norms and values, institutions and their functions and functioning, people and their behaviour, organisations and their structures and processes) that is consistent with its principles – and it *delegitimises*, or even outlaws, everything that is *not* consistent or compatible with its principles.<sup>280</sup> And *if* a constitutional state is, claims to be, or wants to be a libertarian and democratic state, its constitution must at least:

- a) Establish – and guarantee! – the fundamental human, democratic and civil rights and freedoms (and duties) of each and every person (e.g. right of physical integrity, freedom of thought, freedom of expression, freedom of assembly, freedom of association);
- b) Define – and limit! – the responsibilities and workings, nature and extent of government (as well as the relationships between the executive, legislature and the judiciary), public authorities, the political and electoral system, and provide the democratic, legal and administrative standards according to which those institutions of governance have to be designed and operate;

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<sup>277</sup> To acknowledge that there are many different understandings of the public sphere not only recognises the complexity of modern (democratic) societies, but also advocates pluralism, diversity and differences in people's lifestyles, socio-cultural backgrounds and orientations. Although the 'public sphere' is sometimes addressed in the singular in the text, the argumentation will make it clear that the public sphere actually is understood throughout this book as pluralistic.

<sup>278</sup> See chapter 'Institutions: Legitimate institutions' in Part I, 'Free individuals and legitimate institutions', where various types of legitimacy were defined and the legitimacy of institutions analysed.

<sup>279</sup> This is the same argument and principle that was put forward with regard to the legitimacy of markets and market participants in a democratic market economy (see section 'Legitimacy of market participants' in Part III, 'A democratic market economy').

<sup>280</sup> Whether the constitution itself or its principles are legitimate is a question of the justification (and legitimacy of) *first principles*. This problem will be interrogated in a planned Volume 2, *Discussions*. Here it is assumed that the constitution of Pentoutopia is a libertarian and democratic constitution and that such a constitution is legitimate, i.e. that it meets all forms of legitimacy.

- c) Specify the relationship between people and the state/public authorities, in particular people's constitutional and legal rights and protections against the state;
- d) Prescribe in which ways and to what extent public authorities are allowed and required to conduct which responsibilities, where and how the rule of law applies.

The constitution – *a libertarian and democratic, fully fledged and fully applied constitution* – lays the (necessary) foundations for a free and democratic society like Pentoutopia, for its democratic governance as well as for the corresponding actions and behaviour of people and institutions. And it provides the criteria and yardsticks for legitimacy, for assessing and judging the legitimacy of people and institutions, their workings and conduct. The legitimacy or illegitimacy of people and institutions and their behaviour is judged at the hand of the principles a libertarian and democratic constitution represents and upholds. Anything – and anyone – that wants to be legitimate formally and substantively *must* be consistent, and comply, with the principles the libertarian and democratic constitution presents.

Governance is *formally* legitimate when it is consistent with a country's constitution. Moreover, governance must be *substantively* legitimate, i.e. governance (of the public sphere) must be in compliance with and adhere to the very same principles as the larger system to which it belongs. This means that, following the criteria of *substantive legitimacy*, in a free and democratic society with a libertarian and democratic constitution – or if a society is to be free and democratic – the governance of the public sphere must be consistent with, comply with, accommodate, apply, enable and protect libertarian and democratic principles and values, standards, policies and procedures. Or, to put it slightly differently: In order to be (substantively) legitimate, in a free and democratic society any governance – and all institutions and members of the public establishing and providing governance of the public sphere, public affairs and matters of public concern – *must* adhere to libertarian and democratic standards and practices. In a free and democratic society, governance *must* adhere to the fundamental principles of freedom, democracy, equality, justice and sustainability and it *must* appreciate, protect, promote and put into practice people's fundamental and inalienable human, democratic and civil rights and democratic standards in the governance of the public sphere.

This means that, in a free and democratic society, any public sphere – or any element or dimension of it (i.e. institutions, spaces, themes or people's behaviour) – *must be governed democratically*. Only governance of the public sphere that is based on explicit, comprehensive and robust principles, norms and rules that guarantee and strengthen freedom, democracy, equality, justice and sustainability of and for *everyone* – and are equally relevant for everyone – is legitimate governance.<sup>281</sup> In a free and democratic society, governance (of the public sphere) *must be democratic* governance.

*Democratic* governance means that a social system has legitimate institutions in place that equip *all* of its members with the same fundamental and explicit, robust and transparent rules, rights and duties to govern themselves directly (self-governance), via participation (participatory governance) and/or through representatives that are accountable to everyone (representative democracy); to participate voluntarily in all formal decision-making processes that comply with democratic principles; and to organise and manage all affairs that are of public interest or common concern according to principles members

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<sup>281</sup> I argued similarly in respect to the legitimacy and proper functioning of markets or the 'free market' (see subsection 'Arguments for market regulation' in Part III, 'A democratic market economy').



have agreed to in democratic ways. Autocratic, oligarchic and/or hierarchical institutions cannot provide democratic governance. They are neither ideologically nor practically willing or able to govern democratically and to contribute to a (further) democratisation of public affairs and society. Only *democratic* institutions can provide *democratic* governance. Only *democratic* governance and regulation of the public sphere – as well as of the organisational institutions, individual or collective actors present and acting in the public sphere – can guarantee the legitimacy and well-functioning of the public sphere and its elements.

The question is how exactly a public sphere can be governed in libertarian and democratic ways, *how a democratic governance of the public sphere is possible and what it looks like*. That is what this part of the book is about. It will interrogate particularly why, how and to what extent:

1. People (can) govern themselves, the conditions of their existence and activities in public;
  2. Institutions of governance represent the will of the people legitimately and genuinely;
  3. People (can) participate in public authorities' governance of the public sphere; and
  4. People – as 'citizens' – (should) demonstrate citizenship behaviour in the public sphere.
- No. 1 is about *democratic self-governance*. Democratic self-governance means that people (can) get involved voluntarily in the governance especially of their immediate (local and virtual) public sphere (localism), that they can voice their views, organise themselves, make decisions and take actions in public concerning the governance of public affairs and matters of public concern on their own and/or via associations (associationalism).
  - No. 2 is about *representative democracy*. Representative democracy means the democratic transfer of the will of the people to representatives via a system of legitimate institutions of governance designed and functioning according to democratic principles and linked by a chain of democratic delegation, representation and accountability, in particular: free and independent democratic political parties; democratic, free and fair electoral system and elections; parliamentary democracy based on proportional representation; and a democratic, and democratically controlled, government.
  - No. 3 is about *participatory governance*. Participatory governance means people's and public authorities' participation and collaboration in policy-making and implementation to manage public affairs and/or to address matters of public concern. A range of approaches is available, and can be utilised, so that citizens can actually participate in decision-making as well as in the formulation and implementation of public policies, programmes and measures.
  - No. 4 is about *citizenship behaviour*. As 'citizens', people demonstrate a whole range of behaviour that is relevant for the governance of the public sphere, in particular demonstrating prosocial behaviour in the public sphere in non-political ways, participating politically in established and prevailing institutions, showing democratically legitimate political activism and/or showing legitimate or even illegitimate radical activism.

Together, the concepts of *democratic self-governance*, *representative democracy*, *participatory governance* and *citizenship behaviour* establish what I call 'civil democracy'. The following four chapters develop and discuss those four concepts in turn. The final chapter then brings them together and outlines the workings and advantages of civil democracy.

## Democratic self-governance

Usually, free individuals want to conduct their lives according to their own liking and as *they* deem right. This includes making decisions about the conditions of their lives. This chapter discusses how people (can) engage with, manage and (try to) shape and govern the *public sphere* that surrounds and influences them. It will be shown how *self-governance* is, or can be, conducted by people in a local context (e.g. neighbourhoods, communities) via associations or in the virtual public sphere (e.g. social media) in the form of online activism. Such forms of self-governance, *democratic* self-governance, represent not only typical examples of a vibrant civil society but also the first, and most fundamental, pillar of civil democracy.

### Self-governance of the local public sphere: Free individuals and associations

When it is about governance – legitimate institutions of governance and ‘good governance’ – one of Pentoutopia’s fundamental principles is that as far as possible decisions should be made first at the lowest possible level – the principle of subsidiarity or subsidiarial authority.<sup>282</sup> To make decisions first at the lowest possible level, i.e. where people have direct knowledge of the issues and experience the consequences of any decision, makes sense in respect to the governance of organisations (see Part II) as well as the regulation of industries and markets (see Part III). And it makes sense regarding the governance of society, its public sphere(s), public affairs and matters of public concern.

Governance according to the principle of subsidiarity first means *self-governance*, i.e. that people govern themselves and their own affairs and public affairs as far as is possible. And if the social system is, or ought to be, a democratic system then self-governance needs to be *democratic* self-governance.

This section with its three sub-sections outlines how democratic self-governance takes place. The first sub-section puts forward some arguments *why* self-governance would happen in a free and democratic society like Pentoutopia. The following sub-section then shows *how* democratic self-governance of the public sphere unfolds. And the third sub-section lists the necessary external and internal conditions under which democratic self-governance could and would happen.

#### *The notions of localism and self-governance of the local public sphere*

Free individuals have the inalienable right to govern themselves and the conditions of their existence (Ostrom 1971/1987, p. 91, Raz 1986/2009, p. 400, Dahl 1998, p. 75, Fournier 2002, p. 202, Wright 2010, p. 12). Held (1987, pp. 271, 290) called it the ‘principle of autonomy’ or ‘democratic autonomy’: ‘Individuals should be free and equal in the determination of the conditions of their own lives; that is,

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<sup>282</sup> See section ‘The principle of subsidiarity: Subsidiarial authority’ in Part I, ‘Free individuals and legitimate institutions’, and sub-section ‘Checks and balances’: Separation of powers and subsidiarity’ in Part II, ‘Democratic organisations’.

they should enjoy equal rights (and, accordingly, equal obligations) in the specification of the framework which generates and limits the opportunities available to them, so long as they do not deploy this framework to negate the rights of others.’ Free individuals should govern themselves and their own affairs as well as the conditions of their existence.

The question is whether people would *want* to govern themselves. It can be reasonably assumed that most people – if they are free individuals and have not been socialised into mindlessly obedient subordinates or unthinking selfish consumerists – *want* to be in charge of, or at least want to be involved in the governance of their own affairs, because it is *their* life – and *in* their interest. People want to be in charge not only of their own lives but also of the *conditions* of their lives, their own affairs as well as public affairs. And if the conditions and settings are right (see below), they can and will be in charge. For instance, when the great French historian and political philosopher Alexis de Tocqueville (1805–1859) visited the United States in the early 19th century in order to investigate *Democracy in America* (the title of his famous book), he could see first-hand how people engage with the immediate public sphere that constitutes their neighbourhood, how people’s civic engagement works on the ground. Tocqueville (1835–1840/2003, p. 593) observed that ‘when control of the particular affairs of a district is placed in the hands of the people who live there, the same men are always in contact and are, to some extent, forced to become acquainted and to adapt to each other. It is difficult to drag a man away from his own affairs to involve him in the destiny of the whole state because he fails to grasp what influence the destiny of the state might have on his own fate. But if it becomes necessary to make a road across the end of his own estate, he sees at once the connection between this minor public affair and his greatest private interests and will discover, without being shown, the close link between individual and general interests. It is therefore by entrusting citizens with the management of minor affairs, much more than handing over the control of great matters, that their involvement in the public welfare is aroused and their constant need of each other to provide for it is brought to their attention.’

The local context (neighbourhoods and communities) is the public sphere where individual and general interests are linked most closely and naturally. For most people, the public sphere that is most relevant for them is not the parliament in a far-away capital city but the immediate physical and social environment outside their homes. It is the local streets and the traffic, the neighbours and others, parks and buildings, shopping and leisure facilities, and public services like public transport, schools and kindergartens, doctors and hospitals, or emergency services. It is the neighbourhood – *their* neighbourhood. Neighbourhoods are geographically and socio-culturally identifiable spaces, often administrative units (like a municipal district), providing to various degrees a range of services and facilities, opportunities and challenges for people. The neighbourhood represents and makes available public spheres that are important for people. People spend some parts of their lives in their neighbourhood and local communities they belong to. These conditions and entities shape people’s lives to some extent.

Most local people know the neighbourhood they live in relatively well, the good and the not so good parts of the public spaces, facilities and institutions. Local people know about the local problems (often more and better than others) – and they are concerned because they (have to) live with the consequences every single day. People engage with their immediate public sphere almost automatically as part of their life. For example, Durose and Richardson (2009, p. 41) argued that ‘citizens have incentives to engage in the neighbourhood, because it is at this level that they consume many of the most important public services and experience the issues most likely to mobilise them ... The neighbourhoods’ agenda is

therefore based on the premise that people are most likely to engage with services and policy making at a very local level'. Moreover, people are not only influenced by their neighbourhood and the communities they belong to but at the same time influence them simply via their presence, activities and interactions. They might even actively try to engage with, shape and alter (parts or aspects of) the neighbourhoods and communities they are part of because most people have a sense of belonging, perhaps even ownership, towards their immediate surroundings and public spheres (Durose & Richardson 2009, p. 31). It is *their* neighbourhood. So people care – and they show engagement. Caspary (2004, p. 242) thus claimed that, 'whenever possible, life activities and decisions about them should be made at the local level where people can work together, create physical and economic security, maintain control, and deliberate face-to-face'.

*Local people know, local people care, local people should be (involved in) deciding things* – this notion of *localism* and self-governance of the local public sphere and public affairs is well established.<sup>283</sup>

#### *Associations' contributions to the democratic self-governance of the public sphere*

People should – and would – be actively involved in the governance and maintenance of their neighbourhood, their immediate public sphere. The question is *how* they can do it. One possibility to govern their neighbourhood is via small, local, voluntary, self-organised groups or communities (e.g. Boehm 1993, p. 240). According to Durose and Richardson (2009, p. 33), 'Neighbourhood-based working allows for a variety of structures or systems to operate in each sub-local area. Neighbourhood structures have very different institutional designs, ranging from community forums with no decision-making powers; to neighbourhood committee systems with delegated decision-making and devolved budgets where a wide range of decisions are taken by a group of councillors (influenced by and answerable to a wide group of residents); to neighbourhood management structures with a dedicated manager and team of staff responsible for extensive community consultation, and providing and adapting services in the area in line with community needs.'

Over time, people conduct, or participate in, the self-governance of their (local) public sphere in, and via, increasingly more (self-)organised forms, i.e. organisations. The talk is about *associations* – or *civic* associations.<sup>284</sup> Tocqueville (1835–1840/2003) was the first to stress (or even establish) the fundamental

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<sup>283</sup> The concept of *localism* was also put forward in Part II, 'Democratic organisations', with regard to people's (pro)social and pro-environmental orientation and behaviour and people's and democratic organisations' 'considerate conduct of business' (see the chapter there of that title, in particular the sub-sections 'Community orientation and local embeddedness', 'Owner-managers' sense and value of nature' and 'Localism and local people's (pro-)environmental orientation'). However, localism also has its (potential) downsides. For example, Caspary (2004, p. 242) warned that 'subsidiarity risks fostering narrow local self-interest at the expense of the larger community. It also overlooks the need for coordination in our inevitably complex interdependent society'. Localism can be fairly narrow-minded, intolerant and conservative (the NIMBY-principle – 'Not in my backyard' – encapsulates this sort of notion). The issue of localism, as well as other problems of the governance of the economic and the public sphere, would be discussed in some more detail in the planned Volume 2, *Discussion*.

<sup>284</sup> Although there can be some differences between associations (see, for example, Powell 2007, p. 15), here I will largely address them in a rather general sense and just use the general term 'association'. Associations were described in Part II, 'Democratic organisations' (in sub-section 'Associations – The organisational schools of democracy') and in Part III, 'A democratic market economy' (in section 'Self-regulation: Actors regulating

roles, great relevance and importance of associations for the governance of local affairs, even for the ‘moral wellbeing and intelligence of a democratic nation’ (p. 598). It is not only the notion and spirit of localism but of ‘associationalism’ or ‘associative democracy’ (Tocqueville 1835–1840/2003, Hirst 1994, Cohen & Rogers 1995, Fung & Wright 2001, 2003, Fung 2003), i.e. that people and communities govern parts of their public life and public sphere at the local level primarily via *voluntary, democratically self-governing associations* (Hirst 1994, Sørensen & Torfing 2008b, p. 237).

In most countries, an ‘association’ is a particular legal entity. But the notion of civic association or associationalism actually means that organised self-governance can be provided by various organisational forms, all sorts of civil society organisations (CSOs), not-for-profit or non-profit organisations (NPOs), non-governmental organisations (NGOs) or Social and Solidarity Economy (SSE) organisations, such as:<sup>285</sup> Mutuals (e.g. self-help groups, exchange networks, time banks, cooperatives, housing associations, mutual savings banks, credit unions, building societies, mutual insurance companies); neighbourhood organisations, community projects, community development trusts, community-based organisations; volunteer groups, private voluntary organisations (PVOs), activist groups, social and political movements; charities, trusts, foundations, religious organisations; voluntary enterprises, social enterprises, ethical businesses, micro-financed businesses, fair trade organisations.

It is not necessarily the case that all of these organisations are actively engaged in the self-governance of the public sphere (all the time). Some of them might be fairly ‘introverted’ and not appear in public. Some might get involved in the governance of the public sphere only in respect to certain issues and/or occasionally. Self-governance is voluntary. But organisations like the ones listed above are *potentially* able (and inclined) to participate in the self-governance of the public sphere in some form. Associations (can) contribute to the democratic self-governance of the public sphere in many ways (Cohen & Rogers 1995, pp. 42–44, Schambra 2000, pp. 318, 322, Fung 2003, pp. 515, 516, 520, 533, Rodekamp 2010, pp. 3–4, Wright 2010, p. 180, Rosenblum & Lesch 2011, p. 290, Smith 2011, p. 29, Öberg & Svennson 2012, p. 250, Smith & Teasdale 2012, pp. 152, 153, Phillips 2014, p. 487, Rothstein 2014, p. 364):<sup>286</sup>

- a) *Representation and advocacy*: Usually, associations are set up to pursue and realise certain interests of their members. In the public sphere, associations give voice to people; they articulate and represent their members’ or people’s interests and concerns. Often, associations represent the

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themselves’). In both parts it was more about associations as *legal entities* (associations primarily conducting professional or economic activities and operating in market environments) and the focus of analysis was on such organisations’ *internal* democratic structures and processes and their behaviour as *market participants*. In some contrast, here in Part IV it is more about associations as *activist organisations* (associations primarily conducting political, social, socio-economic or cultural activities and participating in the governance of public affairs) and more about their role(s) in the governance of the public sphere.

<sup>285</sup> This list is a compendium of Social and Solidarity Economy (SSE) organisations listed in Table 6 ‘Types of democratic organisations’ (in chapter ‘Alternative types of organisations - *democratic* organisations’ in Part II, ‘Democratic organisations’) and private not-for-profit organisations (NPOs) listed in Table 14 ‘Legitimate market participants in the democratic market economy’ (in chapter ‘Legitimate and illegitimate participants in the free market’ in Part III, ‘A democratic market economy’).

<sup>286</sup> In the section on ‘Self-regulation: Actors regulating themselves’ in Part III, ‘A democratic market economy’, Table 14 lists services and functions that *business* associations offer. These functions are partly similar, partly different to those that *civic* associations offer, but there is no need to compare the two in more detail.

interests, and speak in favour, of otherwise politically passive citizens, or disadvantaged, marginalised and/or disenfranchised groups of people. Associations are a tool for advocacy. For this, they facilitate the articulation and representation of citizen interests to, or into, political institutions, channel citizens' interests and concerns to decision-makers and into policy-making processes. By transmitting people's interests, needs and preferences, associations function as intermediaries between citizens and political or administrative institutions. Associations massively improve the quality and equality of political representation.

- b) *Information, expertise and knowledge*: Because of their focus on certain issues (specific interests, problems, topics and/or activities) associations develop and accumulate information, expertise and knowledge with regard to those issues not many other institutions possess. With providing this information, expertise and knowledge to their members, to political institutions or administrative bodies, or to the general public, they help them make more informed decisions and improve the quality of governance.
- c) *Providing services, implementing policies*: Many associations provide services in the areas where they are active (e.g. provision of information, training, education, organisation of events, networking) and/or might participate directly in the regulation, provision or even production of public goods (e.g. provision of social welfare policies and programmes). Via their own activities they have direct influence over the implementation process of public policies and decisions.
- d) *Participation, decision-making, governance*: Associations can also get directly involved in the governance of the public sphere or certain issues of public concern. They can provide resources and opportunities that facilitate public deliberation or political participation and include sections of the citizenry in political processes. Associations create opportunities for citizens and groups to participate directly in governance, in policy formulation and policy-making. In so doing, they offer alternative, more participatory and democratic governance and considerably enhance the quality of democratic governance.
- e) *Empower and disempower*: Association makes people strong. Associations remedy inequalities in resources between individuals by enabling otherwise disadvantaged people to pool resources for the purposes they pursue. While empowering their members, at the same time associations make 'the state' less powerful. Associations provide some (limited) checks and balances of political and administrative power, in particular by making decision-making more transparent and holding political and administrative institutions accountable. Associations might even put forward criticism of officials, policies and/or state actions, and offer resistance to state power. With their range of possible political action, associations strengthen the institutions of political democracy.
- f) *Fostering skills and virtues*: Associations function as 'schools of democracy'. They have developmental effects on individuals and contribute to citizens' education. Associations particularly promote civic virtues, such as: attention to the public good, appreciation of a democratic political culture, of democratic norms and values, support for democratic institutions, respect for the rule of law, habits of participation, cooperation, tolerance and respect for others and opposing viewpoints, social capital, trust, willingness to participate in public life, and civic engagement. Moreover, members of associations and others learn and practise political skills, the practical skills of democratic citizenship, such as: public debate, deliberation, compromise, how to organise

themselves, run meetings, make speeches or argue issues. Associations affect the attitudes, skills and behaviours of many individuals in ways that benefit democracy.

All in all, associations contribute to the democratic self-governance of the public sphere in manifold ways, in particular by: a) representing and promoting interests in public; b) providing information, expertise and knowledge; c) providing services and implementing policies; d) participating directly in decision-making and in the governance, regulation, creation and provision of public goods or services; e) empowering their members and checking political power and government; and f) fostering political skills and democratic virtues.<sup>287</sup> This is quite a broad range and long list of governance functions.

#### *Necessary external and internal preconditions for associative self-governance*

Self-organised and voluntary bodies for the governance of local public spheres and local affairs like the ones described earlier (e.g. community forums, committees, councils, and especially associations) are first, and most immediate, examples of (local) civic engagement and direct involvement of citizens in the governance of their own public lives and the conditions of their lives. They are examples of *direct democracy* that takes place (almost) every day as a natural part of people's daily activities in public<sup>288</sup> – or, rather, it would and will happen *if* the conditions are right. That people and associations will get involved in the self-governance of their public sphere and matters of public concern depends on them as well as on whether the constitutional, socio-cultural, political and administrative institutions of a society are favourable for, and towards to, civic engagement. There are some key external and internal preconditions that are *necessary*, or at least (very) *helpful*, for the emergence and continuation of voluntary, self-governing organisations and their active involvement in the governance of the public sphere:

##### i) Fully fledged democracy

In order to be able to function fully, associations need institutional environments that at least tolerate them, if not support and actively collaborate with them. Associations, their existence, and the services and functions they provide must be appreciated, or at least accepted, especially by those (political and administrative) institutions that make the political decisions, formulate and implement the legal rules and regulations that are relevant for the whole system as well as for every institutional or individual actor.<sup>289</sup>

*Non-* or *anti-*democratic systems (such as autocracies, oligarchies or monarchies), their representatives as well as their institutions, neither appreciate nor accept or support civic associations, especially not if

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<sup>287</sup> The items listed offer a rather *positive* view of what associations do and the functions they provide. That associations, and what they do or how they do things, can (also) be quite problematic will be debated in the planned Volume 2 *Discussion*.

<sup>288</sup> Later, more examples of direct democracy in the form of *participatory governance*, such as *citizen participation*, *collaborative governance* or *participatory governance networks* will be provided.

<sup>289</sup> Tocqueville (1835–1840/2003, p. 607) already made this argument almost 200 years ago: 'I am not saying that civil associations cannot exist in a country where political associations are prohibited, for men cannot ever exist in society without engaging in some common projects. But I am maintaining that, in such a country, civil associations will always be small in number, feebly conceived, incompetently run, and will never engage in plans on a vast scale or will fail in attempting to execute them.'

they are, or aim to be, free and independent. They see such organisations as opposing forces that need to be suppressed. Only those who are themselves free and independent and based on democratic principles and standards understand and welcome free and independent, democratically self-governing associations. Only *fully fledged democracies* have the ideas of free and independent actors pursuing their own interests (individually and/or collectively), associating freely and governing themselves and their (local) public spheres. Only *fully fledged democracies* are supportive of, and compatible with civic associations and provide the right institutional setting for them.

ii) Political institutionalisation of democratic self-governance

Institutions of democratic self-governance (citizens' local assemblies, associations and the like) are not automatically recognised as institutions of governance and do not have the political powers to make decisions or act; they (initially) don't have legislative powers (like a parliament or elected representatives), executive powers (like the government), administrative powers (like public authorities/public sector services), or the resources to implement their policies and decisions. The institutions of democratic self-governance, therefore, need to be *institutionalised*. They need to be institutionalised *politically*. Political institutionalisation means that an entity becomes a formally acknowledged part of the political system – the system of institutions of governance – and (therefore) legitimately plays its role in this system of governance institutions and (their) decision-making. The institution of governance is then officially entitled and enabled to govern, to manage and to decide upon public affairs and matters of public concern within its jurisdiction and the powers and responsibilities it has been equipped with.

Institutions of self-governance need to be acknowledged – and their political powers need to be specified – politically, formally, legally, and in administrative and budgetary ways. They should be acknowledged at a constitutional and national level, i.e. in the constitution and relevant national laws and regulations. But since institutions of self-governance are particularly relevant in a local context and/or in respect to specific issues or matters of public concern it is even more important to establish their responsibilities as well as their relation to other institutions of governance at local levels. For example, it needs to be clarified how institutions of self-governance relate to institutions of representative democracy at local level (such as municipal assemblies or city councils and local councils/local advisory councils).<sup>290</sup> Very often, people from both institutions work together. For instance, members of a neighbourhood association raise (the awareness of) a local problem and mobilise public opinion, and local representatives/members of the local council then address the issue in their parties and the local council and may come to a decision which is then executed by the municipal authorities, public services respectively.

iii) Principled appreciation of the rule of law

Anything that is happening in the public sphere has a legal dimension and comprises legal aspects – at least it can raise legal questions. This is true for any activity that is taking place in public, actors

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<sup>290</sup> See sub-point 'i) Governing locally' in sub-section 'Parliament – the epitome of people's represented will and power' in the chapter 'Representative democracy' below. For some more thoughts about collaborative approaches to the delivery of public services or maintenance of public resources, such as direct collaboration or participatory governance networks ('collaborative governance'), see also section 'Participatory governance: Who participates in what ways?' in the chapter 'Participatory governance' below. The example stated here about collaboration at local level can also work at regional or even national level, i.e. with country-wide associations and regional assemblies (and/or county or district councils) or even the national parliament or assembly involved.



operating in, or concerning, a public sphere as well as the governance of the public sphere. For actors operating in the public sphere, the *rule of law*<sup>291</sup> – i.e. that legal codes and processes are consistent with the fundamental principles of legitimacy and people’s inalienable human, civil and democratic rights and that the law is applied and enforced only in legitimate ways – therefore is paramount. A principled appreciation of the rule of law – also and especially by those who set up and enforce legal rules and regulations, i.e. the government, lawmakers, administration and institutions of law enforcement – is essential for the existence and functioning of associations. If a social system/regime does not obey and live by the rule of law, then it is very difficult for civic associations to operate. In the best case, they might still be allowed to do *some* work, but will be fairly limited in what they can do. In the worst case, sooner or later they will be declared illegal and dissolved.

#### iv) Fully functioning civil society

Besides constitutional (fully fledged democracy), political (political institutionalisation) and legal-administrative preconditions (rule of law), social or socio-cultural preconditions also have some relevance for associations’ role in respect to the governance of public spheres. A general spirit of civic engagement qua associations would be helpful, i.e. the notion of *civil society*. According to the US political theorist Michael Walzer (1997, p. 8), civil society is ‘the space of uncoerced human association’. He described the spirit of civil society and its workings quite succinctly (Walzer 1992, p. 105): ‘A democratic civil society is one controlled by its members, not through a single process of self-determination but through a large number of different and uncoordinated processes. These need not all be democratic, for we are likely to be members of many associations, and we will want some of them to be managed in our interests, but also in our absence. Civil society is sufficiently democratic when in some, at least, of its parts we are able to recognize ourselves as authoritative and responsible participants. States are tested by their capacity to sustain this kind of participation – which is very different from the heroic intensity of Rousseauian citizenship. And civil society is tested by its capacity to produce citizens whose interests, at least sometimes, reach further than themselves and their comrades, who look after the political community that fosters and protects the associational networks.’

People’s self-governance coincides with the idea of civil society (Walzer 1992, p. 98, Boyte 2005, p. 541, Powell 2007, pp. 4, 27), i.e. that individuals or groups of people voluntarily and freely (‘without coercion’) voice their views, organise themselves, make decisions and take actions in public concerning *any* matter *they* deem to be in their interest, of general interest or of public concern. *Civil society* is the establishment and maintenance of self-organised, freely accessible and functioning public spheres where all members of the society – *citizens* – can publicly organise and pursue their interests and purposes that are important to them, voluntarily govern matters of public concern, and offer public services via a broad and diverse range or network of free and democratic, self-regulating associations (Gimmler 2001, p. 25, Chambers & Kopstein 2008, pp. 364–365, Restakis 2010, pp. 94–95, Warren 2011, p. 378). Civil society is a libertarian ‘context for action’ (Lewis 2014, p. 71). Chambers and Kopstein (2008, p. 364) argued that ‘civil society is a sphere apart from the state. It is a sphere in which individuals come together and form groups, pursue common enterprises, share interests, communicate over important and sometimes not so important matters’. If this notion prevails in a society, many civic associations will emerge and

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<sup>291</sup> For some description and discussion of the rule of law see the two sub-sections ‘Formal legitimacy’ and ‘Procedural legitimacy’ in Part I, ‘Free individuals and legitimate institutions’.

many people will get involved in the self-governance of the public sphere via associations. Warren (2011, p. 377) rightly pointed out that ‘the correlation between robust civil societies and functioning democracies has been so striking that we have come to understand them as reinforcing one another’.<sup>292</sup>

A society without the notion of a vibrant civil society (e.g. totalitarian regimes, ultra-orthodox or ultra-conservative cultures) is a dead society.

v) Associations’ legitimacy

The *external* preconditions favourable for associations (i.e. a fully fledged democracy, political institutionalisation of democratic self-governance, principled appreciation of the rule of law, and a vibrant and fully functioning civil society) are necessary, but not sufficient for associations’ participation in the self-governance of the public sphere. Their *internal* conditions must also be right. This means that, first, associations must be *legitimate*, i.e. in their internal design and functioning as well as in their external operations and behaviour they must correspond and comply with the fundamental principles of the wider social system they belong to and operate in.<sup>293</sup> In a democratic society, associations *must* be *legitimate* organisations (i.e. conservative, alternative or democratic organisations), i.e. they must be designed and managed in line with democratic principles and standards.<sup>294</sup> Moreover, the way(s) they operate must also be in full compliance with the standards and criteria of democratic organisations’ considerate and appropriate behaviour in their relevant environments and with respect to others.<sup>295</sup> Associations must be independent and voluntary, self-regulating democratic organisations. Especially since associations are involved in the (self-)governance of phenomena that are highly relevant for others (public spheres, public affairs or matters of public concern), their legitimacy – i.e. their legitimacy as organisational institutions as well as the legitimacy of their conduct – is not an option but a must.<sup>296</sup>

vi) Associations’ abilities

Associations must *be able* to conduct governance functions in respect to the public sphere. If the association is a democratic organisation, then it has the organisational features and capabilities to govern itself democratically.<sup>297</sup> In this case, it can use its internal assets and capabilities (i.e. its democratic

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<sup>292</sup> The great Austrian philosopher Karl Popper (1902–1994) developed a concept of, and made a strong case for, an *open society* (Popper 1945/1980) that encapsulates and combines the notion of a fundamentally democratic state and the possibilities for civil society.

<sup>293</sup> See section ‘Types of legitimacy’ in Part I, ‘Free individuals and legitimate institutions’, especially the sub-sections on formal and substantive legitimacy.

<sup>294</sup> See in particular the chapters ‘Libertarian constitution and democratic governance’ and ‘Democratic management’ in Part II, ‘Democratic organisations’, and section ‘Legitimacy of market participants’ in Part III, ‘A democratic market economy’.

<sup>295</sup> See chapter ‘Considerate conduct of business’ in Part II, ‘Democratic organisations’.

<sup>296</sup> It cannot be taken for granted that associations, or civil society organisations in general, are designed and operate like democratic organisations; internally, they can be fairly conservative, hierarchical, anti-democratic, even autocratic – i.e. close to being, or even are illegitimate. And their behaviour might be rather opportunistic, selfish, even anti-social (e.g. McLaverty 1998, p. 227, Theiss-Morse & Hibbing 2005, p. 239, Nabatchi & Leighninger 2015, p. 7). These issues were addressed briefly in sub-section ‘3) Conservative organisations’ in Part III, ‘A democratic market economy’.

<sup>297</sup> See the chapter on ‘Democratic governance’ in Part II, ‘Democratic organisations’.

institutions of governance, legitimate authoritative sources, expertise of democratic governing, competences of ‘good governance’) also for getting involved in the external self-governance of public spheres.<sup>298</sup> That these democratic organisations/civic associations would be able to do so can be explained in various ways, most prominently by Tocqueville’s ‘schools of democracy’ theorem (sometimes also called ‘transmission belt’ thesis or ‘spill-over effect’ – Greenberg 1981, p. 967, Sobel 1993, p. 341, Van der Meer & Van Ingen 2009, p. 282, Rosenblum & Lesch 2011, pp. 290–291, Warren 2011, p. 381). The theorem argues that because of their internal democratic governance and decision-making structures and processes, associations serve as ‘schools of democracy’; they teach their members to become, and to behave like, citizens. Via their experience and practice of participation in democratic decision-making *within* associations, their members gain the skills, resources, knowledge, confidence/sense of political efficacy, and perspectives of effective citizens and are able to show the corresponding citizenship behaviour *outside* the organisation as well, i.e. in the public sphere.<sup>299</sup> Participation in organisational democracy leads to participation in political democracy – or: occupational participation generates political participation.

vii) Associations’ willingness

Last but not least, associations must be *willing* to engage with self-governance of the public sphere. Some civic associations serve only, or primarily, their members’ needs and interests and do *not* want to engage with the public, or even appear in public. Others, in contrast, see themselves as ‘advocacy organisations of civil society’. These associations are quite interested in playing a rather visible and active role in and with regard to their relevant public spheres. Usually, associations do not engage in self-governance of the public sphere because of monetary reasons or financial incentives – but there can be many, and various, reasons why associations (actually, their members) are keen to participate in the self-governance of the public sphere and matters of public concern; individual reasons and motivations, ethical orientations, moral norms, religious beliefs, political convictions, social concerns or prosocial values – or any combination of these.

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<sup>298</sup> That this is possible was shown in chapter ‘Regulation of markets and market participants’ in Part III, ‘A democratic market economy’, where it was argued that (business) associations contribute to the self-regulation of markets and industries. If, however, associations lacked the right competences or resources, they would need to develop or acquire the relevant skills and competences, perhaps even additional resources, in order to be able to conduct self-governance functions. They can do so perhaps with the help of other associations (voluntary ‘associations of associations’, loose networks of associations that provide help and support) and/or with the help of government bodies that provide practical support (such as public funds to perform governance functions, legal and professional support, provision of information, knowledge and training). Similar to ‘Chambers of Commerce and Industry’ or business associations that make such resources available to their members in a business context, there could be ‘Chambers of Governance’ and governance associations that do so in a governance context.

<sup>299</sup> A similar argument was made with regard to democratic organisations’ conduct of business and market-related behaviour. It was argued that they would (want to) act in much more cooperative ways because this is how the owners and members of democratic organisations (have learned to and prefer to) work *within* the organisation (see section ‘People: (Pro)social orientation and behaviour’ in Part II, ‘Democratic organisations’, and section ‘Cooperative actions and interactions between market participants’ in Part III, ‘A democratic market economy’). There is some empirical evidence for the ‘schools of democracy’ theorem (e.g. Greenberg et al. 1996, Rawlings 2012, Minkoff 2016) – although it must be said that democratic organisations’/civic associations’ members are not only socialised into citizens but that some people who already have such orientations and traits *choose* to become members of such associations. Hence, it is selection *and* socialisation; associations are ‘pools *and* schools of democracy’ (Van der Meer & Van Ingen 2009, Schulz & Bailer 2012, Quintelier 2013).

## Self-governance in virtual public spheres: Social media and online activism

So far, the focus had been on (the self-governance of) *local, physical* or *spatially defined* public spheres. But with the emergence of the internet (or World Wide Web) in the 1980s, for many people the *virtual* environment (or virtual environments) has become increasingly relevant, in some respects even more important than ‘real life’ (Polat & Pratchett 2009, p. 193, Nabatchi & Leighninger 2015, pp. 64–65).<sup>300</sup>

However, it is not immediately clear what the public sphere of, or in, the internet consists of. The internet is literally billions of physical and virtual elements, places and processes (domains, hosts, servers, programmes, infrastructure, traffic). Most of these are owned and maintained by private and public actors and are *not* accessible by the public. They are private or government property and protected accordingly. Only certain elements or functions are made public – such as specific websites and their content, or applications – and are made accessible either for everyone or for (paying) members, customers or certain users. In this sense, the public sphere of the internet is everything that is made publicly available or accessible online. That is, websites, programmes or applications that are made accessible for others; content (data, words, pictures, graphics, sounds, information, news, knowledge, ideas or ideologies) that is made available, and even disseminated deliberately ‘to the public’ (or parts of it); but also everything that people create, access, do or communicate (one-way or interactive, synchronously or asynchronously) online. All of this is part of the (virtual) public sphere – and (potentially) a matter of public concern.

In discussing potential self-governance of the virtual public sphere I focus especially on what people do online, in particular the use of *social media*. *Social media* are Web 2.0 internet-based applications that enable decentralised electronic communication, interactive virtual communities (‘online communities’), and networks (‘social networks’) of and between many users (individuals, groups, organisations) (Social Media 2020, without page). Examples of social media applications are social networking websites (Facebook, WeChat, LinkedIn), photo-sharing sites (Instagram, Snapchat, Pinterest, Flickr), video-sharing sites (YouTube, TikTok), microblogging (Twitter, Tumblr), online forums, e-mail applications (Gmail, Outlook, Yahoo mail) or instant messaging (Line). Such social media applications enable individual users and large numbers of people to (Dourish & Satchell 2011, p. 21, Hirsch 2011, p. 135, Bryer 2013, p. 45, Swigger 2013, p. 592):

- Express and present themselves, share thoughts, personal opinions and messages;
- Create, access and disseminate information, ideas and other user-generated content instantly, widely and efficiently at (almost) no cost;
- Communicate, engage and interact with others (on an individual or collective basis), and participate in social networking;

Clearly, with such a range of widely available online applications, the internet and social media have enabled, one might even say *empowered*, individuals on an unprecedented scale to do what they want to do (within the range of technical, legal, regulatory and socio-cultural limitations). Literally everyone

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<sup>300</sup> Actually, a dichotomic differentiation between the ‘physical’ and ‘virtual’ world is not as clear-cut as it looks because nowadays many information and communication technologies (ICT) and applications, such as live chats, video conferencing or synchronous online learning, *combine* and *connect* local and global, physical and virtual spaces and events.

can conduct a broad range of possible online activities, in particular connecting with other people and creating, accessing and sharing almost any kind of information and content. Social media fit perfectly to the fundamental notion of free and democratic societies, for individuals to be as free as possible and in charge of their own affairs. In this sense, social media can be seen as far-reaching liberalisation, empowerment and democratisation.

Nonetheless, most online activities and engagement, information made available and content shared in or via social media are trivia. The majority of activities most people do online are actually the same as they do in the physical world as part of their 'normal life' (e.g. working, shopping, socialising, pastime activities). The only difference is that on social media many of these activities are presented to a (real or imagined, present or absent) audience, or are even conducted or done in a specific way *deliberately* for presentation. Expressing oneself – even self-promoting or self-marketing – presenting more or less interesting and important aspects or episodes of one's private life to others, sharing information and having conversations 'in a presentation format' are the prevailing activities on social media.

In contrast, there are relatively few governance and governance-related activities via social media. *Self-governance*, in the sense of designing, setting up, maintaining and controlling the principles and policies, structures and processes of and with regard to social media (i.e. the applications, their content, functioning and usage), is *not* done by users but mostly by technology companies (especially the very large and dominant ones like Microsoft, Alphabet/Google, Meta/Facebook, Twitter or Yahoo), internet service providers, some ICT experts or legal experts, and international bodies or associations. There is even some need for more *top-down* governance and regulation (by national governments or even international bodies and public authorities) because self-governance and self-regulation, in particular as conducted by private companies and providers, are rather insufficient and often fall short.

Nevertheless, users of social media *do* show – or *can* show – self-governance in the form of 'online activism', i.e. activities conducted via the internet or other mass communication media that have political meaning and implications, implications for governance and public authorities, the governance of public spheres and public affairs respectively. For instance, social media can be used regularly by independent news media and journalists, civil society organisations, or individual citizens to inform the public about political affairs or certain matters of public concern, to present themselves, the goals and purposes they pursue and activities they conduct, to network and to engage with the wider community. Or people can comment on, or debate certain issues, support or reject certain ideas and call for further actions. Such online activism can be seen as a form of self-governance because it is the users themselves who initiate forms of political activism and civic engagement and conduct certain, politically relevant activities online and/or in the real world that have an impact on governance.

Online activism/forms of online civic action or political activism might be embedded in, and accompany, people's casual online activities or it might be done separately and specifically. It might take place more or less regularly in and via certain online forums or websites or can be related to specific events (Breindl 2010, Campbell & Kwak 2010, Foth et al. 2011, p. ix, Carlisle & Patton 2013, p. 884, Valenzuela 2013, p. 921). Social media, and political activism via social media, especially come to exceptional prominence and use in extraordinary times – for example, when dictatorships and the people clash. Social media and online activism played a crucial role in and for anti-government protests, uprisings or even revolutions like the Arab Spring in the early 2010s, or with regard to (the initiation and organisation of) opposition, civil disobedience, demonstrations, social unrest and revolts that have taken place in past

years in various Asian countries.<sup>301</sup>

All in all, although social media are not officially established institutions of governance, they nonetheless offer some potentially as well as factually powerful means for people's virtual self-governance.

### **The idea and workings of democratic self-governance**

'Why, regarding what, and how *can, should, and do*, people *govern* themselves, the conditions of their existence and activities in public?' The concepts introduced in the sections above – *localism* and *associationalism, social media* and *online activism* – provide some answers. Generally speaking, people should be able to be actively involved in the governance and maintenance of their (local and virtual) public spheres, public affairs and matters of public concern as much and as far as possible either by themselves or via voluntary, self-organised groups (associations) because as free individuals people have every right to rule themselves as well as the conditions of their existence (Bevir 2006, p. 430). This is the notion of *self-governance*.

Self-governance must be *legitimate*, i.e. how it is structured and happens must correspond and comply with the fundamental principles of the wider social system (the society) where it takes place. In the case of Pentoutopia this means that self-governance must especially adhere to the principles of freedom and democracy. Self-governance must be in line with libertarian and democratic principles and standards. *Free* individuals can govern themselves, and be governed, *only* in *democratic* ways. Self-governance, therefore, *is, must* and *can* only be *democratic* self-governance. *Democratic self-governance* means that people can address any issue or matter of public concern in public; that they can initiate, and be involved in, any legitimate way to govern public spheres, to manage public affairs or matters of public concern via self-organised democratic institutions (e.g. neighbourhood groups, forums, associations); and that, in so doing, people govern, shape and manage the public conditions of their lives – but they must do so according to democratic principles and standards and in democratic ways.

In respect to the necessary external and internal preconditions for democratic self-governance, it can be proposed: If there is a fully fledged democracy, institutions of democratic self-governance have been institutionalised, a principled appreciation of the rule of law, a fully functioning civil society (external preconditions), *and* civil society organisations and citizens are legitimate, able and willing to conduct functions of self-governance (internal preconditions), then individual people and democratically self-governing associations will become increasingly involved in the democratic self-governance of (local and virtual) public spheres, public affairs and matters of public concern.

The more these external and internal preconditions exist, the more legitimate associations and online activism will emerge and play a crucial part in the democratic self-governance of the public sphere and public affairs. How exactly they do it depends, of course, on the particular issue at stake, the specific situation and what individual citizens and associations relevant for tackling this issue are willing and

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<sup>301</sup> The importance of social media for the empowerment and liberation of people, and for democracy/a free and democratic society in general, is also evidenced by the fact that illegitimate regimes (such as autocracies, oligarchies, military governments or one-party states) go to great lengths to limit, censor and control the internet and social media regularly and to (try to) shut them down as soon as people's discontent with the regime becomes publicly more visible and widespread.

able to do about it. It might be that an association is entitled, and has the capabilities and resources, to handle a matter of public concern on its own. Probably more often the issue is more complex and cannot be addressed or solved by a single association or a few people alone. In this case, they might need to approach other relevant parties (individual citizens, other associations or civil society organisations, local authorities or other governmental or non-governmental bodies) and collaborate with them, or convince them, to address and solve the issue in question. Public spheres are complex, and individual actors and associations are among many parties potentially involved in the governance and management of a public sphere or public issues. Hence, for the (self-)governance of public affairs and matters of public concern most activists and associations usually operate within overlapping and changing networks of various stakeholders and relevant institutions. And they would do so in every public sphere. In a developed democracy with a vibrant civil society in every local public sphere, and with regard to any matter of public concern, there either exist already relevant associations, or concerned citizens will set up a legitimate association, that will participate in the self-governance of the public sphere.

In this sense, associationalism actually is an *associative model of democracy*, a different, much more (basic-)democratic type of governance and democracy. *Associative democracy* means that countless voluntary, democratically self-governing associations gradually and progressively take over an increasing range of political, administrative, social and economic governance activities and functions in a society's public spheres until they become the primary means of democratic self-governance of (local and virtual) public spheres and public affairs and the handling of matters of public concern.<sup>302</sup> Democratic self-governance is associative democracy applied.

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<sup>302</sup> However, there are governance functions and services that associations *can't* provide – such as legislative, executive or judicial institutions and functions, nationwide administrative functions, national services like national defence or police, or some other public or social services. Democratic self-governance based to a great extent on associative democracy still needs to be complemented by *representative democracy* and *participatory governance* – as the next two chapters will show.

## Representative democracy

After having first established how public spheres and public affairs can be governed and managed to a great extent by individuals and organised groups (associations) by themselves and directly, i.e. in the form of *democratic self-governance*, this chapter inquires why, how and to what extent the public sphere can, or even needs to, be governed democratically by *representatives*, i.e. in the form of *representative democracy*. The chapter first offers some justification of government per se – *legitimate* government – and why only democracy is a legitimate form of government. It then shows how a representative democracy has to be designed in order to function democratically. For this, the concepts of delegation, representation and accountability are introduced and it will be illustrated how the main institutions of governance of a representative democracy can execute the will of the people along a *chain of delegation, representation and accountability*; from people to democratic *political parties* and (their) candidates, via a democratic *electoral system* and free and fair *elections* to a strong *parliament*, and finally a democratic *government* and its administrative institutions of governance. Altogether, the chapter outlines the concept of a representative democracy that is as libertarian and democratic as possible.

### Justification of government per se – of *legitimate* government

#### *The case for (the need of) government*

People and organisations acting and interacting in public independently and on their own, perhaps even (self-)governing some aspects of public spheres and public affairs, could mean a social system without (the need for) general institutions that provide governance or even a centralised institution of government. It would amount to the argument that ‘no state’, ‘no government’ whatsoever is needed – a radical view that is reflected in the traditional concept of *anarchism*.<sup>303</sup>

The anarchist model of a political system (or even society) is very similar to the neo-classical/neo-liberal model of the free market (the ‘perfect market’) in the sense that both envisage no external governance or regulation at all. However, this does not work. For instance, individual or collective actors may demonstrate behaviour and conduct activities that can have negative and damaging consequences for others or the whole. They might follow or propagate ideas, organise and govern themselves, pursue goals and conduct activities that:

- Strengthen their own position, provide them with unfair advantages or preferential treatment and/or increase their welfare at the expense of others or the whole;
- Threaten the fundamental principles of freedom, democracy, equality or sustainability,

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<sup>303</sup> For some original accounts of (early) anarchism see the works of the great Russian anarchist, philosopher, economist and writer Peter Kropotkin (1842–1921), Marshall’s (1993) monograph *Demanding the Impossible: A History of Anarchism*, or Chartier and Johnson’s (2012) comprehensive edition *Markets not Capitalism: Individualist Anarchism against Bosses, Inequality, Corporate Power, and Structural Poverty*.



and/or against people's inalienable human, democratic and civil rights;

- Go against the idea of the public sphere as a space or place where everyone is entitled to be and to act in accordance with the public sphere's principles, and thus might impair or damage (parts of) the public sphere or the mechanisms that constitute and maintain the public sphere;
- Produce outcomes or bear consequences that threaten or damage common goods, go against the public interest, or might be damaging for society as a whole.

Problematic behaviour as outlined above, and the consequences for individuals, organisations, the public sphere or society as a whole, can happen anywhere and at any time – and it *does* happen. Therefore, there must be general and specific rules, regulations and enforcement mechanisms in place that (can) cope with problematic behaviour and related consequences.<sup>304</sup> Individual and collective actors participating in the governance of public spheres and public affairs might be able to recognise such behaviour and consequences, the need for rules and their enforcement, and might even be able and willing to take action via the tools of self-governance. But their means are limited and, as individual actors being part of, and partaking in, those events and processes unfolding, they are neither legitimately nor practically able to set and to impose the necessary *general* rules, regulations, and enforcement mechanisms. Hence, there needs to be a *legitimately established* and empowered *general* institution (Locke 1689/1998, p. 132, Hayek 1944/2008, p. 98, Friedman 1962/1982, p. 15, Ostrom 1971/1987, p. 37, Nozick 1974, pp. ix, 26, Buchanan 1975, p. 12, Walzer 1992, p. 104, Bowles & Gintis 1998, p. 24) that:

- a) Determines and sets the rules and standards for people's and organisations' existence, behaviour and activities in the public sphere specifically and in society generally;
- b) Establishes and maintains public order, enforces compliance with the rules and standards decided on;
- c) Constrains and orders people's and organisations' powers, behaviour and activities that could (potentially) undermine the rules and standards or harm others;
- d) Protects individuals and organisations against possible threats or break of rules;
- e) Punishes those who break the rules.<sup>305</sup>

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<sup>304</sup> This is the same line of reasoning I applied against unregulated or solely self-regulated industries and markets, and in favour of government regulation of markets and market participants (see sections 'Self-regulation: Actors regulating themselves' and 'Government regulation: Actors regulated by government agencies' in chapter 'Regulation of markets and market participants' in Part III, 'A democratic market economy').

<sup>305</sup> The functions listed obviously represent the notion of a *minimal* state – the so-called 'night-watchman state' – that has been the preferred model of government or state of radical neo-liberals/extreme right-wing libertarians like Hayek (1944/2008, 1976/2003), Friedman (1962/1982) or Nozick (1974). In the context here I refer (only) to those functions as minimal *raison d'être* of government, i.e. as a *functional* justification of government *as such*. Nonetheless, as with legitimacy, a functional justification is only a necessary, but not sufficient justification of an institution. In the following, but especially in Part V, it will be shown that any legitimate government or state is, *and must be*, much more than a night-watchman, that government/'the state' *must* also provide *substantive* functions (i.e. that, to continue the metaphor, government not only 'sets the rules of the game' and punishes non-compliance but that it – *necessarily* – also interferes with the game, the players and the outcomes of the game).

The institution that can provide these governance functions is the *government*.<sup>306</sup> No complex social system could be maintained or could function without governance functions provided by general institutions, i.e. no complex social system could exist without government. There is simply a *systemic* need for government. In this sense it can be established that any social system where actions and relationships of actors cannot be governed and managed directly needs *formally established general institutions of governance* that have the power to establish common rules (and to enforce compliance as well as to punish non-compliance with those rules) concerning the governance and government of the social system, public affairs and matters of public concern as well as members' public behaviour and activities.

### *Legitimate government – and why only democracy is a legitimate form of government*

Having established the case for (the need of) government as such leads to the question which *form* government should it be. Rousseau (1762/2004, p. 6) declared that 'might does not make right, and that the duty of obedience is owed only legitimate powers'. Free people accept only *legitimate* authority – which means that to be accepted freely by its people any government must be a *legitimate* government. *All* institutions of governance and government *must* be *legitimate*.<sup>307</sup>

Now, even dictatorships, oligarchies, monarchies or illiberal democracies claim to be 'legitimate' (it would be laughable if it was not that serious). It therefore needs to be clarified what a *legitimate* government is, i.e. the specific criteria of and for a government's legitimacy. In order to make explicit what can determine the legitimacy of government in general and any specific government in particular, one can utilise the 'five types of legitimacy' that were developed in the chapter 'Institutions: Legitimate institutions' in Part I. Following these five types of legitimacy (i.e. formal, procedural, substantive, perceived and rational), a government is legitimate if, and only if:

1. Its purposes and design, the ways it operates and the outcomes and impacts it causes are consistent and correspond with its own claims, adhere to its formal policies, rules and regulations (internal formal legitimacy), fit to the social system and society they are part of, and comply with relevant legitimate constitutional, legal and judiciary laws, policies, rules and regulations (external formal legitimacy) (*formal legitimacy*);
2. Formal rules are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (*procedural legitimacy*);
3. It is designed, managed and maintained, operates and produces outcomes in accordance with the fundamental principles of freedom, democracy, equality, justice and

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<sup>306</sup> The term 'government' is understood and used here in its most general sense, i.e. not only as the top tier of the executive branch but as the whole range or system of 'public institutions of governance' or 'public authorities'. Moreover, government might be a single 'national' government/government of a nation-state, but it could be also a network of entities, a federation, a union or the United Nations. Hence, although in the text it is argued for a 'need of government' or that 'the state' could or even should do xyz, it is *not* an argument for nations, the nation-state, an authoritarian government or a paternalistic state (and also not for nationalism or submissiveness to authority).

<sup>307</sup> For example, Beetham (1991, p. 3) made the point that: 'Where power is acquired and exercised according to justifiable rules, and with evidence of consent, we call it rightful or legitimate.'

- sustainability, as well as people's inalienable human, democratic and civil rights, and it upholds, protects and strengthens these principles and rights (*substantive legitimacy*);
4. People regard its existence, purpose(s), design, the ways it works and the outcomes and consequences it produces as legitimate (*perceived legitimacy*); and
  5. It resembles rationality and reason in its entirety as well as in all its parts, is up for scrutiny and can be contested and altered with good reason (*rational legitimacy*).

For a government wanting or claiming to be legitimate, it *must* demonstrate *all* five types of legitimacy, i.e. formal, procedural, substantive, perceived *and* rational legitimacy. Or, to put it slightly differently: In order to be *legitimate*, a government as a whole as well as in all its parts and actions *must* correspond with, be based on and function according to the criteria and standards of the *legitimate institution*, i.e. it must adhere to formal, procedural, substantive, perceived and rational legitimacy.<sup>308</sup>

*The only* form of government that adheres to all five types of legitimacy is a *democracy* (or, to be more precise: a *full* or *liberal* democracy<sup>309</sup>). The government of a social system that propagates free individuals and corresponding legitimate institutions of governance, that allows, encourages and enables people to act independently and to associate freely in order to pursue their own interests, *must* be a *democracy*. *Democracy is the only* legitimate form of government of a society of people with equal rights and freedoms.<sup>310</sup>

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<sup>308</sup> Moreover, according to the 'correspondence argument', an institution must also fit to the social system it is part of or relates to – i.e. in this case a government must fit to the social system and society it governs (for example, Hirst (1994, p. 28) argued that 'a centralized sovereign state in a pluralistic and activist society is a glaring contradiction'). The *correspondence argument* has also been applied to organisations in a democratic society (see section 'Legitimacy of market participants' in Part III, 'A democratic market economy'). It was said there that 'An organisation that exists and operates in a democratic society *must* be democratic. Or, to put it differently: In a free and democratic society any formally established organisation *must* be a democratic organisation since this is the *only* form that is consistent with the fundamental principles and values of a free and democratic society, democratic governance and management, and the *only* form that accommodates, protects and enables free individuals, their fundamental human, democratic and civil rights and provides them with equal rights and opportunities for their existence and personal development.'

<sup>309</sup> The term 'liberal democracy' could be seen as a tautology because a democracy is *necessarily* based on libertarian principles and values. There cannot be democracy without freedom and freedom without democracy. Nevertheless, it *does* make sense to talk about *liberal* democracies because there are, indeed and unfortunately, also various types of *illiberal* (false) democracies. The great Indo-American political journalist, commentator and author Fareed Zakaria coined the term 'illiberal democracy' in his article 'The Rise of Illiberal Democracy' (Zakaria 1997) and offered some telling examples and a devastating analysis of such regimes. Also the Wikipedia article 'Illiberal democracy' (2021) offers a very good description of the concept. An illiberal democracy is an autocracy, monarchy, oligarchy or one-party state, i.e. an oppressive regime and kleptocracy that (cynically) claims, and pretends to be 'democratic'. One can easily find examples of illiberal democracies in South and Central America, Central and Eastern Europe, the Middle East and North Africa, Sub-Saharan Africa, Eurasia, Central Asia and South Asia, as well as the whole of East and Southeast Asia. Thus, although an oxymoron, the term 'illiberal democracy' really captures the gist of all those regimes that are fake democracies.

<sup>310</sup> In a similar vein, Archer (1995, p. 35) stressed that 'the exercise of authority is only legitimate if control over it is shared among those who are subjected to it: that is, if the authority is what we normally call "democratic"'. In this sense, one might also say that only a *democratic* government is a legitimate government because it is *the only* form of government that is based on: a) justifiable principles; b) legitimate institutions; c) the consent of free people; and d) it can be controlled, sanctioned and replaced regularly by formally institutionalised democratic

### **A fully representative democracy: Delegation, representation and accountability**

After having established *why* democracy is the only appropriate and suitable form of governance for free people, the question now is *how* such a democratic system can or should be designed and function.

Obviously, there are many different forms of democracy. But if one goes back to the original meaning of democracy as '*demos kratos*' – i.e. that 'the people hold the power' and that government must be 'of the people, by the people, for the people' – then it becomes clear that a democracy should be 'the most democratic possible'. If one talks *about* democracy – and if one *talks* democracy – one has to accept that the people are sovereign and that *they* (must) hold the power (or at least be in control of power) as far as possible.

Usually, forms of democracy where people are directly involved – direct democracy like *democratic self-governance* (as discussed in the previous chapter) or *participatory governance* (as will be discussed in the next chapter) offer the greatest opportunities for members of a social system to hold power and to rule. But if (parts of) governance of the public sphere is not possible as *self-governance* or *participatory governance* (e.g. because of the size of the social system or because specialised institutions are required that can conduct general functions of governance) then *representative* democracy is the next most democratic system.<sup>311</sup>

Representative democracy can come in many different forms. But whatever its particular form, it must adhere as much as possible to the notions of free individuals and legitimate institutions of governance. If the idea of democracy is to be taken seriously, a representative democracy *must* provide people with the greatest possible opportunities to hold power, to control power and to rule, i.e. its institutions, structures and processes of governance have to be as libertarian and democratic as possible. This means that the system of a representative democracy must make sure that:

- 1) The delegation and representation of the will of the people happens as democratically as possible;
- 2) Individual and institutional representatives are held accountable sufficiently and thoroughly; and
- 3) All the institutions, structures and processes of governance together constitute a comprehensive and legitimate system of delegation, representation and accountability.

The following three sub-sections elaborate on each of these aspects in turn.

#### *Democratic delegation and representation – delegates, not trustees*

It is the very idea of representative democracy that 'the will of the people' is transferred to, and executed by, legitimate institutions of governance. A representative democracy is designed and functions as democratically as possible – and as best as possible – when people can transfer their will and power freely

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means.

<sup>311</sup> Dahl (1998, p. 109) even called it 'The law of time and numbers: The more citizens a democratic unit contains, the less that citizens can participate directly in government decisions and the more that they must delegate authority to others.'

to legitimate institutions of governance that act on their behalf and for them while people are still in control. From a logical as well as chronological point of view first there has to be something transferred or delegated before it can be represented, there has to be someone who transfers something to another actor. Hence, a system of representation, such as the political model of representative democracy, is based first *not* on representation but on the notion of *delegation*. ‘Delegation’ means that an individual or collective actor(s) entrusts a person or an institution with the task to act as specified by the delegation and assign corresponding authority and responsibility to that person or institution. In respect to the governance of the public sphere and public affairs or matters of public concern, it would mean that the will of ‘the people’, a constituency or an institution is delegated to an institution of governance, entrusting it with the task to act accordingly.

Delegation then triggers *representation*, i.e. via delegation an actor or institution is authorised to ‘represent’ others (for example in public policy-making processes; Pitkin 1967) and to act on behalf of others. The question is how far this responsibility to represent others and to act on their behalf should go. According to one idea, an actor or institution should have relative autonomy to use their own knowledge, experience and judgement, to follow only their own conscience for handling and deciding matters ‘in the best interest’ of others (‘trustee model’ of representation). In contrast, another idea is that an actor or institution should be expected, even required simply to represent or convey the views and wills of those they represent, and to act strictly in accordance with their intended wishes (‘delegate model’ of representation).

In most contemporary democracies, even the most advanced and fully fledged ones, the trustee model is prevailing, probably (also) because current democracies are largely not much more than electoral systems where representatives are elected regularly every four years and then left in their offices ‘to do whatever they want’ between two election dates. Of course, representatives – like any other free individual – deserve to do their work as they deem right. On the other hand, representatives hold office *only* because *of* others, and to work *for* others. Even their status, all tangible and intangible assets linked to their position as well as their power and influence are *entirely* due to their charge and duty to serve (others, the whole). Viewed in this way, the delegate model is much closer to, and more compatible with, the spirit of democratic representation than the trustee model because it enables the will of the people to be truly reflected in the governance of relevant matters. And the delegate model also reflects much more the notion of holding representatives/office-holders accountable (see below). Whereas the trustee model is rather conservative, paternalistic and deprives constituents of their right to control their representatives, the delegate model corresponds much better with the notion of real democracy and democratic representation. Therefore, although there is a tendency towards the trustee model when representation is institutionalised (and the more and the longer it is institutionalised), and although there might be instances where a trustee model is more adequate (e.g. when it is about a very specific professional representation/representation by experts), when it is about democratic representation each and every representative actor and institution should be seen and understood as *delegates* and *not* as *trustees*.<sup>312</sup>

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<sup>312</sup> See, for instance, section ‘Representative management via individual positions or organisational institutions’ in Part II, ‘Democratic organisations’, where this argument of the delegate model was made regarding managers in organisations, their positions and appointments, conduct of office and control.

### *Representation and (the need for) accountability*

Whether it is the trustee or delegate model of representation; both represent a fundamental relationship between people whereby some people (the constituents) formally and factually entitle and empower someone else or some others (the representatives) to work on their behalf/to represent them, some of their wills and interests respectively. Such a relationship – like any principal–agent relationship – is problematic *in principle*. The problematic nature of the principal–agent relationship has been known for centuries. For example:

- At the Constitutional Convention of 1787, the delegate and Attorney General of Delaware, Gunning Bedford Jr. (1747–1812) told a large state delegation: ‘I do not, gentlemen, trust you’ (quoted in: Buchanan & Tullock 1962/1999, p. 16). Although it was phrased in a different context and in regard to a different matter, ‘I do not trust you’ epitomises the very idea of all people’s relationship to those in power, or how they *should* look at the powerful – *anyone* powerful; *sceptically, warily, suspiciously*.
- In the same vein, the English historian, politician and writer Lord Acton (1834–1902) quipped roughly a hundred years later in 1881: ‘The danger is not that a particular class is unfit to govern. Every class is unfit to govern’ (quoted in: Frank 2001, p. 114).<sup>313</sup>
- Almost another century later, the American political economist Vincent Ostrom (1919–2012) stated apodictically in 1971: ‘*no one, per se*, is fit to rule others’ (Ostrom 1971/1987, p. 80). And he added (p. 194): ‘Representatives of the people are themselves fallible, prone to error, and susceptible of corruption.’
- And in 2006 Ström (2006, p. 61) drew attention to the fact that ‘Any delegation of authority entails the risk that the agent may not faithfully pursue the principals interests. If the agent has preferences and incentives that are not perfectly compatible with those of the principal, delegation may generate *agency problems*.’

Representing others, or being represented by others, should raise concerns – *always*. One cannot leave principal–agent relationships on their own and then simply hopes that ‘all goes well’. Representation – *every* representation – needs mechanisms that guarantee its proper functioning. It needs control mechanisms. According to Müller et al. (2006, p. 20): ‘This chain of delegation is mirrored by a corresponding chain of accountability that runs in the reverse direction. Thus, democratic constitutions contain mechanisms that allow principals to delegate and that make agents accountable. Indeed, what makes democratic regimes democratic is precisely that they contain mechanisms by which the citizens can select and control their representatives.’

Thus, any delegation of power or authority and corresponding responsibility *must* be accompanied by an equivalent amount of *accountability*. Accountability had been addressed already in regard to democratic governing and representative management of the democratic organisation and was described there as:<sup>314</sup>

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<sup>313</sup> Lord Acton was also the one who coined the even more famous adage that ‘Power tends to corrupt, and absolute power corrupts absolutely’.

<sup>314</sup> See sub-section ‘Multidimensional, top-down and bottom-up accountability’ and section ‘Representative

- The *duty* and *obligation* of an agent
- To give account, to answer for one's actions and the conduct of one's office (i.e. decisions made, activities performed, behaviour demonstrated, outcomes or performance achieved)
- By providing (the required) information, explanations and justifications
- To a principal who has the *rights* and *duty*
- To oversee, check and control the actor, their actions and conduct of office,
- To demand information, explanations and justifications from the actor,
- To assess and judge the actor's performance against predefined criteria (goals, standards, expected behaviour and/or outcomes),
- To hold the actor accountable for their conduct of office, their decisions, actions or inactions, behaviour, outcomes and performance, and
- To impose positive or negative consequences or sanctions on the actor for their satisfactory or unsatisfactory conduct and performance (e.g. rewards or punishment such as blocking or amending decisions made by the agent, imposing penalties, constraining the authority and/or responsibilities of the agent, revoking the mandate or removing the agent from office).

In the case of representative democracy, 'agents' are (elected or appointed) representatives, i.e. individual delegates or trustees or public institutions of governance. 'Principals' are 'the people', i.e. an electorate or constituency, or any (organisational) institution entitled to hold an agent accountable. Political parties (and their representatives), the legislature/parliament (and members of parliament), the executive/government (head of state, head of government, cabinet and ministers), or elements of the judiciary can be either principals or agents depending on their role and position in the chain of delegation, representation and accountability (see below).

Evidently, the idea or concept of accountability as described earlier is essential for representative democracy (Gilchrist 2006, p. 78) – actually, for *any* system of representation or principal–agent relationship. Strøm (without year, p. 8) was absolutely right when he mentioned that 'what makes democratic regimes democratic, is precisely that they contain mechanisms by which the people, the ultimate principals in democratic societies, can select and control their representatives'. In a similar vein, Ackerman (2012, p. 103) stated that 'The only way to guarantee good government is by institutionalizing powerful accountability mechanisms that hold every public official responsible for his or her actions as a public servant.' Unrestricted and unaccountable power is unjustifiable and alien to the idea of representation, representative democracy and democracy in general (Malleon 2014, p. xiv).

#### *The chain of delegation, representation and accountability*

Altogether, representative democracy and its institutions are not only based on the notions of *delegation*, *representation* and *accountability*, but the design and functioning of representative democracy can be

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management via individual positions or organisational institutions' in chapter 'Democratic management' in Part II, 'Democratic organisations'.

imagined as a *chain of delegation, representation and accountability* where people transfer their political will and power to relevant legitimate institutions of governance that are located along that chain (Müller et al. 2006, pp. 19, 21, Strøm 2006, p. 64). Main actors or institutions of governance along the chain are *political parties, electoral system and elections, parliament* (the legislature) and the *government* (the executive). Each and every actor or institution of governance along the chain has a (constitutional, formal, legal and political) mandate to represent and execute the will of the people. And they have their clearly defined responsibilities – all are responsible, and held accountable for their part in the chain. The table below shows the actors and their part in/along the chain of delegation, representation and accountability.

- 1) Beside or instead of expressing and pursuing their political will and power on their own or together with others (self-governance), people also delegate their political will to organisations that represent people's political will, i.e. *political parties*.
- 2) People hold political parties and their representatives (that are often candidates) accountable mainly via their membership, support, contributions, participation and/or votes.
- 3) Political parties and their candidates represent people's political will (actually, their members', supporters' and sympathisers' political will) in political and administrative processes and in elections.
- 4) Via competing and winning seats in free and fair elections, political parties' candidates become members of public institutions of governance or public authorities (e.g. legislature such as *parliament*, executive such as *government* or ministries, or judiciary) where they represent the will of the people.
- 5) Elected representatives are held accountable by the political party they are a member of, their constituencies, certain public authorities as well as by the public in general.
- 6) People's political will (actually, *the majority's* political will) is then put into place by the executive, i.e. 'the government' (head of state, head of government, cabinet and related administration). The government is held accountable particularly by parliament, but also by the party or parties that provide government, institutions within the administration, public authorities, non-governmental and civil society organisations, and the public in general.
- 7) The government (head of government and cabinet) delegates the will of the people to ministers and their ministries, departments or other public authorities. Ministers and ministries are held accountable primarily by the government, parliament and (other) public authorities.

Table 17: The chain of delegation, representation and accountability.

Altogether, it can be said that representative democracy does not only mean representation of the will of the people but a system and *chain of delegation, representation and accountability* along and via legitimate institutions of governance that makes the transfer and execution of the will of the people as democratic as possible. The chain of delegation, representation and accountability puts a representative democracy's institutions, structures and processes of governance into a legitimate order and defines, shapes and channels the formal political process unfolding in a representative democracy. The



fundamental principle is: *No representation without delegation. No representation without accountability.* The scope and nature of delegation, representation and accountability at each stage is usually defined by law and executed by political and administrative power.

The chain represents the fundamental concept of a fully representative democracy, that ‘the will of the people’ can be delegated to, and represented by, legitimate institutions of governance in libertarian and democratic ways via a chain of delegation, representation and accountability. The following section illustrates the various institutions of governance along the chain, how they have to be designed and function so that they are fully legitimate and instrumental for making representative democracy happen, as well as actors’ responsibilities and actions along the chain in some more detail. The institutions and actors that will be described are:

1. *Political parties*, their relevance and legitimacy;
2. *Electoral system* and *elections* as democratic, free and fair as possible;
3. *Parliament* as the epitome of people’s represented will and power; and
4. *Government* as a democratic government.

### **The will of the people and institutions of governance**

#### *Political parties, their relevance and legitimacy*

As has been argued with respect to self-governance and associations, in a free and democratic society with a functioning public sphere and civil society people (like to) organise themselves. When it is about more general ideas, interests or ideologies beyond the local context sooner or later they will form independent *political parties* – and it is their *fundamental right* to do so. For example, Article 20 (1) of the *United Nations Universal Declaration of Human Rights* (United Nations 1948) establishes ‘freedom of peaceful assembly and association’ as a basic human, democratic and civil right. Very often, the right to assembly and association is codified in free and democratic countries’ constitution or basic law, often accompanied by special party laws and regulations that further clarify and protect political parties’ status, roles and functions in political processes, institutions of governance as well as in society in general.

Political parties are not the only institutions of political representation (as indicated earlier, this can also be informal or formal groups, committees, networks or associations) – but they are *very* important and relevant not only for the governance of the public sphere and public affairs but for the political and social life of a society in general and (many) people in particular.<sup>315</sup> Political parties are one of the cornerstones of any representative democracy. For instance, Müller (2006, pp. 223–224) argued that ‘It is hard to overstate the relevance of parties ... All elections, with the partial exception of local elections in small communities, are structured by parties. All office holders in governmental institutions are party nominees, and, in almost all cases, they are also members and functionaries of their respective parties. Moreover, the major parties have built up huge mass organizations and have colonized large parts of the civil society.’ Vibrant and fully fledged democracies are ‘party states’ or ‘party democracies’; many

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<sup>315</sup> This section is solely about political parties’ functional and instrumental role in the chain of delegation, representation, and accountability as (democratic) organisations. *Programs of political parties, politics, or politicians* and their behaviour are not subject of the inquiry.

political parties are heavily involved in the governance of public spheres and public affairs, the governance of the state and of society, and (most of them) want, and will gain, political power – they want the power to rule, to realise the ideas they stand for, and many of them want to be, and might be, (part of) the next government. Political parties are relevant, important, powerful.

(Also) because of their relevance, importance and power, political parties must meet certain criteria. First, they are *organisations* – and as organisations they must be, like any other organisation, *legitimate*. Political parties, of course, must also adhere to all the types of legitimacy any other institution must observe.<sup>316</sup> It means that (in a democratic society), in order to be legitimate, political parties *must* be democratic organisations.<sup>317</sup> Political parties must resemble, function internally and act like democratic organisations as much as possible (Saalfeld 2006, p. 349).<sup>318</sup>

That parties themselves are as democratic as possible is also important, if not necessary, because they are the crucial vehicles for the delegation of people's political will. Political parties are the first point of delegation – or the first link in the chain of delegation, representation and accountability. They offer the structures and processes for people to delegate their political will to others; they equip their (active and passive) members with means and occasions to elect delegates internally (for the various levels within the party) and/or candidates (for elections to political offices). Via internal mechanisms of candidatures and elections to party lists parties select candidates that will run in local, regional and national elections. If successful, these candidates become holders of political offices and representatives of their parties as well as an electorate (Saalfeld 2006, p. 352). In this sense, political parties are indispensable elements in the chain of democratic delegation (Saalfeld 2006, pp. 353–354, Strøm 2006, p. 67). With their crucial function of providing candidates and representatives that can convey people's political will to institutions of public governance, political parties bear a lot of responsibility and should be held properly accountable – and they are held accountable; in a free and democratic society (with a *democratic electoral system and free and fair elections*, see the following sub-section), political parties and their representatives and candidates are held accountable by their members, sympathisers and the electorate (in and via elections), by certain institutions of governance and public authorities, as well as by the media and the public.

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<sup>316</sup> See the five types of legitimacy in section 'Types of legitimacy' in Part I, 'Free individuals and legitimate institutions'.

<sup>317</sup> See point '4) Associations' legitimacy' in the sub-section 'Necessary external and internal preconditions for associative self-governance' above. With regard to the legitimacy of market participants in a democratic market economy (or more generally in a democratic society) see section 'Legitimacy of market participants' in Part III, 'A democratic market economy'.

<sup>318</sup> Nevertheless, most contemporary political parties, especially more conservative and/or right-wing parties, are fairly hierarchical – still legitimate, but quite orthodox organisations. Even left-wing parties are not immune to hierarchisation and oligarchisation – as the great German sociologist Robert Michels (1876–1936) demonstrated so eloquently in his study *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy* (Michels 1915/2001, see also Diefenbach 2019). Actually, most current political parties on both sides of the political spectrum are hierarchical and oligarchic, their internal election mechanisms are flawed, ordinary party members have little direct influence on the composition of party lists, and it is only a (tiny) minority of party members that are actually active members and participate in the governance of the party (Timmermans & Andeweg 2006, p. 501). In chapter 'Equalising empowerment' in Part II, 'Democratic organisations', I outlined a range of measures organisations can or must take in order to fight tendencies of hierarchisation and oligarchisation. Past and present political parties would need a lot of that medicine.

### *A democratic electoral system and free and fair elections*

Besides institutions of political representation, any democracy must have an *electoral system*, i.e. rules, structures and processes that regulate how members of the social system elect candidates to formal positions of authority in institutions of governance. Viewed in this way, an electoral system enables and structures the transfer of authority from an electorate to their representatives. This transfer of people's political will via an electoral system and elections is one of the most important, and crucial, stages of democratic delegation and representation (Bergman et al. 2006, pp. 129–130). In order to be consistent with, and enable, representative democracy to be as democratic as possible, an electoral system (i.e. electoral laws, rules, regulations, mechanisms and conduct of elections) and elections must be democratic, 'free and fair', i.e. they *must* provide for and guarantee:

- a) *Freedom of speech* – Freedom of expression and open political debate are equally guaranteed and possible for everyone;
- b) *Freedom of information* – Access to, and use of publicly available information, news, news media, social media or other sources and resources relevant for conducting political activities are equally guaranteed and possible for everyone;
- c) *Freedom of peaceful assembly and association* – Legitimate political groups, organisations and parties can be established freely, are regarded and protected as a basic instrument for political engagement, activism and participation, can operate without illegitimate interference or intimidation, and can contribute freely to the formation and representation of the political will of the people;
- d) *Universal suffrage* – All adult members of a social system (i.e. all citizens and permanent residents in a particular country or jurisdiction above a certain minimum age) can partake in elections;
- e) *Free and fair elections* – Elections are free, fair and secret, held at regular intervals with election dates announced well in advance, and provide alternative candidates the electorate can choose freely between by majority vote. Election rules and laws are fair, transparent, applicable and applied to everyone equally;
- f) *Democratic pluralism* – Political parties and (their) candidates are nominated democratically at constituency level by individuals, members of their parties and/or in primaries, are independent, and represent and provide significant political alternatives and choice for the electorate;
- g) *Proportional representation* – Parties and individual candidates might be elected in single- or multi-member constituencies and from party lists in proportion to the number of votes they receive, i.e. every vote counts.
- h) *Electoral due process* – There is no interference in election campaigns or tampering with election mechanisms, ballots or the outcomes of the election. The results of elections are established, verified, announced and executed truthfully, independently and in a timely fashion.

Table 18: A democratic electoral system and free and fair elections.

Evidently, representative democracy depends on a comprehensive, well-designed electoral system and properly functioning elections. The more an electoral system and elections are democratic, 'free and fair' formally as well as substantively (i.e. the more they correspond with the points listed above), the more legitimate they are. In this sense, it can be stated that the delegation of power/transfer of authority from an electorate to (its) elected representatives is legitimate *only if* the electoral system and elections that enable this transfer are democratic, free and fair. Especially a representative democracy in the form of a *parliamentary democracy with proportional representation* reflects, and is consistent with, the principles of legitimate government and is the most legitimate and appropriate form of representative democracy (Saalfeld 2006, p. 351, Immergut 2010, p. 238).

However, in elections there is a, what I call, 'asynchronism' between delegation and accountability; on the one hand, the *delegation* of the will of the people to candidates or (elected) representatives via elections (i.e. transferring power and authority by electing certain candidates) transfers power for a long time. On the other hand, *accountability* of candidates or (elected) representatives via elections (i.e. holding them accountable by voting or not voting for them) is limited to election day (Müller et al. 2006, p. 22). Hence, the electoral asynchronism means that elections enable a long-term delegation of power and authority to representatives (for a whole election period) but only for a one-off accountability (only on election day). (Democratic) elections mean an asynchronism between *holding power* (delegation) and being *held accountable* (accountability) as an elected representative.

There is no way that this asynchronism can be solved within the concept or logic of an electoral system, representative democracy based on elections respectively. Elections, by definition, happen at a particular *point in time* but decide things for a *period of time*. It would be too much (and, actually, wrong) to expect that delegation and accountability mirror each other in elections. Elections mean a lot of delegation of power but only little accountability. But there are two aspects that help to reduce this discrepancy: One is that, in a representative democracy, representatives are held accountable also *before* and *after* elections; *before* in and by their political parties (assuming that they are members of a political party and not independent candidates) that nominate them as candidates and scrutinise their performance and potential (see the previous sub-section), and *afterwards*, when they work as representatives (usually in a parliament, see next sub-section). And second, *representative* democracy can, and should always, be completed and accompanied by *participative* democracy (see next chapter). *Participation* (of citizens, citizen groups and civil society organisations in public governance and public administration) offers a range of measures that considerably enhance the accountability of office-holders.

### *Parliament – the epitome of people's represented will and power*

In a representative democracy the most important legislative institution is parliament. Parliament as the foremost legislative body has various main responsibilities and functions that its members as the legitimate (i.e. democratically elected) representatives of the people should conduct in democratic ways in order to: 1) address and debate everything that is a matter of public concern, 2) decide on public affairs and matters of public concerns that fall into its jurisdiction or areas of responsibilities, 3) make laws, and 4) scrutinise the work of the government and hold it accountable comprehensively and thoroughly.

That parliament can carry out its functions legitimately and diligently, people have delegated their will and power to parliament via free and fair elections (see previous point) in which they voted for

competing candidates/political parties to become their representatives in parliament (and to be the next government, see next point) – and parliament provides the necessary institutional structures and processes for the democratic representation of the will of the people. In this sense, parliament is the epitome of a democratic representation of the will of the people and their power – and parliamentarians are the epitome of the political representative. Here in this sub-section the focus shall be on two main functions parliament(s) provide – i) to contribute to (local) governance, and ii) to check on government and to hold it accountable.

#### i) Contributing to (local) governance

It is important to note that in a fully fledged representative democracy ‘parliament’ is not only the one (or the two chambers of the) national parliament – although this is the highest, and most relevant parliament especially when it comes to making laws and holding the government accountable – but a comprehensive *system* of legislative institutions of governance – i.e. parliaments – at various levels, in particular:

- Local level: Municipal assemblies (or city councils) and local councils (or local advisory councils);
- Regional level: Regional assemblies (and/or county or district councils);
- National level: National parliament or assembly.

Following the idea of a fully representative democracy that ‘a representative democracy *must* provide people with the greatest possible amount and equal opportunities to hold power, and to be in control of power’<sup>319</sup>, the system of parliaments starts at the bottom, i.e. at the *local* level. This is consistent with the notion of ‘localism’,<sup>320</sup> i.e. with the idea that people should have the power and the opportunities to be actively involved in the governance and maintenance of their immediate public spheres because it is the local context where individual and general interests are linked. It is also consistent with the ideas of ‘decentralised government’ and ‘subsidiarity’, i.e. that ‘any task or function that *can* be performed at a lower level *should* be performed at the lowest possible level’.<sup>321</sup>

According to the notions of ‘localism’, ‘decentralised government’ and ‘subsidiarity’, local assemblies (in particular local councils and municipal assemblies) should be made as powerful and relevant as possible so that for citizens local governance is the first point of access when it comes to *public* institutions of (local) governance and representative democracy.<sup>322</sup> Nauclér (2005, p. 98) argued that practising

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<sup>319</sup> This quote stems from section ‘A fully representative democracy: Delegation, representation and accountability’ above.

<sup>320</sup> See sub-section ‘The notions of localism and self-governance of the local public sphere’ above.

<sup>321</sup> See sub-section ‘The principle and notion of subsidiarity’ in Part II, ‘Democratic organisations’. Evidently, certain issues, such as constitutional questions, national laws, government budget, fiscal policy, international relationships, national security and the like can only be addressed at national level. But it is perfectly possible (and makes sense) to address and govern many issues in regional or local assemblies (municipal assemblies or local councils) that are, for instance, about public services, housing, infrastructure or anything (else) that is relevant for, or even directly impacts on, people and their lives.

<sup>322</sup> There even has been the idea that local assemblies would not necessarily need to be publicly institutionalised

subsidiarity helps ‘to make democratic governance locally more relevant, accountable and transparent, as well as more effective and efficient’. For example, when Denters (2013, p. 317) studied local governance in Sweden and the Netherlands, he found that ‘Swedish local governance systems are embedded in an intergovernmental context that creates favourable conditions for vigorous local collective action ... In this context the Swedish communes may be seen as the prototype of multipurpose government where local responsibilities cover a broad range of policies and services and where the ultimate political power rests with a council of directly elected citizen representatives.’

Although local public institutions of governance like municipal assemblies and local councils are part of the legislature (i.e. legitimate parliaments with democratically elected members of parliament) – and, thus, representative democracy – they actually cover, and provide useful functions across, *all four concepts of governance*, i.e. self-governance, representative democracy, participatory governance and citizenship behaviour:

- 1) *Self-governance*: Elected members of local parliaments (municipal assemblies and local councils) usually live in the neighbourhood that is the council’s jurisdiction (this might be even an electoral requirement for their candidacy). They are locals and rooted in the neighbourhood, *their* neighbourhood. What they debate and decide in the local parliament is, or can be, also *their* problems and concerns. Moreover, the sessions of municipal assemblies and local councils are usually open to the public. Local citizens can attend these sessions, even have the right to speak, to bring forward questions, complaints, suggestions or requests. Together (or clashing with each other), members of local parliaments/councils and citizens tackle problems not just as representatives and stakeholders but as locals.
- 2) *Representative democracy*: The elected members of local parliaments are usually also members of political parties. They are representatives of their parties and their constituencies. At these local levels party politics do play some role (voting usually follows party lines). Nevertheless, there is much more pragmatism because even if members belong to different political parties, they are also neighbours/locals and thus often have common or at least similar interests across party lines. At the same time, they want to show citizens that it is their political party that finds the solution to local problems. Local councils and municipal assemblies are representative democracy in action.
- 3) *Participatory governance*: Since local parliaments are meant not only to address (local) problems, but also to find solutions and help to implement them, usually various stakeholders and relevant parties need to get involved in tackling a particular issue. Very often, members of the local parliament therefore collaborate with public administrators from those public authorities or public services that are responsible in that community or city (district) for the problem in question, but also with citizens or local civil society organisations that might be particularly interested in the issue and might even be able to offer certain skills, knowledge or competences with regard to that particular issue.

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parliaments but could be councils that are set up, and run, voluntarily by citizens or workers. Such councils have been called ‘neighbourhood councils’, ‘neighbourhood assemblies’, ‘citizens assemblies’, ‘worker councils’, or ‘people’s assemblies’ (Arendt 1963, Mouffe 1992, McLaverty 1998, Fung & Wright 2001, Fung 2003). They are self-organised, participatory public meetings where matters of public concern are addressed and decided by citizens who participate voluntarily (Citizens Assembly 2021). Such citizens or workers councils are understood ‘as an alternative to a system of representation based on bureaucratic parties and state structures’ (Passerin d’Entrèves 1992, p. 162). Most far-reaching ideas envisage a society that is largely governed by such councils, a ‘federated system of councils’ (Arendt 1963, Mouffe 1992), ‘council democracy’ (McLaverty 1998), ‘empowered deliberative democracy’ (Fung & Wright 2001) or ‘minipublics’ (Fung 2003).

4) *Citizenship behaviour*: Last but not least, local parliaments depend strongly on (local) citizens, their engagement, participation and contribution. Especially at local levels, citizen can demonstrate the whole range and many forms of citizenship behaviour that addresses social, economic, political or environmental issues, maintains civil society, feeds into processes of political and administrative decision-making and might contribute to the implementation of policies, programmes or particular measures.

Local parliaments (especially local councils, municipal assemblies and district councils to a lesser extent) are a great combination of self-governance, representative democracy, participatory governance *and* citizenship behaviour. In this sense, they come closest to the very idea – and ideal – of a fully functioning and vibrant democracy practised in a community.

#### ii) Checking on, and holding government accountable

In the spirit of *trias politica* – the separation of powers – parliament's other main responsibility is to check and balance other public institutions of governance and to hold them accountable (Mitchell 2006, p. 429, Müller et al. 2006, pp. 12–13). Members of parliament (shall and must) oversee, scrutinise (i.e. monitor, investigate, criticise, sanction), and hold accountable especially government as the main executive body, and in particular the work, conduct of office and performance of the head of government, the cabinet and (other) ministers. Usually, parliament has a range of means and institutions to fulfil its responsibility of regularly overseeing and scrutinising the institutions and agencies of government, representatives' work and conduct of office, and the implementation of laws and policies, such as: parliamentary questions/request for information (formal, urgent, written and/or oral), independent committees (permanent, ad hoc and investigative committees or commissions), veto powers, motion of no confidence or dissolution of parliament (and/or government) (e.g. Bergman et al. 2006, Mitchell 2006, Saalfeld 2006).

(Attempting) to gain information from ministers and to criticise government action (or non-action) via parliamentary questions and committee oversight is very common (Bergman et al. 2006, p. 169) – although it doesn't come easy. Government or its ministers might refuse to give the required information, to testify and to answer certain questions with references to cabinet confidentiality or executive secrecy (Bergman et al. 2006, pp. 169–172, Mitchell 2006, p. 431), or simply because of political calculus. Government officials, understandably, (want to) put forward mostly their views and data that support the (claimed) rightfulness of the government's positions and policies. So, governance law and regulations must make sure that government is obliged to answer parliamentary questions and committee oversight and to provide requested information (to parliament and/or committees) comprehensively, fully and truthfully. Parliament's instruments to hold government accountable must be sufficient and effective.

But holding government accountable also faces limitations on the side of parliamentarians. All members of parliament are subject to their own conscience. At the same time, (most) parliamentarians are members of political parties and delegates of their constituencies and are obliged to represent their party's and constituency's will (and are held accountable by them). In contemporary representative democracies most members of parliament are partisan and bound by *party loyalty*, if not *party discipline*. If parliamentarians belong to the government party, they might not wish to question or even to criticise

government (Juberías 2006, p. 583, Müller 2006, p. 238, Müller et al. 2006, p. 26). And parliamentarians from the opposition might scrutinise government in rather stereotypical ways just for the sake of criticising. As indicated earlier, contemporary representative democracies are ‘party democracies’ – and parliaments are ‘party parliaments’ (i.e. not made of individual, independent parliamentarians but political groups or parliamentary fractions). Hence, there is a real danger that government, ministries and other government agencies are not held accountable (sufficiently) by parliament(arians) not so much because of a lack of (administrative) capabilities but because of a lack of (political) will.

Having strong political parties in the public and in parliament is an existential necessity for democracy (see the sub-section earlier on ‘Political parties, their relevance and legitimacy’). But if political parties are the type of conservative, hierarchical, oligarchic and biased party prevailing in many contemporary representative democracies then their politics and political manoeuvres will also have that character. Instead, the more political parties resemble *democratic organisations*, the more they – and individual parliamentarians as well as political groups or parliamentary fractions – will be free and objective in their politics and political behaviour.<sup>323</sup>

#### *A democratic government*

The final link in the chain of delegation, representation and accountability is the government or executive. ‘The government’ actually comprises several positions or institutions, in particular: the head of state, head of government (chancellor, prime minister or president), cabinet and ministers, whereby traditionally most power lies with the head of government and their cabinet (e.g. Bergman et al. 2006, p. 120, Juberías 2006, p. 584, Timmermans & Andeweg 2006, pp. 498–499, 512–514).

All principles and notions of democracy should also apply to public authorities – and *especially* to the government and its institutions. It means that public institutions or organisations of governance need to be *legitimate* organisations, i.e. they need to resemble *democratic* organisations.<sup>324</sup> And they must adhere to, and apply, the principles of democratic governance and democratic management, i.e. they must function and operate like democratic organisations. For instance, it is very important that also, and especially, the top executive of government is constituted and functions according to democratic principles and standards. Whether it is better for the head of state and head of government to be elected directly by the people or by their representatives (i.e. by a democratically elected parliament) might be debatable. The key thing is that they are *elected* – and that they are elected *democratically* in free and fair elections (see the sub-section above). The same is true for the cabinet and ministers. It would go against the fundamental notion of (representative) democracy if (especially) ‘the inner circle’ of the government was appointed (by a powerful president or prime minister). In a fully fledged democracy any senior position of any public authority, especially public institutions of governance, can be filled only by

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<sup>323</sup> There is even some empirical evidence supporting this assertion. For example, some parties in Germany – in particular Bündnis 90/Die Grünen (Alliance 90/The Greens) or Die Linke (The Left) – which understand themselves as ‘basic-democratic’ parties and strongly in favour of civil society, are quite opposed to party discipline – though in the practicalities of German parliaments and politics they mostly *do* adhere to party discipline. But such parties have emerged in many fully fledged democracies and the trend is going in that direction.

<sup>324</sup> See the relevant chapters in Part II, ‘Democratic organisations’.



democratic means (i.e. elections), never by autocratic or oligarchic means (e.g. direct appointments or horse trading).

Moreover, the internal workings of ‘the government’ and the cabinet must also adhere to democratic principles and standards. Appointments and dismissals of members of the cabinet and ministers, delineating the jurisdiction, resources and responsibilities of ministers, departments and ministries, material and procedural instructions of ministers, setting and control of the agenda, discussions, decision-making processes and decisions of the cabinet should take place in democratic, collective and cooperative ways. Especially the head of government’s (possible) power *must* be confined and checked constitutionally, institutionally, formally and substantively so that the government does not descend into a hierarchical, autocratic or oligarchic regime. In this sense, more advanced representative democracies ensure that the power of the head of government and the cabinet are constrained as much as possible by their constitution or basic law, parliament, constitutional court, judiciary and other institutions of governance (Saalfeld 2006, p. 347, Strøm 2006, p. 76).

In accordance with the notion of a fully fledged and fully functioning democracy, the government (head of government, cabinet and ministers) must be accountable – and must be held accountable – in principle, thoroughly and constantly. *There is no such thing as a democratic government without comprehensive accountability.* In the spirit of ‘checks and balances’, government is accountable first and foremost to the legislature, i.e. parliament and its institutions as well as to the judiciary.<sup>325</sup> But there are also other public authorities within the executive (head of state, special offices and departments), the media (especially news media), civil society organisations and individual citizens that, of course, have the right, even the duty and responsibility, to hold government accountable.

Finally, the will of the people is delegated from the government (head of government or cabinet) to individual ministers, ministries or departments, and public services in the form of public policies or regulations. These organisations work under the oversight of ministers and are held accountable primarily by the government, parliament and (other) public authorities, but also by non-governmental and civil society organisations and the public in general. As mentioned earlier, the same ideas of democratic principles and standards, structures and processes also apply to public organisations and public services. They should be designed, managed and function like democratic organisations (see Part II).

### **A truly democratic representative democracy**

This chapter outlined the concept, structures and processes of representative democracy. Representative democracy, of course, is nothing new. The model of a representative democracy put forward here has in principle the same design, elements and functions as existing (full) democracies (especially the Scandinavian, Western and Southern continental European representative democracies that so far have been the most advanced democracies worldwide). But it goes further than contemporary representative democracies insofar as it is (even more) serious about the notion of *demos kratos* – i.e. that the people shall hold the political power and that all institutions of governance have to be designed and function accordingly, i.e. in truly democratic ways. The key characteristics of such a democratic representative democracy as developed here can be summarised as follows:

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<sup>325</sup> The previous sub-section ‘Parliament – the epitome of people’s represented will and power’ above outlined how parliament can hold government accountable.

- 1) *Prevalence of the will of the people: All people have the inalienable right* (as well as the constitutional and legal rights and entitlements *and* manifold institutional opportunities) to express, pursue and transfer their interest in the governance of society ('the will of the people'), and in particular the governance of the public sphere, public affairs and matters of public concern. When people transfer (delegate) their will to legitimate institutions of governance and democratically elected, replaceable representatives, people stay in control of the governance and policy process by holding the institutions and representatives comprehensively and thoroughly accountable along the 'chain of delegation, representation and accountability'.
- 2) *All institutions of governance are legitimate institutions resembling democratic organisations:* A representative democracy has a range of *institutions of governance* (private organisations like political parties or public authorities, such as legislative, executive or judicial institutions and organisations) that give voice to the will of the people and execute it. In order to be *legitimate*, institutions of governance *must* resemble *democratic organisations* in their design and orientation, their internal structures and processes as well as in their behaviour and conduct of office. *Only democratically* constituted and maintained institutions are *legitimate*, can form part of the system of governing institutions, are entitled to represent the will of the people, and to make and implement governance decisions.
- 3) *Political parties as the archetype of civil political representation: Political parties* are the first, and most relevant, private institutions of governance for the formulation, representation and pursuit of people's political will. Political parties are seen as an indispensable element of and for a society, *any* society. People have a *fundamental right* to form and run independent political parties – and political parties have a *fundamental right* to contribute to the governance of the public sphere and public affairs, to elect candidates for political office, to compete in local, regional and national elections, and to (try to) gain political power. But political parties must be *legitimate* political actors or organisations, i.e. they need to abide by, and comply with, the relevant legitimate laws and a legitimately established constitution; their agendas, programmes and activities must be within the range of the tolerable political spectrum of a free and democratic society; and their internal structures and processes, governance, management and operations must adhere to libertarian and democratic standards. Political parties *must* resemble, be structured and function internally, and act like democratic organisations.
- 4) *The electoral system and elections are democratic, free and fair:* In order to *legitimately* enable the delegation/transfer of people's political will and power from an electorate to elected representatives the electoral system and elections – i.e. the rules, structures and processes that regulate how members of a social system elect candidates to formal positions of authority in institutions of governance – must be democratic, free and fair. Crucially, *all* senior representatives of the legislative, executive and judicial branches of government and of public authorities (in particular head of state, members of parliament, head of government, members of the cabinet, ministers, judges of the highest courts, senior managers of public services) are *elected democratically*.
- 5) *Parliament as the epitome of public political representation:* Parliament is institutionally empowered to: a) address and debate everything that is a matter of public concern; b) make laws; c) decide

on public affairs and matters of public concerns that fall under its jurisdiction or areas of responsibility; and d) scrutinise the work of the government and hold it accountable comprehensively and thoroughly. Parliament is a comprehensive *system* of legislative institutions of governance – i.e. parliaments – at national (national parliament or assembly), regional (regional assemblies) and local levels (municipal assemblies and local councils). Following the notions of ‘localism’ and the ‘principle of subsidiarity’, local assemblies should be made as powerful and relevant as possible so that they can address and govern all issues that are directly relevant for people and their lives.

- 6) *Government as a democratic institution*: Since government (i.e. the head of state, head of government, the cabinet and (other) ministers) as the executive makes the decisions and implements policies for a democratic society, it is very important that it is constituted and functions *according to democratic principles and standards*. In particular, this means that: a) the head of state, head of government, the cabinet and ministers are *elected democratically* in free and fair elections; b) the government works and functions in *democratic*, collective and cooperative ways; and c) ministers’ and especially the head of government’s powers are confined and checked in order to keep government democratic and to avoid a hierarchisation, autocratisation or oligarchisation of the ‘inner circle’ of government.

These features do not represent principled differences to contemporary representative democracies (to the most advanced ‘full’ democracies), but they are decisive and – *if* they are applied and adhered to – do make a difference. In particular, they would make sure that all institutions and processes of governance *are fully democratic and legitimate*. Only a representative democracy that ticks all these boxes is as libertarian and democratic as possible (Dahl 1970) – is a *truly democratic* representative democracy.

## Participatory governance

People can govern the public sphere and public affairs either by themselves (*democratic self-governance*) or via representatives (*representative democracy*) – or they can participate in public institutions' governance, in their actual decision-making and execution of policies, programmes and measures of governing (*participatory governance*). This chapter focuses on the question why, how and to what extent *can, should* and *do* people participate in public governance, i.e. in public authorities' governance of public spheres, public affairs and/or matters of public concern. For this, the chapter first introduces the idea and concept of *participatory governance* and provides some justifications. It then shows conceptually how participatory governance of the public sphere works – or can work – in various forms and at various levels in respect to the preparation, formulation, implementation and control of public policies, programmes and measures, how citizens can participate in the public governance of the public sphere, public affairs and matters of public concern.

### The idea of participatory governance and some arguments for its realisation

As outlined earlier, people get involved in the governance of the public sphere (especially their neighbourhoods, communities and other local or virtual public spaces and places), public affairs and matters of public concern voluntarily on their own and/or via self-organised associations (*democratic self-governance*). At the same time, a free and democratic society has a broad and robust system of democratic institutions of governance (political parties, electoral system and elections, parliament, government) that transfer the will of the people via a chain of democratic delegation, representation and accountability to public authorities and public services that implement and execute people's will (*representative democracy*). But people or actors not only need to delegate their will to institutions of governance. They can also *participate* in the public governance of society, its public spheres and public affairs.

People's participation in the governance of public affairs and matters of public concern at a societal level is 'participatory governance' (Leach 2005, p. 316, Wampler 2012, pp. 669–670, Nabatchi & Leighninger 2015, p. 6).<sup>326</sup> 'Participatory governance' can be defined as institutionalised potential participation of interested citizens and civil society organisations in public governance, i.e. that citizens and civil society organisations have formally established equal rights and opportunities to participate directly and regularly in public authorities' governance of public affairs, matters of public concern, and the governance and delivery of public services, as well as in related decision-making processes in respect of the preparation, formulation, implementation and control of relevant policies, programmes or individual measures.

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<sup>326</sup> Or 'participatory democracy'. Menser and Robinson (2008, p. 292) mentioned that the term 'participatory democracy' was first coined 1960 by Arnold Kaufman, a professor at the University of Michigan, in an essay called 'Participatory Democracy and Human Nature' and then used in 1962 by SDS, the Students for a Democratic Society, in its Port Huron statement. The terms ('participatory democracy' and 'participatory governance') can be regarded as synonyms. I use the term 'participatory governance' in order to focus more on the issue of governance.

The question is why public governance *should* be *participatory* at all (and not solely and exclusively done by administrators or ‘experts’), why people *should* be able to participate in public authorities’ governance of the public sphere and public affairs. There are several arguments for participatory governance that focus either on individuals or the whole.<sup>327</sup>

i) Participatory governance and the individual

One argument is that participation in the governance of public spheres and public affairs – like self-governance – fits with, and serves, free and autonomous self-governing individuals.<sup>328</sup> People usually want to be in charge of their lives – and the conditions of their lives. To participate in the governance of the public sphere and public affairs that provide the conditions for their work and lives enables people to be in charge as far as possible. Participation in the governance of the societal conditions gives individuals more power (political power) and additional means to shape their world (Roberts 2004, p. 324, Chambers & Kopstein 2008, p. 370) – participation empowers people. Walker et al. (2015, p. 7) argued that ‘the goal of broadening and deepening public participation ... is held up as a means of placing power in the hands of everyday citizens, a device for creating new forms of self-governance intended to put citizens in the role of collaborators in making major institutional decisions, and, importantly, for breaking down rigid hierarchies and entrenched inequalities within state, corporate, educational, health care, and other institutions in society.’

Moreover, participation in public governance not only empowers individuals (politically) but it also contributes to their personal development; on average, individuals who participate in the governance of the conditions of their lives have greater self-esteem, increased feelings of political efficacy and control over their lives, and a greater sense of belonging to their community, if not society (Roberts 2004, p. 323, Chambers & Kopstein 2008, p. 374). They no longer see themselves as governed *subjects* but as governing *citizens* – ‘The more one participates, the more one develops the attitudes and skills of citizenship’ (Roberts 2004, p. 323).

Finally, there is a motivational argument; most people care about many things that are governed (or provided) by public authorities – for instance, facilities and infrastructure in their neighbourhoods (community development, urban planning), education (for their children), public and private transport (commuting to work, shopping, leisure time), security (policing), health, health care and social services, the economy (jobs), environment (living in a clean and healthy environment) as well as the political system/how one’s interests are represented and reflected in local, regional and national politics (Roberts 2004, p. 330, Nabatchi & Leighninger 2015, p. 287). Participatory governance gives individuals an opportunity – opportunities – to have a say in those areas, in respect to those matters they care about.

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<sup>327</sup> Problems and disadvantages of participatory governance will be discussed in Volume 2, *Discussion*.

<sup>328</sup> See chapter ‘Individuals – *free* individuals’ in Part I, ‘Free individuals and legitimate institutions’, and the chapter ‘Democratic self-governance’ earlier in this part).

## ii) Participatory governance and the whole

Besides being (largely) good for individuals, citizen participation is also good for the whole (the community, political and social system(s), society). Clearly, including citizens in the governance of public affairs, policy-making processes and the implementation of policies resembles the very notion of democracy, of a *strong* democracy and a democratic conduct of governance. Participatory governance leads to a (further) democratisation of governance, to less centralised and less hierarchical forms of regulation as well as to a higher democratic accountability of government to citizens (Powell 2007, p. 219, Papadopoulos 2014, p. 513). Participation strengthens democracy and increases the quality of democracy. Moreover, citizens' participation at all stages of governance and decision-making – i.e. problematisation, research, analysis, formulation, implementation and evaluation – increases the *legitimacy* of policy-making (Roberts 2004, p. 330, Chambers & Kopstein 2008, p. 374). The participation of citizens in the governance of public affairs and matters of public concern is not only *legitimate* but also *legitimising*: if citizens participate, they legitimate the decisions made in their name/for them, the process that led to those decisions as well the system (Roberts 2004, p. 323).

And it is not only *principled* arguments (more democracy, legitimacy) that make a (strong) case for participatory governance, but also *practical* arguments. Public authorities have to cope with increasingly complex problems while at the same time they might not have all the knowledge, expertise and experience needed to cope with those problems, to find and to implement solutions (Chambers & Kopstein 2008, p. 374). Very often, citizens have knowledge about certain issues that public administrators don't have. (Some) local residents may know much more about the neighbourhood and the problems in that specific neighbourhood than public servants working at city hall, (many) parents and teachers know more about schooling and the (local) institutions of education than some bureaucrats, and commuters know the pluses and minuses of local transport facilities better than most administrators. It therefore makes sense to involve other actors in the governance and management of public affairs and matters of public concern, especially actors who might know (more) about the issue at stake, who have some specific knowledge about the issue.

Evidently, the inclusion of such knowledge and expertise, of more, and different, views and interests in the policy-making processes often increases the complexity, length, or even controversies of decision-making and necessitates more communication and coordination (deliberation and discussions). The inclusion of more people – *stakeholders* – makes governance not easier but more complex and more difficult. Nonetheless, overall the public policies, programmes and solutions are usually better, take more interests into account, are accepted and supported by more actors, and thus are also implemented more efficiently and produce better outcomes (Sørensen 2014, pp. 220–221).

Hence, whether it is for individuals (fitting to the free and autonomous, self-governing individual, giving them more power/empowering them, contributing to their personal development, and tapping into their motivation) or the whole (increasing democracy and the legitimacy of governance, coping better with complexity, making better use of (diverse) views and knowledge, and producing better results) – participatory governance is good for individuals as well as for the whole in various ways. Participatory governance *is* better, *works* better and produces better *results* (than any autocratic, oligarchic, bureaucratic, managerial and/or hierarchical form of governance and management). Participatory governance simply makes (a lot of) sense.

### **Participatory governance: Who participates in what ways?**

In order to work, participatory governance needs to be institutionalised, i.e. it needs formal – and formalised – rules and regulations, institutions and processes that define and enable the participation of people in public authorities' governance of public spheres and public affairs. The institutionalisation of participatory governance clarifies *who* should (be able to) participate, *how* (i.e. in what ways) and in regard to which issues.

#### i) Who participates? Public administrators and persons with legitimate interests

Srivastva and Cooperrider (1986, p. 684) were absolutely right when they demanded that 'people *should be allowed to participate* in the determination of realities that affect their lives'. But who *exactly* should participate in the decision-making? In a very general sense, one might say that two types of actors are involved in participatory governance: *public administrators* and *citizens* (Box et al. 2001, p. 616, Roberts 2004, pp. 319–320). Obviously, not all citizens, and not all public administrators, of a state can and should participate (all the time). It depends on the issue and the circumstances. On the side of the public administrators it would be those who are responsible for handling that particular matter of public concern as part of their regular work and formal position as civil servants working for a public authority (or authorities) that deals with these matters. Viewed in this way, relevant public administrators/public authorities can be identified relatively easily via their administrative responsibilities and functions.

On the side of the citizens the identification is less clear. One approach to identify possible participants is the stakeholder concept (Freeman 1983). Although the stakeholder concept is fuzzy (many actors can be identified as stakeholders to varying degrees), it nonetheless provides a criterion ('stake') that can be operationalised and used for identifying possible participants. In line with this concept, on the side of citizens (and civil society organisations), in principle everyone should be able to participate in public authorities' governance of public affairs/matters of public concern who has a legitimate interest in the issue and can make a compelling case for having an interest (Davies 2007, p. 781). Obviously, 'Having a legitimate interest' is still rather general and it would need to be specified what is a 'legitimate' interest. For example, people who are affected by a certain issue (or the possible decision or policy that would be applied in respect to that issue) should have the right to participate (e.g. Dryzek 2008, p. 268, Spannos 2008, p. 16, Warren 2011, p. 378). Although it is simply not possible to identify and/or to involve 'everyone who is affected' by a certain issue (Dahl 1970, p. 67, Benello 1971, pp. 46–47), the stakeholder concept provides at least those who think or feel that they have a stake in particular issue, who are affected, with a justified reason to participate. In this sense it could be said that any natural or legal person (i.e. individual or organisation) that has a legitimate interest in a particular public affair or matter of public concern has the right, and should be provided with appropriate opportunities, to participate in public authorities' decision-making processes, in particular the formulation and implementation of policies or measures related to that public affair or matter of public concern.

## ii) How to participate? Forms and levels of participation

Citizens' participation in public governance can take place in various ways and at various levels. First, citizens can be involved in the participatory governance of public affairs very little and only in respect to *preparing* decisions. For instance, citizens might occasionally be asked to provide general data or anonymous feedback (via data gathering, surveys, opinion polls, focus groups, crowdsourcing, petitions, web-based open government initiatives or online platforms). Or they might do so more directly by individual interaction with legislators, administrators and representatives in the form of visits to their offices, informal encounters, making suggestions, filing complaints or putting forward requests.

More advanced ways of giving citizens the opportunity to voice their views are participatory public meetings, such as town hall meetings, policy forums, stakeholder dialogue sessions, public hearings or public comment periods. Although such events also happen only occasionally and are mainly meant 'to talk about things', but not to make decisions, they nonetheless represent opportunities for citizens to voice their concerns and (perhaps) to influence decision-making and public policies. Advisory committees or (citizen) panels do the same but can be even more targeted and closer to decision-makers. Altogether, such means for citizens to participate in governance give people opportunities to *prepare* decisions (by being heard) and to *control* decisions (by providing feedback).

Even more far-reaching are institutions that provide citizens with opportunities to be directly involved in preparing, making, controlling *and implementing* decisions.<sup>329</sup> Such forms of direct involvement and participation of citizens in public governance, public authorities' governance of public spheres and public affairs as well as in the design and delivery of public services or maintenance of public resources can be called 'collaborative governance' (or 'co-governance', Smith 2005, p. 56). According to Ansell and Gash (2007, p. 544) collaborative governance can be understood as 'a governing arrangement where one or more public agencies directly engage non-state stakeholders in a collective decision-making process that is formal, consensus-oriented, and deliberative and that aims to make or implement public policy or manage public programs or assets'. Collaborative governance means a direct collaboration of public administrators and citizens throughout *all* stages of policy-making (i.e. preparation, formulation, implementation and control). The very idea of collaborative governance is *consensus-oriented* decision-making; citizens and public administrators involved in collaborative governance should have a common understanding of and an interest in the design and workings of such collaborative decision-making as such as well as the outcomes of the process. An example of collaborative governance is 'participatory budgeting' that has been applied successfully in various forms and at various levels of governance (Participatory Budgeting 2021).

Collaborative governance can also take place in form of *participatory governance networks*. Sørensen and Torfing (2008a, p. 9) defined a governance network as: '1. a relatively stable horizontal articulation of interdependent, but operationally autonomous actors; 2. who interact through negotiations; 3. which

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<sup>329</sup> At that level, citizens can be also involved just in *making* decisions. For example, in people's courts, citizen juries, referendums or ballots people decide particular issues or matters of public concern. Nevertheless, such institutions are relatively rare events and limited in respect to what matters they address and how the matters are decided.



take place within a regulative, normative, cognitive and imaginary framework; 4. that is self-regulating within limits set by external agencies; and 5. which contributes to the production of public purpose.’ Like networks in general, participatory governance networks are principled non-hierarchical/heterarchical, have a polycentric character, comprise a plurality of diverse (public, semi-public and private) actors, and have relatively egalitarian forms of communication, interaction and decision-making (Hage & Alter 1997, p. 94, Smith-Doerr & Powell 2005, pp. 379–402, Davies 2007, p. 780, Dryzek 2008, p. 266, Sørensen & Torfing 2008a, pp. 4, 11–12, Mcguire & Agranoff 2011, p. 265, Lynn 2013, pp. 224–225).

Boyte (2005, p. 536) called it ‘reframing democracy’ and described it as follows: ‘The shift involves a move from citizens as simply voters, volunteers, and consumers to citizens as problem solvers and cocreators of public goods; from public leaders, such as public affairs professionals and politicians, as providers of services and solutions to partners, educators, and organizers of citizen action; and from democracy as elections to democratic society. Such a shift has the potential to address public problems that cannot be solved without governments, but that governments alone cannot solve, and to cultivate an appreciation for the commonwealth. Effecting this shift requires politicizing governance in nonpartisan, democratizing ways and deepening the civic, horizontal, pluralist, and productive dimensions of politics.’ Similarly, Fischer (2006, p. 20) argued that ‘The most prominent shift has been from state-centered activities to a proliferation of civil society organizations that deliver services and offer various forms of support to economic and social development. ... The other often related shift, less prominent but every bit as interesting, has involved a transition from professionally dominated to more citizen- or client-based activities, often taking place within the new civic society organizations.’

Collaborative governance is an appropriate and useful approach especially in respect to matters where public authorities/public services and private actors have a strong and immediate interest, some (partial) knowledge about the matter, and are keen to see solutions that are good for the users, beneficiaries or those in need, such as urban planning, community development, public transport, childcare, education, health and health care services, social services, public security, the environment, as well as social or political issues in the widest sense.

Evidently, participatory governance is not only tokenism (or should not be seen or treated like that), but a wide-ranging and systematic concept of getting people – citizens and civil society organisations – involved in public governance. As was outlined earlier<sup>330</sup>, participation can reach various levels – ranging from 1) no or minimal information; 2) information only; 3) opportunity to be heard, to provide an opinion and to vote; 4) consultation and advice is taken into consideration; 5) joint decision-making and co-determination; to 6) complete control. The various forms of citizens’ participation in public governance/forms of participatory governance that were addressed above stretch from level 3 to level 5. The following table displays these forms and levels of citizens’ participation in public governance and provides examples.

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<sup>330</sup> This continuum was introduced in the section ‘Participative management: From information given to full control’ in Part II, ‘Democratic organisations’. There one can also find a more detailed description of the concept of participation.

Level	Responsibility	Forms of citizens' participation
5	Preparing, making, implementing and controlling decisions	<ul style="list-style-type: none"> <li>– Collaborative governance (collaborative approaches to the delivery of public services or maintenance of public resources, such as direct collaboration or participatory governance networks)</li> <li>– Referendums, ballots</li> <li>– People's courts, citizen juries</li> </ul>
4	Preparing and controlling decisions	<ul style="list-style-type: none"> <li>– Advisory committees, panels</li> <li>– Participatory public meetings, such as town hall meetings, policy forums, stakeholder dialogue sessions, public hearings, public comment periods</li> </ul>
3	Preparing decisions	<ul style="list-style-type: none"> <li>– Individual interaction with legislators, administrators, representatives (informal encounters, office visits): suggestions, complaints, requests</li> <li>– General/anonymous feedback: data gathering, surveys, opinion polls, focus groups, crowdsourcing, petitions, web-based open government initiatives and online platforms</li> </ul>

Table 19: Forms and levels of citizens' participation in public governance.

All of the forms of participatory governance listed above are well known and can be found in many contemporary democracies –mostly just as *formally* conceptualised but only occasionally/rarely applied measures. Measures of regular, far-reaching participation (collaborative governance) in particular are used only sparsely and in isolated ways. In (most) contemporary democracies, the opportunities for citizens to participate regularly in preparing, making, implementing and controlling decisions in respect to public governance are few and limited. Strong and robust participatory governance, *systematically and widely used*, is the exception, not the rule. In (most) contemporary democracies, even the fully fledged ones, there is no spirit of participatory governance. In contrast, in Pentoutopia the whole range of forms and levels of citizens' participation in public governance would be institutionalised and used widely and systematically.<sup>331</sup>

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<sup>331</sup> Bachrach and Botwinick (1992, p. 32) once stated that 'widespread mass participation is an indispensable component of a healthy democratic polity'.

## Citizens and citizenship behaviour

Social systems consist of people and institutions – and the governance of social systems is no different. Whereas the previous three chapters emphasised *institutions* of governance (democratic self-governance, representative democracy and participatory governance) and their workings, this chapter focuses on the *people*, the individuals that keep these institutions running. Regarding the governance of society and its public spheres and public affairs, it is not only individuals but *citizens* that make it happen. But what does it mean to be a ‘citizen’? And what do citizens do? This chapter attempts to answer these two questions. First, ‘the citizen’ shall be characterised on the basis of three aspects – status (citizenship), identity (personal and social identity), and behaviour (citizenship behaviour). The following section offers some reasons and justifications why we need citizens at all. The largest part then presents comprehensively and in detail the range of actions and behaviour people demonstrate as citizens, the *types of citizenship behaviour* that define and make a society and its governance – a free and democratic society, a civil society.

### The citizen

It makes a difference, a *big* difference, if people not only belong to, or exist within, a social system, but are members of a social system with explicitly defined (membership) rights and responsibilities – in the case of a society, being a *citizen*. It is argued here that being a citizen puts people into a different position (their ‘status’), they see themselves, and are seen by others differently (their personal and social identity), and they (can) behave differently (citizenship behaviour). Moreover, it will be shown that this is good for the individuals *and* for the whole, that people need to be citizens and that society needs citizens.

#### *Status, identity and behaviour of ‘the citizen’*

‘The citizen’ is not just yet another term for people, but a comprehensive, multidimensional construct affording people a specific status, an identity, and a range of possible orientations and behaviour.

First, it gives natural persons a particular *status* – the status of a citizen, or ‘citizenship’ (Marshall 1950, Leca 1992, p. 17, Kalu 2003, p. 418, Roberts 2004, pp. 318–319, Powell 2007, p. 11, Dalton 2008, pp. 78, 81–82, Polat & Pratchett 2009, pp. 196–197). ‘Citizenship’ is a formal and legal concept that endows every person of a particular institutionalised, political or administrative social system (for example, a sovereign nation-state or union) with a bundle of fundamental (and highly attractive) legal, human, civil, political and social rights and entitlements as well as responsibilities and obligations.<sup>332</sup> Since these are usually written down and enshrined in a country’s constitution, (national and international) laws and regulations are very difficult to take away, and are binding for public authorities as well as for other citizens, citizenship is one of the most important, strongest and most relevant concepts for establishing

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<sup>332</sup> Crucially, citizens are granted *equal* rights (and duties). Citizenship establishes formal / political *equality* (even if there was systemic, persistent and extensive social and economic inequality, Turner 1992, p. 35).

the formal, legal and official status of an individual. Citizenship not only means an entitlement to be, work and live in a particular jurisdiction, but also to be (formally, legally) a full member of that social system and to participate in its public life with all the rights and responsibilities that come with that status. The common term of ‘second-class citizen’ for people that are (formally, legally, culturally, socially and/or economically) discriminated against and disadvantaged – as well as the great lengths people all over the world, and from all over the world, often go to gain citizenship of a particular state – underscores the attractiveness, importance and relevance of citizenship, of being a citizen and of having the *full* status of a citizen (of a particular entity).

Second, ‘the citizen’ means, or establishes, a particular *identity* (Tajfel & Turner 1979, Ashforth & Mael 1989, Hogg et al. 1995, Gabriel 1999, Elstak & Van Riel 2005, Musson & Duberley 2007).<sup>333</sup> On the one hand, it is a *personal* identity. Usually, people who consciously see themselves as a citizen have greater self-esteem (general feeling of self-worth or self-value), self-efficacy (belief in one’s capacity and abilities to perform certain tasks) and self-confidence (belief in one’s personal self-worth and capacities). On the other hand, one’s identity also depends on, and is shaped by the social system(s) one belongs to and how one is seen and treated by others (Ashforth & Mael 1989, Polat & Pratchett 2009, p. 197). Hence, the identity of a citizen is (also) relative to the social context and to other actors, i.e. it is also a *social* identity. People see themselves as citizens of a *particular* formal, legal, social and/or cultural entity among others (for example, as citizen of a particular country or nation, polis, social or cultural group, community or even as ‘citizen of the world’). The more libertarian, democratic, equal and just (i.e. the more liberating, empowering and encouraging) the social context, the stronger usually a person’s, a citizen’s social identity will be.

And third, being a citizen means to act in certain ways, to show certain types of ‘citizenship behaviour’<sup>334</sup> (Held 1987, p. 36, even talked about ‘the ideal of the active citizen’). ‘Citizenship behaviour’ could be defined as any person’s (individual or institutional actor) action in public (i.e. conduct, behaviour, statements or activities) that constitutes, addresses or could be perceived as a matter of public interest or public concern and/or is relevant for the governance of the public sphere, public affairs, the social system or a part of it.

Citizenship behaviour ranges from demonstrating prosocial behaviour in the public sphere in non-political ways, political participation in established and prevailing institutions, to showing democratically legitimate political activism or showing legitimate or illegitimate radical activism (the following section will describe these ‘types of citizenship behaviour’ in detail). *Usually*, citizenship behaviour is demonstrated voluntarily, consciously and deliberately, i.e. people *do* want to conduct a particular act in public *as citizens* with the intention to achieve a particular outcome. For instance, making a political statement, addressing a particular matter of public concern in a certain way or engaging in political activities is usually done by people consciously because they want ‘to do something (about it)’ and see that ‘something is done or happening’.

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<sup>333</sup> See sub-section ‘3.3.1 Identities, emotions, interests and moral character’ in my book *Hierarchy and organisation* (Diefenbach 2013), especially pp. 43–44.

<sup>334</sup> Other terms are ‘civic engagement’, ‘political participation’ or ‘political activism’ (Diller 2001, pp. 21–22, Adler & Goggin 2005, pp. 238–241, Cooper et al 2006, p. 76), although the latter two are narrower in their meaning.

### *The need for citizens*

If one understands 'citizen', as above, as a comprehensive concept (and not merely as a formal or legal status) that equips people with a strong, multidimensional status, a sound and developed identity, and a broad range of citizenship behaviour, then the question arises whether, or why, we actually need this type of citizen (because a nation-state could also do fine with its people being citizens only in a legal sense but otherwise being obedient subjects, hedonistic egoists and/or ignorant consumerists). There are good reasons for 'the idea that human beings could be active citizens of a political order – citizens of their state – and not merely dutiful subjects of a ruler' (Held 1987, p. 36).

One is in respect to the individuals themselves. That people shall be citizens (*full* citizens in the sense of the comprehensive concept of the citizen), that people are *entitled* to be full citizens, is *not* a normative postulate but the logical consequence of people's nature and inalienable right to be free individuals and to live their lives as free individuals. In the context of a larger institutionalised social system (like an organisation, town or nation-state) 'the citizen' is the likely – and necessary – extension of 'the free individual'.<sup>335</sup> Ingram (1994, p. 108) brought it to the point: 'Citizens who are free to make their own lives are free to participate in their own government. As free persons they think of themselves as having the capacity to rule themselves.' Citizens, like free and autonomous individuals, have the right – and the capabilities – to be in charge. They shall not – and cannot – be governed top-down, but can only govern themselves or govern democratically. Hence, within the societal context of the (democratic) governance of the public sphere the notion and concept of 'the free individual' finds its equivalent in the notion and concept of 'the citizen'. In a civil society individuals, groups of individuals or organisations are *citizens*, are seen and act as (individual, collective or institutional) *citizens*, when they publicly: a) execute their statutory rights of citizens; b) face or meet their obligations of citizenship; c) express or pursue their own interests, ideas or worldviews with regard to matters of general interest or of public concern; d) address such matters; e) become actively engaged with the governance and management of the public, political, economic and social spheres; or f) show any other type of citizenship behaviour.

And there is also a requirement for citizens from the standpoint of society. Every society, at least every *well-functioning* and *democratic* society, requires people who not only formally belong to that particular society and comply with its rules and regulations in a minimal sense but who *actively participate* in the public sphere and engage with the governance of its public affairs. A society, at least an open, libertarian and democratic society, *needs* citizens. For example, Passerin d'Entrèves (1992, p. 165) argued that 'the practice of democratic citizenship is crucial for the enlargement of political opinion ... and represents in this respect an essential element in the constitution of a vibrant and democratic political culture'. And Caspary (2004, p. 244) added: 'There is no other way to achieve the values of justice, sustainability, equality, caring, artistic expression ... without citizens who are engaged in deliberating issues, resolving conflicts, making decisions, implementing policies, and conducting vigorous oversight of public officials and programs.'

All the private and public institutions of governance (such as associations, political parties, local, regional and national parliaments, the government, public authorities and public services) *need* people's input, participation and engagement. They need *citizens*. The institutions of a free and democratic society and the democratic state are built on (and for) citizens and their contributions, that people contribute to society as citizens, that they demonstrate citizenship behaviour (Bevir 2006, p. 430).

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<sup>335</sup> See the chapter 'Individuals – *free* individuals' in Part I, 'Free individuals and legitimate institutions', especially the references to self-mastery and civil mastery.

## Types of citizenship behaviour

People contribute as citizens to society by demonstrating *citizenship behaviour*. Above, citizenship behaviour was defined as ‘any person’s (individual or institutional actor) action in public (i.e. conduct, behaviour, statements or activities) that constitutes, addresses or could be perceived as a matter of public interest or public concern and/or is relevant for the governance of matters of public concern, the public sphere, the social system or a part of it’. This definition of citizenship behaviour implies a whole range of behaviour, a whole range of various *types of citizenship behaviour*, that can be subsumed under this term. The following sub-sections identify and describe in more detail four types of citizenship behaviour that people may demonstrate as citizens of a larger social system, i.e.:

- 1) *Proto-political citizenship behaviour* (prosocial behaviour in the public sphere in non-political ways);
- 2) *Basic political citizenship behaviour* (political participation in established and prevailing institutions);
- 3) *Advanced citizenship behaviour* (self-determined, democratically legitimate political activism);
- 4) *Radical citizenship behaviour* (legitimate or illegitimate radical activism).

### 1) *Proto-political citizenship behaviour (prosocial behaviour)*

First, citizens might demonstrate *prosocial behaviour* in the public sphere in non-political ways. As discussed in Part II,<sup>336</sup> prosocial behaviour shows itself as people displaying a concern for others and their welfare, trying to be helpful to others and/or caring about the common good.

Some prosocial behaviour of citizens had already been discussed in respect to participatory governance (see chapter ‘Participatory governance’ above). For instance, when asked, people provide general useful information or anonymous feedback (via data gathering, surveys, opinion polls, focus groups, petitions, web-based open government initiatives and online platforms), or serve in people’s courts or citizen juries. Many people care about, and act on, specific non-political issues or the common good, for example by supporting good causes (making donations or volunteering), or performing activities in and for their community (e.g. neighbourhood help & support, participation in/contributions to community groups). Also collaborative approaches to delivery of public services or maintenance of public resources (via citizen participation, collaborative governance or participatory governance networks) are vivid examples of citizens’ prosocial behaviour and contributions to the community or society.

Moreover, people might work for established civil society organisations (CSOs), non-governmental organisations (NGOs), or not-for-profit or non-profit organisations (NPOs), social enterprises, ethical businesses or fair trade organisations that pursue accepted social, cultural, political, economic or environmental goals and activities – or they might even start and run such organisations. Many people participate in mutuals (e.g. local self-help groups, exchange networks, time banks, cooperatives, housing associations, mutual savings banks, credit unions, building societies or mutual insurance companies),

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<sup>336</sup> See section ‘People: (Pro)social orientation and behaviour’ in Part II, ‘Democratic organisations’.

volunteer for neighbourhood organisations, community projects or community-based organisations, or get involved in the governance of local affairs or issues in the neighbourhood via small, local, *self-organised* groups or communities (see chapter ‘Democratic self-governance’ above).

As citizens, people do countless things in and for their communities and neighbourhood, other people, society in general or the common good. They do these good deeds voluntarily and without direct political objectives not because they are a ‘good person’ or altruists (they may be, but not necessarily), but because such citizenship behaviour is just a natural and normal part of a person’s life and activities as a social being and as a member – a citizen – of a particular community and society.

## 2) *Basic political citizenship behaviour (political participation)*

All of the citizenship behaviour mentioned earlier is entirely done with *social* (prosocial) intentions and implications. But citizenship behaviour can also have a *political* dimension and implications, i.e. it is meant to relate to, or even to affect, governance, public affairs, public authorities and/or political institutions. Such citizenship behaviour can be called *political participation*, *political activities* or *electoral political activities* (Skocpol 2004, p. 731), Myrberg 2011, p. 12) and can come in various forms (Brady 2004, p. 669, Verba et al. 2004, p. 636, Boulianne 2009, pp. 193, 195–196, Campbell & Kwak 2010, p. 541, Schulz & Bailer 2012, p. 7).

Citizens might directly contact politicians, legislators, officials, administrators/civil servants, government or administrative agencies in regard to a specific matter of public concern or issue of political or societal relevance and might put forward inquiries, requests, demands or even complaints. Or people may attend official public meetings (e.g. town hall meetings, policy forums, advisory committees, panels, stakeholder dialogue sessions, public hearings, public comment periods, community or neighbourhood meetings, neighbourhood assemblies, citizen assemblies, district councils) and participate (relatively passively) in formal public decision-making processes (see chapter ‘Participatory governance’ above). Moreover, people can conduct officially permitted electoral or political activities, such as attending political gatherings, rallies or speeches of politicians and political candidates; doing volunteer work for a political party or candidate; donating money lawfully to a political party, CSO (charity), campaign, or cause; voting, participating in official elections or referendums. Finally, people can work for/participate actively in established, permitted and accepted political groups, parties or civil society organisations (CSOs) – or even become an officially accepted and confirmed political candidate, run for public office in elections and work as an elected representative for a public authority.

It is important to note that all these forms of political citizenship behaviour represent or comprise *only officially permitted* forms of political activities. All these activities are conducted (and social, economic, political or environmental issues are addressed) *only* in the officially provided, accepted and sanctioned forms and via the ‘right’ channels and domains, i.e. *within*, and through, the existing formal, legal, political, ideological and administrative frameworks and institutions. In *this* sense, such political citizenship behaviour *is* ‘political’ (and necessary for the functioning of a community or society), but it doesn’t represent people’s free and independent convictions and doesn’t challenge the authorities or any other part of the system and institutions of governance. I therefore call it *basic* political citizenship behaviour.

### 3) *Advanced citizenship behaviour (political activism)*

*Advanced* citizenship behaviour is fundamentally different; citizens demonstrate politically relevant behaviour and conduct political activities for purposes, with goals and in ways *they* deem right and necessary. For example, people might use social media, news media or traditional means of information and communication individually or collectively to express publicly their *own* politically or socially relevant views, opinions, preferences and interests. They may create, disseminate and/or share content or information with political implications and communicate, engage and interact with other people in respect to political issues as they deem fit.

Crucially, advanced citizenship behaviour means that people can call for, initiate and/or conduct actions concerning *any* issue or matter of public concern, political or societal relevance; to represent and promote interests and political positions *freely and independently in public*; to address, advocate, debate and attempt to solve even, or particularly, controversial themes or issues, such as human, civil and political rights; freedom, democracy, equality, justice and sustainability; corruption, anti-war or peace, anti-corporate campaigns, animal rights, environment; political, social, economic, environmental and/or other ‘challenging’ issues.

Moreover, people might organise, and/or actively participate in, democratically legitimate political gatherings (community or neighbourhood meetings, public discussions and debates, demonstrations, strikes, rallies) or any other peaceful protest activities that address social or political issues, challenge the status quo, power elites or members of the establishment, and aim for social and/or political change, democratic change of the government (protest behaviour). They may start, run and/or manage associations, participatory/democratic organisations, local neighbourhood forums or committees, or political civil society organisations (CSOs) that practise/aim for *self-governance, participatory governance, freedom and democracy* – or they might work for/participate actively in a political party, political group, campaign, grassroots movement, activist group or politically oriented civil society organisation *that are libertarian and democratic*.

Altogether, advanced citizenship behaviour challenges established institutions, power-holders and practices (especially when they are illegitimate, anti-democratic, oppressive, corrupt, unequal, unfair or unjust), contributes to the (further) *democratisation* of governance and society and to a (fully fledged and vibrant) *open society and civil society*. But it does so by peaceful and legitimate means only.

### 4) *Radical citizenship behaviour (revolutionary activism)*

Finally, there is *radical citizenship behaviour*. The (biggest) difference to advanced citizenship behaviour is that radical citizenship behaviour attempts explicitly to achieve *fundamental* systems change by lawful *or* unlawful means, within *or* outside/in opposition to the existing political, legal, administrative or ideological institutions and frameworks.

For instance, people can show radical protest behaviour, i.e. organise and/or actively participate in lawful or unlawful peaceful political gatherings, protest activities and demonstrations that address controversial social or political issues, challenge the status quo, power elites or members of the establishment, and/or aim for system change. Or they might conduct system-challenging legitimate activities and actions (e.g. passive resistance, applying/demanding the observance and application of the rule of law,



human, democratic and civil rights, using legal means) or even illegal/unlawful activities and actions with a political message/for a political cause (such as ‘symbolic’ offences or open resistance to authorities). In even more radical ways, people may work for a banned/illegal political party, political group, cause, campaign or activist group and attempt to achieve fundamental change of the political system, government and/or ruling elites (‘systems change’) in democratic or non-democratic, legitimate or illegitimate ways. People perhaps demand, support, initiate or participate in *social unrest*, acts of (factual or alleged) *terrorism*, *revolt* and/or *revolution*.

Whether such radical political or revolutionary activism is (factually or allegedly) legitimate or illegitimate, legal or illegal, necessary or unnecessary, justified or not justified is often challenged and depends not only on the underlying sources of reference (e.g. constitution, laws and regulations), but also the prevailing institutions of governance, the type of government, status quo of the society, the situation of the country and – probably the most crucial aspect – the side of the person who judges a particular radical political activity (‘One man’s terrorist is another man’s freedom fighter’).

### **Levels and forms of citizenship behaviour**

All in all, as outlined above, people can display *citizenship behaviour* by:

- 1) Demonstrating prosocial behaviour in the public sphere in non-political ways, such as caring about the common good, performing activities in and for the community, working for, starting and/or running organisations that pursue uncontroversial and accepted social, cultural, political, economic or environmental goals and activities (*proto-political citizenship behaviour*);
- 2) Performing officially permitted and accepted forms of political activities, such as participating in established political institutions, conducting officially permitted electoral or political activities, and stating/expressing one’s political interests, opinions, concerns and preferences in the ‘right’ ways and within and through the existing formal, legal, political, ideological and administrative frameworks and institutions (*basic political citizenship behaviour*);
- 3) Showing self-determined, democratically legitimate political activism and protest behaviour in the public sphere in order to: a) express publicly one’s own politically or socially relevant views, convictions and interests; b) address, advocate, debate and attempt to solve any issue of public concern, especially and explicitly human rights, civil rights and political rights; freedom, democracy, equality, justice and sustainability; anti-war or peace, corruption, land disputes, anti-corporate campaigns, environment, animal rights; political, social, economic, environmental and/or other ‘challenging’ issues; c) challenge the status quo, power elites or members of the establishment, and aim for social and/or political change, democratic change of the government; d) practise self-governance and/or participatory governance; e) promote the (further) democratisation of governance and society; and f) pursue, develop and nurture an open society and civil society (*advanced citizenship behaviour*);
- 4) Attempting to achieve fundamental systems change by lawful or unlawful means within or outside the political, legal, administrative or ideological institutions in place, showing radical protest behaviour, working for a banned/illegal political group or party, and demanding, supporting or initiating social unrest, revolt and/or revolution (*radical citizenship behaviour*).

The following table summarises the forms of citizenship behaviour that were mentioned above.

Level	Forms of citizenship behaviour
<p>1 – Proto-political citizenship behaviour (<i>prosocial behaviour</i>)</p>	<ul style="list-style-type: none"> <li>– Governing local affairs or issues in the neighbourhood via small, local, self-organised groups or communities;</li> <li>– Starting, running and/or managing officially permitted non-political civil society organisations (CSOs), non-governmental organisations (NGOs), Social and Solidarity Economy (SSE) organisations/mutuals (e.g. self-help groups, exchange networks, time banks, cooperatives, housing associations, mutual savings banks, credit unions, building societies, mutual insurance companies); neighbourhood organisations, community projects, community development trusts, community-based organisations; volunteer groups, private voluntary organisations (PVOs), activist groups, charities, trusts, foundations, religious organisations; voluntary enterprises, social enterprises, ethical businesses, micro-financed businesses, fair trade organisations), not-for-profit or non-profit organisations (NPOs), or social enterprises that pursue uncontroversial/socially accepted goals and activities;</li> <li>– Non-activist (i.e. administrative, technical) work for established civil society organisations (CSOs) or non-governmental organisations (NGOs) that pursue accepted social, cultural, political, economic or environmental goals and activities;</li> <li>– Participating in the delivery of public services or maintenance of public resources via collaborative governance or participatory governance networks;</li> <li>– Serving in people’s courts or citizen juries;</li> <li>– Performing activities in and for the community (e.g. neighbourhood help and support, volunteering, participation in/contributions to community groups);</li> <li>– Caring about, taking action on specific non-political issues or the common good (e.g. supporting good causes);</li> <li>– Providing general information/anonymous feedback (via data gathering, surveys, opinion polls, focus groups, crowdsourcing, petitions, web-based open government initiatives and online platforms).</li> </ul>
<p>2 – Basic political citizenship behaviour (<i>political participation</i>)</p>	<ul style="list-style-type: none"> <li>– Becoming an officially accepted and confirmed political candidate, running for public office in elections, working as an elected representative in a public authority;</li> <li>– Working for/participating actively in an established political group, party or civil society organisation (CSO);</li> <li>– Addressing social, economic, political or environmental issues in officially permitted and accepted forms and ways and via the ‘right’ channels and domains, i.e. within and through the existing formal, legal, political, ideological and administrative frameworks and institutions;</li> <li>– Conducting officially permitted electoral or political activities, such as attending political gatherings, rallies or speeches of politicians and political candidates; doing volunteer work for a political party or candidate; donating money lawfully to a political party, CSO (charity), campaign or cause; voting, participating in official elections or referendums;</li> <li>– Attending official public meetings (e.g. town hall meetings, policy forums, advisory committees, panels, stakeholder dialogue sessions, public hearings, public comment periods, community or neighbourhood meetings, neighbourhood assemblies, citizen assemblies, district councils), participating passively in formal public decision-making processes;</li> <li>– Contacting politicians, legislators, officials, administrators/civil servants, government or administrative agencies in regard to a matter of public concern or a specific issue of</li> </ul>

	<p>political or societal relevance; putting forward inquiries, requests, demands or even complaints.</p>
<p>3 – Advanced citizenship behaviour (<i>political activism</i>)</p>	<ul style="list-style-type: none"> <li>– Promoting, pursuing, developing and nurturing the ideas of self-governance, participatory governance, representative democracy, open society and civil society;</li> <li>– Working for/participating actively in a political party, political group, campaign, grassroots movement, activist group or politically oriented civil society organisation (CSO) that is libertarian and democratic;</li> <li>– Starting, running and/or managing associations, participatory/democratic organisations, local neighbourhood forums or committees, or political civil society organisations (CSOs) that practise/aim for self-governance, participatory governance, freedom and democracy;</li> <li>– Organising and/or actively participating in democratically legitimate political gatherings (community or neighbourhood meetings, public discussions and debates, demonstrations, strikes, rallies) or any other peaceful protest activities that address social or political issues, challenge the status quo, power elites or members of the establishment, and aim for social and/or political change, democratic change of the government (protest behaviour);</li> <li>– Representing and promoting interests and political positions freely and independently in public; addressing, advocating, debating and attempting to solve any matter of public concern; showing activism in regard to controversial themes or issues, particularly human rights, civil rights and political rights; freedom, democracy, equality, justice and sustainability; anti-war or peace, corruption, land disputes, anti-corporate campaigns, environment, animal rights; political, social, economic, environmental and/or other ‘challenging’ issues;</li> <li>– Using social media, news media or traditional means of information and communication individually or collectively in order to gain, create, disseminate and/or share content or information with political implications; alternative journalism; expressing one’s own views; communicating, engaging and interacting with other people in respect to political issues; calling for, initiating and/or conducting actions in regard to any issue or matter of public concern, political or societal relevance.</li> </ul>
<p>4 – Radical citizenship behaviour (<i>revolutionary activism</i>)</p>	<ul style="list-style-type: none"> <li>– Trying to achieve fundamental change of the political system, government and/or ruling elites (‘systems change’) in democratic or non-democratic, legitimate or illegitimate ways; demanding, supporting, initiating or participating in social unrest, acts of (factual or alleged) <i>terrorism</i>, revolt and/or revolution;</li> <li>– Working for a banned/illegal political party, political group, cause, campaign or activist group;</li> <li>– Conducting systems-challenging legitimate activities and actions (e.g. passive resistance, applying/demanding the observance and application of the rule of law, human, democratic and civil rights, using legal means) or even illegal/unlawful activities and actions with a political message/for a political cause (such as ‘symbolic’ offences or open resistance to authorities);</li> <li>– Organising and/or actively participating in lawful or unlawful peaceful political gatherings, protest activities and demonstrations that address controversial social or political issues, challenge the status quo, power elites or members of the establishment and/or aim for systems change (radical protest behaviour).</li> </ul>

Table 20: Levels and forms of citizenship behaviour.

The scope and range of citizenship behaviour that citizens can demonstrate is simply mind-blowing. There is something for everyone and for every occasion. The four different types of citizenship behaviour (proto-political, basic political, advanced and radical) are *ranked* in accordance with their *relevance* for ‘the system’ and for the people involved, i.e. according to the (potential) impact, implications or consequences they might have for individuals as well as for the institutions of governance, public authorities and society as a whole (ranging from level 1 ‘low’ to level 4 ‘high’):<sup>337</sup>

1. *Proto-political citizenship behaviour*: Demonstrating prosocial behaviour in the public sphere in non-political ways is generally seen as good and usually doesn’t represent greater risks or threats for public authorities. On the contrary; non-political, prosocial behaviour is not only good and useful for individuals, communities and the social fabric, but also highly beneficial for the system because it tackles social problems and reduces tensions that could turn into serious problems and political challenges. In so doing, it contributes to the stabilisation and continuation of society.
2. *Basic political citizenship behaviour*: Political participation in established and prevailing institutions is largely unobstructive and compliant. Citizens performing political activities in officially permitted and accepted ways is an essential element of any political system and form of governance. Moreover, it strengthens the prevailing political system and political institutions as well as the government and establishment. It is systems-stabilising and systems-strengthening.
3. *Advanced citizenship behaviour*: Showing self-determined, democratically legitimate political activism is a very potent and powerful type of citizenship behaviour. It is so mainly for three reasons; it reflects and represents: 1) the notion of freedom/free individuals being in charge of their lives and the governance of public affairs, 2) the ‘true spirit’ of democracy, citizens’ engagement and civil society, and 3) the legitimacy of people’s attempts to govern themselves and the whole democratically. That it represents these principles and qualities also makes it potentially challenging, even threatening for public authorities (especially when these are autocratic, oligarchic, hierarchical and/or conservative regimes). Advanced citizenship behaviour is hard to handle because it is self-determined, independent, creative and empowering, *and* it is legitimate, playing by the rules. The (potential) downsides are that it ‘only’ leads to evolutionary change (which requires a lot of patience and perseverance), can be co-opted, and can become compromised.
4. *Radical citizenship behaviour*: Legitimate or illegitimate radical activism is by its very definition and nature challenging, if not outright dangerous (not only for the system but also for everyone involved). It can be lawful or unlawful, but its lawfulness or unlawfulness does not decide (necessarily) whether or not it is the right thing to do. Radical (political) activities can be done for good, for the very best reasons and causes (for example, to fight and overcome an oppressive regime and replace it with a democratic government) as well as for bad or the worst causes (such as when the military takes power or when illiberal democracies ‘‘apply the law’ – i.e. *their* laws – or ‘the rule of law’).

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<sup>337</sup> Also the forms of citizenship behaviour *within each level* are ranked in the sense of how comparatively ‘easy’ or ‘difficult’/‘challenging’ it is for citizens to conduct them; activities at the bottom of each level can be done *relatively* easily and (almost) instantly, whereas activities towards the top at each level require (increasingly) more planning, organisation, resources and long-term engagement and are more difficult/challenging to do.

*In general*, citizenship behaviour can be seen as a good thing because it corresponds with the ideas of participatory democracy and engaged citizens. Demonstrating citizenship behaviour is regarded as a part of citizens' responsibilities and duties, as contributing to the governance of the commons, the public sphere and public affairs, as being part of a community and showing that one cares, as 'giving back' to the very society one is part of, even as contributing to the realisation of civil society. But whether (specific) forms and types of citizenship behaviour are (perceived as) good or bad, more or less useful, can not only be judged *as such*, i.e. in an absolute or generic sense, but more so in a *relative* sense. The valence of citizenship behaviour is *context-dependent*.

One is the institutional (political, legal and societal) context. For instance, in a fully fledged democracy/a libertarian and democratic society *advanced* citizenship behaviour (level 3) is regarded as a good thing, even as an ideal; people should not only do their 'political duties' (like voting) but proactively engage with, and contribute to the (self- and participatory) governance of the public sphere and matters of public concern. People are encouraged (and applauded for) showing forms of advanced citizenship behaviour and 'civil society'. In contrast, in 'illiberal democracies' or straightforward autocracies, oligarchies, one-party systems or other anti-libertarian and anti-democratic regimes all forms of advanced citizenship behaviour/political activism (level 3) are perceived as a threat (by the public authorities), sooner or later declared illegitimate or even illegal (as an offence or crime of threatening national security, social order or stability) and penalised with (often draconian) sanctions or punishment. Already showing simple *basic political* citizenship behaviour (level 2), and sometimes even *proto-political* citizenship behaviour (level 1) can be dangerous in such regimes (especially for those who conduct such activities) and might require some intricate manoeuvring on the side of the citizens to be able to conduct such citizenship behaviour and to avoid being punished.

And the second is people's views. All forms of citizenship behaviour are done for a reason or purpose. People conduct citizenship behaviour because of some political, philosophical, ethical, religious, cultural or personal values and perhaps even with certain objectives in mind. Other people, however, might not share those values or purposes and, thus, might not be in favour of that particular citizenship behaviour or might even actively oppose it (and, instead, conduct *their* citizenship behaviour with *their* values and purposes in mind). Citizenship behaviour is, or can be, challenging – and it is, or can be, contested and challenged. Nevertheless, (possible) different and differing interpretations and perceptions of the various types and forms of citizenship behaviour (and/or of the reasons and purposes behind such behaviour and activities) are actually part of the idea of a society embracing citizens' self-determined activities, participation and contributions. It is the scope and range of *diverse* citizenship behaviour that makes a civil society.

## The concept, workings and advantages of civil democracy

This final chapter of Part IV presents some summary and analysis. First, it shows how the concepts of self-governance, representative democracy, participatory governance and citizenship behaviour, introduced in the previous chapters, together constitute *civil democracy*. The next section will then demonstrate how the four concepts of governance relate to each other. It will reveal how far people – citizens – can govern themselves, when and how they can participate in the governance of public affairs, and when, and to what extent, private and public institutions of governance govern while still being controlled and held accountable by the people. A final section presents some of the main advantages of civil democracy, in particular that it provides and guarantees freedom, democracy and equality on a scale and to an extent no other system of governance does or can do.

### Democratic governance of society via the concept(s) of civil democracy

*'Civil democracy' and the concepts that constitute it*

The concepts of governance introduced so far in this part – *self-governance*, *representative democracy*, *participatory governance* and *citizenship behaviour* – are not new but have been around for quite a while. However, the concepts as they had been developed here contain some novel features that set them apart from past and present, existing modes and institutions of governance of public spheres and matters of public concern.

1. First and foremost is the notion of *democratic self-governance*, that free individuals have the *inalienable right* – and must have the opportunities – to govern themselves and the conditions of their existence as much and as far as is possible. This is especially the case in a local context; people must be able to be actively involved in the governance and maintenance of their immediate public spheres, the places and spaces where they live and the conditions that impact on their lives. In the physical world they can govern, manage and decide upon public affairs and matters of public concern in their neighbourhoods and communities via small, voluntary, self-organising groups (associations), and in the virtual world (the internet) via social media and online activism. Crucially, the institutions and means, structures and processes of democratic self-governance are *institutionalised*.
2. *Representative democracy* is truly *democratic*; all private and public institutions of governance that are involved in representative democracy are designed and work for representing the will of the people as accurately as possible, are democratic, and are managed, controlled and held accountable accordingly (along a chain of delegation, representation and accountability). This means that political parties are not only free and independent, but resemble and function like democratic organisations. The electoral system and elections are not only democratic, free and fair, but *all* candidates and senior representatives (whether in legislative, executive or judicial institutions of governance) are democratically elected, controlled and held accountable comprehensively and thoroughly. According to the notion of localism and the principle of subsidiarity, local parliaments (municipal assemblies, local councils) are responsible for, and cover large areas of, public governance and public

services. Especially the national parliament is empowered to hold the government accountable. The entire senior government is not only democratically elected but also operates in democratic ways.

3. *Participatory governance* provides individuals and civil society organisations with a range of formally established equal rights and opportunities to participate directly and regularly in public authorities' governance of public affairs, matters of public concern and the governance and delivery of public services. Every natural or legal person (i.e. individual or organisation) that has a legitimate interest in a particular public affair or matter of public concern *has the right*, and is equipped with appropriate opportunities, to participate in public authorities' governance of public affairs or matters of public concern. People can participate in the preparation, formulation, implementation *and* control of relevant policies, programmes or individual measures via various means, in various ways and to various intensities; they can give general/anonymous feedback, participate in public meetings, serve on people's courts or citizen juries, or can engage with public administrators/public services directly via collaborative approaches to the delivery of public services or maintenance of public resources (e.g. direct collaboration or participatory governance networks).
4. Last but not least, there is the notion of 'the citizen' and people demonstrating *citizenship behaviour*. As citizens, people are encouraged, enabled and supported to demonstrate prosocial behaviour in the public sphere in non-political ways (*proto-political citizenship behaviour*), to participate in established political institutions and to conduct officially permitted electoral or political activities (*basic political citizenship behaviour*). Moreover, people are inspired to show a range of *advanced citizenship behaviour*, i.e. self-determined, democratically legitimate political activism and protest behaviour in the public sphere in order to address, advocate or criticise any issue and matter of public concern, to challenge the status quo, power elites or members of the establishment, to promote liberalisation and the democratisation of governance and society, and to pursue and maintain self-governance and a civil society. People might even resort to *radical citizenship behaviour* – that might, or might not be lawful and legitimate – in order to achieve their goals.

Together, self-governance, representative democracy, participatory governance and citizenship behaviour constitute *civil democracy*. 'Civil democracy' means the democratic governance of a society, its public spheres, public affairs or any matter of public concern by: 1) people either directly or via voluntary democratic associations (*democratic self-governance*); 2) legitimate private or public institutions of governance representing the will of the people (independent democratic political parties, local, regional and national parliaments and/or a democratic government) (*representative democracy*); 3) citizens and civil society organisations collaborating with decentralised public authorities and other third parties (*participatory governance*); and 4) citizens demonstrating (proto-political, basic political, advanced or radical) *citizenship behaviour* in public.

#### *Interlocking concepts of democratic governance*

Civil democracy is a comprehensive and complex concept. All four of its main concepts or modes of governance – self-governance, representative democracy, participatory governance and citizenship behaviour – are involved in the governance of public spheres, public affairs or matters of public concern. This raises the question how these four concepts, in their *specific* types or versions as outlined here, relate to each other, how they fit together and feed into each other.

First there is self-governance. In a civil democracy people often address matters they are concerned about/matters of public concern, and attempt to find solutions, either on their own or together with like-minded people. They demonstrate various forms of proto-political or advanced *citizenship behaviour* (i.e. prosocial behaviour and political activism) that transforms partly into *democratic self-governance*. Institutionalised, routinised and practised especially at local levels (i.e. the physical and/or administrative neighbourhoods, communities or districts) or in virtual environments (e.g. social media), democratic self-governance works well in many instances, in particular where people's interests in a particular matter and the means available to tackle this matter are close.

But self-governance can only go so far and people can only govern/manage those issues by themselves that are relevant *for them* – and *only* for them. Matters that also have a relevance for others (who are not involved in the democratic self-governance) need a political solution, i.e. they need to be addressed by institutions of governance that legitimately (can) cover the issue and its range of relevance. This is when *representative democracy* comes into play. Private or public legitimate institutions of representative governance (political parties, local councils, municipal or regional assemblies, the national parliament) address matters of public concern on behalf of those they represent (or claim to represent).

Representative democracy does not happen in a vacuum, especially not in a civil democracy. Like democratic self-governance, representative democracy is triggered, and accompanied, by a range of citizenship behaviour. Individuals (as 'party members', 'constituents', 'members of the public', 'citizens'), civil society organisations and/or private and public institutions of governance communicate and engage with (their) representatives either regularly or occasionally, putting requests to them, informing or advising them, supervising and holding them accountable. Institutions of representative democracy as well as individual representatives depend on people actively engaging with them and showing advanced forms of citizenship behaviour.

Nevertheless, institutions of representative democracy can 'only' decide matters in the areas of their responsibilities (by drafting and deciding laws, rules or regulations, policies, programmes or specific actions). The execution/implementation of measures is others' responsibility. Public authorities usually play a large part in the implementation of policies and measures but might not be able to do it alone. This is when *participatory governance* kicks in. Via collaborative approaches to the delivery of public services or maintenance of public resources (such as direct collaboration or participatory governance networks, i.e. 'collaborative governance') public administrators work together with third parties (interested citizens, experts, private or public institutions and organisations) in order to carry out the measures. Forms of participatory governance of the public sphere, public affairs or matters of public concern work especially well between decentralised local, regional and national public authorities/public services that are based on the principle of subsidiarity and third parties that realise the notion of civil society and civil democracy.<sup>338</sup> In this sense, participatory governance complements democratic self-governance and representative democracy where the former finds its limits (people themselves can only do so much) and the latter can be too far away from the actual problem and an appropriate solution (most representatives see and solve problems primarily in political, administrative and technocratic ways).

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<sup>338</sup> In this sense, civil democracy, and the four concepts it is made up of, is based on the notion of *subsidiarial authority*, i.e. that decisions are made at the lowest possible level and that political power and resources are – or should be – assigned and allocated accordingly.



Altogether, civil democracy does not mean that people *either* govern themselves (*democratic self-governance*) or are governed by representatives (*representative democracy*), or that they participate in public authorities' governance (*participatory governance*), but that the various modes of governance take place in combination. People's – or citizens' – citizenship behaviour, democratic self-governance, representative democracy and participatory governance each play their part and mutually complement and reinforce each other (Powell 2007, p. 219, Wright 2010, p. 189). In this sense, civil democracy is a polyarchic, multi-level, multi-jurisdictional system of *interlocking concepts of governance*.

It is also this construct of interlocking concepts of governance that turns civil democracy into a balanced and stable political system. The major reason for this is that civil democracy's main elements or concepts of governance – i.e. self-governance, representative democracy, participatory governance and citizenship behaviour – are all institutionalised thoroughly and comprehensively and play their role in the governance of the public spheres, society and the state. According to Ackerman (2012, pp. 119, 120): 'If institutions are properly designed, a virtuous cycle that reinforces both state and society is possible. ... Once initiated, the best way to assure the sustainability of a participatory framework is through its full institutionalization.' In Pentoutopia, self-governance, representative democracy, participatory governance and citizenship behaviour are well institutionalised and powerful in their own right – they are *equally* powerful institutions of governance that both reinforce and balance out each other. In this sense, civil democracy is a self-sustaining and self-reinforcing concept of governance, of democracy – and democracy endures if it is well institutionalised and self-enforcing (Przeworski 2008, p. 312).

### **The strengths and advantages of civil democracy**

Civil democracy does not only work (very well), but means a range of advantages for people (individuals) as well as for the system (society). Civil democracy especially provides for freedom, democracy and equality.

#### *Free individuals and civil democracy mutually require and reinforce each other*

Any system of governance should provide for the *freedom* of the people – for the freedom of each and every individual.<sup>339</sup> In respect to individuals' freedom, John Stuart Mill proclaimed 'that human beings should be free to form opinions, and to express their opinions without reserve; ... [and] that men should be free to act upon their opinions – to carry these out in their lives, without hindrance, either physical or moral, from their fellow men, so long as it is at their own risk and peril' (J. S. Mill, *On Liberty*, 1859, quoted in Carter et al. 2007, p. 389). In the context of governance, and especially of fully fledged democracies, the freedom(s) of individuals – or 'the free individual' – translates into 'the citizen', i.e. people having the (constitutional, formal, legal, political, moral, and administrative) *liberties and rights* to govern themselves and to govern society (i.e. the public sphere, public affairs and matters of public concern) democratically. Civil democracy provides these rights and freedoms in, and via, all of its concepts of governance:

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<sup>339</sup> As outlined in chapter 'Individuals – free individuals' in Part I, 'Free individuals and legitimate institutions'.

- As citizens, people enjoy their greatest (political) freedoms when they demonstrate citizenship behaviour at all levels and in all forms (see Table 20 above). They are *entitled* to do so, i.e. to demonstrate all forms of prosocial behaviour in the public sphere in non-political ways (proto-political citizenship behaviour), to perform any officially permitted and accepted form of political activities (basic political citizenship behaviour), to express publicly their politically or socially relevant views, convictions and interests and to work politically for the further democratisation of governance and society, even to attempt to achieve fundamental systems change by lawful or unlawful means within or outside the prevailing political, legal and/or administrative institutions of governance (radical citizenship behaviour). In civil democracy each and every (adult) citizen enjoys these social and political freedoms.
- This notion of people having a broad range of (positive) freedom and opportunities to execute political power is also reflected in the idea of self-governance. To a great extent, civil democracy means that people actually *practise* governance and democracy (in legitimate ways) *as they deem right*. In the spirit of ‘democratic autonomy’ people are enabled and encouraged to engage with, govern and manage, shape and alter the conditions of their lives, (aspects of) the society they are part of – especially the immediate local and virtual environments and contexts such as neighbourhoods, communities or social media.<sup>340</sup>
- People can also enjoy and apply political freedom and power via various forms of citizen participation. Participatory governance equips people with opportunities to participate in the governance of the public sphere, public affairs and matters of public concern – especially those that are directly relevant for people’s work and lives or people care about.<sup>341</sup> Via participatory/collaborative governance (collaborative approaches to the delivery of public services or maintenance of public resources, such as direct collaboration or participatory governance networks) interested citizens can be directly involved in the preparation, making, implementation and control of decisions.
- Finally, also and even representative democracy provides some freedom(s). First it *reduces* people’s freedom in some respects because it is built on the notion that people (legitimately) *transfer/delegate* their will and political power to representatives, i.e. some freedom (of making decisions) is given away. However, representative democracy is also based on the idea of citizens’ active political participation, that they show at least basic political citizenship behaviour<sup>342</sup> and conduct political activities, such as engaging with representatives, attending and participating in political meetings, conducting electoral activities, working for political parties or politically active organisations, or even becoming a political candidate or serving as an elected representative in a public authority. Conducting such political activities creates and increases political freedoms and political power.

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<sup>340</sup> See the chapter ‘Democratic self-governance’ above.

<sup>341</sup> Several reasons for, and advantages of, participatory governance are listed in the section ‘Participatory governance: Who participates in what ways?’. See also Table 19 ‘Forms and levels of citizens’ participation in public governance’.

<sup>342</sup> See section ‘Levels and forms of citizenship behaviour’ above, especially Table 20 ‘Levels and forms of citizenship behaviour’.

### *The democratic merits of civil democracy*

As its name indicates, *civil democracy* provides a different, much more advanced and far-reaching, 'people-based' and 'people-oriented' form of *democracy*. Civil democracy is a shift from government to governance (Fischer 2006, p. 19), a shift to *democratic* governance of the public sphere. It is a shift from 'government and its people' to 'citizens and democratic governance'. This means in particular:

- Civil democracy is a truly *democratic* democracy;<sup>343</sup> all its institutions of governance (private organisations like political parties or public authorities, such as legislative, executive or judicial institutions and organisations) are constituted and function according to *democratic* principles and standards. In their design and orientation, their internal structures and processes as well as in their behaviour and conduct of office they resemble *democratic organisations*. Only *democratically* constituted and maintained institutions are regarded as *legitimate*, and are (therefore) entitled to represent the will of the people, can form part of the system of governing institutions and make and implement governance decisions. All senior representatives of legislative, executive or judicial institutions of governance or public authorities (in particular head of state, members of parliament, head of government, members of the cabinet, ministers, judges of the highest courts, senior managers of public services) are *elected democratically* and held accountable thoroughly and comprehensively.
- Governance in a civil democracy is also as participatory as possible.<sup>344</sup> Participatory governance gives citizens regular opportunities to participate in public authorities' governance of public affairs and policy-making processes. Citizens' involvement in, and contributions to, all stages of decision-making in respect to a particular matter of public concern (i.e. problematisation, research, analysis, formulation, implementation and evaluation) increases and strengthens the democratic character as well as the legitimacy (and quality) of governance and policy-making. Participatory governance means less centralised, hierarchical and bureaucratic forms of public governance. It contributes to a (more) decentralised, subsidiary and democratic conduct of governance, a (further) democratisation of governance.
- The strong notion of democracy also shows itself when it comes to self-governance. Civil democracy is *democratic* self-governance; like the private and public institutions of (representative) governance, also the institutions and organisations of self-governance, such as neighbourhood committees or associations, *must* be democratic. They must be *democratic* organisations, i.e. they must be designed, governed and managed, they must function and operate according to democratic principles and standards in order to be legitimate, in order to be a legitimate mean for people's democratic self-governance of their public spheres and public affairs.<sup>345</sup> There is no democratic self-governance without democratic organisations and institutions of self-governance. That institutions and organisations of self-governance are democratic also makes sense because such entities – and only such entities – are

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<sup>343</sup> See section 'A truly democratic representative democracy' – especially the six key characteristics listed there – in the chapter 'Representative democracy' above.

<sup>344</sup> Various reasons for, and advantages of, participatory governance especially in regard to freedom and democracy are listed in section 'The idea of participatory governance and some arguments for its realisation' in the chapter 'Participatory governance' above.

<sup>345</sup> See the section 'Necessary external and internal preconditions for associative self-governance' (in particular the points made about associations' legitimacy, abilities and willingness) in the chapter 'Democratic self-governance'.

able and willing not only to govern themselves democratically, but also to tackle matters of public concern democratically and, in doing so, to contribute to a further democratisation of society (Tocqueville's 'schools of democracy' theorem).

- People themselves also contribute massively to the (further) democratisation of governance in particular and society in general, mainly by demonstrating the full range and all forms of citizenship behaviour (see Table 20): i) demonstrating prosocial behaviour in the public sphere in non-political ways (*proto-political citizenship behaviour*) is *democracy-stabilising* because it solves, or at least smooths, social problems; ii) participating in established political institutions and conducting officially permitted electoral or political activities (*basic political citizenship behaviour*) is *democracy-maintaining* because it keeps the existing political institutions going, iii) showing democratically legitimate political activism and protest behaviour in the public sphere (*advanced citizenship behaviour*) is *democracy-developing* because it addresses and utilises fundamental human rights, civil rights and political rights, challenges the status quo and the establishment, aims for social and/or political advancements, and contributes to the realisation of civil society; and iv) attempting to achieve fundamental system change by lawful or unlawful means (*radical citizenship behaviour*) is *democracy-strengthening* because it tests the capabilities of democratic institutions of governance and public authorities to cope with such deviant behaviour in legitimate, appropriate and democratic ways.

### *The realisation of political equality*

Civil democracy is also good for *equality*. Equality is a complex, ambiguous term<sup>346</sup> and it always needs to be clarified 'equality of what?' when talking about equality. Here, in respect to governance, it is about *political equality* – sometimes also called 'equal power' or 'equal opportunity of political influence' (Mansbridge 1977, p. 321, 1980, Held 1987, pp. 34, 78 Knight & Johnson 1997, Dahl 1998, Anderson 1999).<sup>347</sup> *Political equality* means that all members of a social system (should) have equal opportunities, and are treated as equally qualified, to participate in democratic decision-making about matters of public concern and in the governance of the social system or parts of it (Graham 1986, p. 59, Held 1987, pp. 34, 78, 87, Knight & Johnson 1997, p. 293, Dahl 1998, pp. 37, 62–80).<sup>348</sup> Civil democracy provides the broadest possible range of political equalities for people:

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<sup>346</sup> See section 'The notion and concepts of equality' in Part V, 'A more equal, just and sustainable society', in particular Table 21 'Main concepts of equality'.

<sup>347</sup> In particular *economic* and *social* equalities and inequalities (and how to reduce economic and social inequalities) will be addressed and interrogated comprehensively in Part V, 'A more equal, just and sustainable society'.

<sup>348</sup> Verba et al. (2004, p. 635) described political equality in some more detail: 'Among the bedrock principles in a democracy is equal consideration of the preferences and interests of all citizens, a commitment that is expressed in such principles as one-person, one-vote, equality before the law, and equal rights of free speech, press, and assembly. Equal consideration of the preferences and needs of all citizens is fostered by equal political activity among citizens, not only in voting turnout but also in other forms of political activity that include working in political campaigns, making campaign contributions, taking part in local community efforts, contacting officials directly, and engaging in protest. Through their activity, citizens in a democracy seek to control who will hold public office and to influence what the government does. Because political activity is the vehicle by which citizens inform governing elites of their needs and preferences and induce them to be responsive, equal citizen participation goes to the heart of political equality. Equal political participation thus matters both for its own sake and for its role in bringing about equality in the other valued goods – life, liberty, and property – that are affected by government policies.'

- In regard to self-governance, civil democracy provides every person with the same rights and liberties to address issues of public concern in public (freedom of speech), to organise themselves in voluntary and democratic neighbourhood groups or associations (freedom of association and assembly), and (attempting to) to govern, shape and manage public affairs or matters of public concern that constitute part of the conditions of their lives via self-organised democratic means and institutions.
- When it comes to representative democracy, civil democracy makes sure that people have equal opportunities to gain and hold power (e.g. equal rights to vote, to run for public office), to rule (via their representatives, libertarian and democratic, private or public institutions of governance), and to control power (e.g. to engage with representatives, to scrutinise their conduct of office and to hold them accountable). These political equalities in respect to the governance of public spheres, public affairs and matters of public concern via institutions of a fully fledged, legitimate representative democracy are not only equal political opportunities but people's equal *constitutional, legal and political rights and entitlements*.
- Also in respect to (political) participation/participatory governance people (i.e. individuals or civil society organisations) have formally established equal rights and opportunities to participate directly and regularly in public authorities' governance of public affairs and the governance and delivery of public services, in particular in decision-making processes in respect to the preparation, formulation, implementation and control of policies, programmes or individual measures that address matters of public concern.
- With its notion of 'the citizen', civil democracy provides every person with the same formal, legal and official status and identity of a citizen ('citizenship') that equip them with a bundle of fundamental legal, human, civil, political and social rights and entitlements (as well as responsibilities and obligations). Citizens are equally allowed and entitled, even encouraged and supported, to demonstrate a range of 'citizenship behaviour' in public – such as demonstrating prosocial behaviour in non-political ways, political participation in established institutions, democratically legitimate political activism or legitimate (or even illegitimate) radical activism – that addresses all matters of public interest or public concern in any possible forms and formats.

All in all, civil democracy is good for freedom, democracy and (political) equality. In respect to the governance of public affairs in particular and society in general, civil democracy means the greatest possible freedom, democracy and political equality for all members of a society. Civil democracy is truly *democratic* governance of the public sphere – and of society. Actually, it is *the most democratic* imaginable governance of a society. It provides very good conditions, and has in place legitimate, robust and suitable institutions of governance, for people wanting to demonstrate any kind of citizenship behaviour, govern themselves and matters of public concern, participate in the governance of public affairs and/or have their will executed duly by their representatives – and civil democracy needs people conducting these activities. Free individuals and civil democracy mutually reinforce (and necessitate) each other. In this sense, civil democracy is not just adding (a bit of) civil society to a traditional government system – civil democracy means a full and comprehensive democratisation of governance and society. It is good for people *and* society. And it works. With such a civil democracy, Pentoutopia is not only *a* democratic society. With its ample and robust institutions of democratic self-governance, representative democracy, participatory governance and citizenship behaviour it is *the most* democratic society possible.

## Part V: A more equal, just and sustainable society

### How Pentoutopia provides for equality, justice and sustainability

So far, this book has been about the people and institutions, the fundamental structures and processes of Pentoutopia that define it as a social system (and make it work). It has addressed *free individuals and legitimate institutions* (Part I), *democratic organisations* (Part II), the *democratic market economy* (Part III) and *civil democracy* (Part IV). By focusing on these areas it was shown that Pentoutopia provides and guarantees *freedom* and *democracy* as much and as comprehensively as possible, and how it does so.

But legitimate institutions, democratic organisations, a democratic market economy and civil democracy mean and do more – they are also based on, and ensure, *equality, justice* and *sustainability*. So far, these founding and essential principles – and key characteristics – of Pentoutopia have been covered in parts I–IV mostly implicitly. This Part V, therefore, specifically focuses on these three principles and interrogates how Pentoutopia provides for equality, justice and sustainability. Each of the three terms or concepts comes in various understandings, theories and concepts. So, not only does it need to be demonstrated *that* things are more equal, just and sustainable in Pentoutopia but also *how*, i.e. in what respects they are more equal, just and sustainable.

For example, ‘equality’ can mean legal, political, economic and/or social equality. With its legitimate institutions, such as a libertarian constitution and the institutionalised notion of free individuals, democratic organisations, a regulated democratic market economy or civil democracy with its fully fledged institutions of self-governance and parliamentary democracy, Pentoutopia offers comprehensive constitutional/legal and political equality. But it needs to be shown that Pentoutopia is a (much) more equal society also in respect to economic and social issues. Most of this part will demonstrate that Pentoutopia does have the features, settings and mechanisms in place to prevent economic and social inequalities emerging in the first place and to reduce them via wide-ranging policies.

It will be argued that *economic* equality can be increased dramatically by reducing economic inequalities in income and wealth, in particular by the following policies: 1) *all* forms and sources of income and wealth (salary from work/employment, but also and especially profits from business activities, capital gains from financial investments or inheritance) are taxed comprehensively in equality-enhancing ways (via highly progressive taxes, such as income tax, corporate tax, capital gains tax and financial transaction tax, inheritance tax and wealth tax); 2) the tax system is comprehensive and robust and taxation is realised strictly; and 3) income and wealth are redistributed systematically via equality-enhancing social welfare policies and fiscal measures.

*Social* equality is also increased considerably in Pentoutopia by reducing social inequalities. One is that social inequalities are tackled at the individual level systematically and broadly; through (non-monetary) social welfare policies people’s basic needs are met, equal opportunities guaranteed, and people’s capabilities developed. Moreover, systemic social inequalities can be avoided by making sure that

institutions are legitimate, that political institutions grant equal political power, organisations are democratic and resources are sufficiently available to everyone.

Besides being a (more) equal society, Pentoutopia is also a (more) *just* society – already by design and its fundamental institutions as well as thanks to specific policies. A society (or any social system or institution) that claims to be just – or claims to grant and do justice – must ensure *formal, procedural* and *distributive* justice in every relevant respect, especially in regard to people’s *rights, power, money* and *welfare*. This is what Pentoutopia does. It arranges for *formal* and *procedural* justice by granting and protecting people’s most fundamental *rights*, notably human, democratic and civil rights, rights of and to ownership (self-ownership and private ownership) and citizenship rights, and by having legitimate *institutions of democratic governance and management* in place. In regard to *power*, Pentoutopia not only provides for formal and procedural, but also distributive justice, in particular by appreciating each and every individual as, among other things, a free and empowered individual and by how power is institutionalised.

That Pentoutopia makes available *formal* and *procedural* justice in respect to (people’s) rights and power is of fundamental importance. But that Pentoutopia is a truly just society becomes even more obvious regarding economic and social issues, i.e. people’s income and wealth and social welfare. In this respect, Pentoutopia provides *distributive* justice like no other society. Income and wealth are distributed and redistributed justly via various mechanisms according to the principle of desert. And comprehensive social welfare policies put principles of distributive justice into practice in regard to people’s individual welfare as well as systemic conditions. Altogether, Pentoutopia is a systemically just society – the most just society imaginable.

Finally, it will be established that Pentoutopia is a *sustainable* society. As outlined in the introductory part,<sup>349</sup> a system *must* be sustainable in order to be able to continue to exist and to operate in a particular environment over a longer period of time without its capability and capacity deteriorating irrecoverably and without irreversibly destabilising the environment(s) in which it exists. ‘Sustainability’ comprises the ideas of ‘balance’ (also ‘homeostasis’, ‘equilibrium’ or ‘harmony’), ‘moderation’ (also ‘golden mean’) and ‘durability’ (or ‘permanence’, ‘endurance’). Sustainability is especially relevant in regard to the (natural) environment, economy and society, i.e. a social system needs to demonstrate that it is able to achieve and to maintain *environmental, economic* and *social* sustainability. If a system or entity is to last, it *must* be sustainable, i.e. it must operate in a balanced, moderate and durable manner in respect to environmental, economic *and* social aspects and values.

Pentoutopia does exactly that. The final chapter of this part will demonstrate that Pentoutopia is a society with ‘built-in sustainability’, i.e.: 1) in Pentoutopia, *organisations – democratic* organisations – are sustainable by design (because of their libertarian constitutions, democratic governance, democratic management and the notion of equalising empowerment). They pursue at the same time social, economic and/or environmental goals in fairly moderate and balanced ways and show considerate conduct of business; 2) most economic *actors* and market participants largely demonstrate pro-environmental behaviour. Prevailing business models, industries and markets are ecologically sustainable; 3) Pentoutopia’s

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<sup>349</sup> See section ‘Sustainability: Balance, moderation, durability’ in the introductory part ‘Status quo and (the search for) a better society’.

*economy* – a *democratic* market economy – is genuinely and systemically balanced and sustainable, industries and markets function in balanced and sustainable ways, and the whole economy is oriented towards socio-environmental and economic growth and development; 4) overall, Pentoutopia is a balanced and sustainable *society* thanks to its comprehensive and robust institutions of democratic governance that are legitimate and generate legitimate policies.



## The case for a more equal society

This chapter makes the case for ‘a *more* equal society’, for a society that provides as much constitutional, legal, political, economic and social equality as possible. It will show the extent of equality but will also argue that there is not one, single definition or concept of equality but multiple understandings and various concepts. The chapter also offers some justifications of equality. It argues, and demonstrates comprehensively, that inequality – especially *economic* (‘monetary’) and *social* (‘non-monetary’) inequality – causes a whole range of problems and produces various negative consequences for individuals as well as for society as a whole. Finally, the chapter illustrates that Pentoutopia routinely prevents inequalities emerging or existing, and that it already provides a range of formal and substantive equalities with its fundamental institutions, design and functioning as a free and democratic society, i.e. *before* possible fiscal or social policies are employed to (further) reduce economic and/or social inequalities.

### The notion and concepts of equality

In the French Revolution of 1789 and its aftermath, ‘equality’ was the second battle cry right after ‘freedom’<sup>350</sup> – and since then, if not before, it has been one of the fundamental demands of people who strive for a better society. In a very general sense – a generic definition of equality, so to speak – *equality* means that with regard to a particular issue everyone is in the same position.

Conceptionally it might be possible to draft, and to reason about, a social system where all its members were *completely* equal (absolute equal or egalitarian society). But such a model or concept would theoretically be based on rather unrealistic assumptions and would practically run into massive difficulties, to say the least. It also would be *not desirable* because an absolutely equal society would in fact be against individual freedom, rather anti-democratic, and a particular form of a *totalitarian* society. To strive for total equality is *not* a good idea.

What *is* possible – and highly desirable – is to strive for a *more* equal society. However, ‘more’, evidently, is not an *absolute*, but a *relative* or *comparative* measure – which raises the questions: 1) more equal *than what?* and 2) more equal *in what way(s)?*

1) ‘*More* equal’ than any society we know of, i.e. any past or present society we have knowledge of and empirical evidence about. Although societies are very diverse (and ‘equality’ can be quite a contested idea), we nowadays do have some relatively good, although approximative, understandings of what are relatively equal or not so equal societies or countries. For example, based on measuring absolute and relative differences in people’s financial standing (income and wealth) via the Gini coefficient or other

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<sup>350</sup> I obviously refer here to the phrase ‘*Liberté, égalité, fraternité!*’ that was popularised during and after the French Revolution of 1789.

measures, countries are ranked by income equality (Income Equality 2021) or wealth equality (Wealth Equality 2021). Also social equality and inequalities, can be measured, for instance, by countries' social welfare spending as a proxy (Social Welfare Spending 2021)<sup>351</sup> or by some other measures. In this sense, 'more equal' means that a given society is, and does, better – *scores* better – in respect to constitutional, legal, political, economic or social aspects that are relevant for equality than any other (past or present) society or country. To put it simply: A 'more equal society' beats the Nordic countries<sup>352</sup> and other advanced welfare states concerning all major measures of equality (and related items) and gets the No. 1 spot in the relevant ranking(s).

2) 'More equal' in regard to all those aspects that are most significant for people. For most people those aspects that are directly relevant for them as individuals are usually most important to them, i.e. the constitutional and legal, political, economic and social conditions that define them as individuals and shape their existence, in particular their work and lives. As a minimum, a *more equal society* provides each and every individual with *constitutional and legal equality* (i.e. equal human, democratic and civil rights, and equal formal and procedural treatment according to the rule of law); *political equality* (i.e. the same status, rights and responsibilities as citizens and opportunities to be politically active/to act as a citizen); *economic equality* (i.e. equal economic conditions and opportunities as well as relatively equal/similar ranges of income and wealth); and *social equality* (i.e. equal basic conditions and institutions that enable people to conduct their lives in appropriate ways). A 'more equal society' attempts to achieve and to guarantee constitutional, legal, political, economic and social equality for everyone as comprehensively and as much as possible – and more than any other past or present society.

The question is what exactly should be (more) equal in what way(s) – or, as the great Indian philosopher and economist Amartya Sen (1980) titled one of his articles, 'Equality of what?' As one can imagine, there are quite a few answers to this question, different understandings, definitions and concepts of equality.

The following table gives a comprehensive and detailed overview of the various dimensions and concepts of equality.

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<sup>351</sup> See also, for instance, the OECD's Social Expenditure Database (SOCX) (OECD Social Expenditure Database 2021), which shows the welfare expenditures of every OECD country in detail and ranks them according to their annual public social spending as a percentage of GDP.

<sup>352</sup> Here I use the Nordic countries (i.e. Denmark, Finland, Iceland, Norway and Sweden) as a proxy because these five countries are some of the most advanced democracies and welfare states and have been at the top of many relevant tables consistently for decades, especially in the heyday of the late 1970s into the 1980s, but still are today (for example, in respect to income equality, the scale of welfare policies or 'happiness index'). Only in regard to wealth inequality have they become as bad as many other countries (see 'e) Wealth creation, acquisition and/or accumulation' in sub-section 'Forms and sources of income and wealth' further down). Although the Nordic countries, like many other countries, have become much more neo-liberal, and thus unequal and competitive since the late 1980s (and increasingly since the early 2000s), they still represent in many respects some of 'the best' societies we currently have.

Concept	Main proponents and/or sources	Equality regarding	Principle
<i>1. Constitutional/legal issues and dimension</i>			
Equal human, democratic and civil rights	United Nations Universal Declaration of Human Rights (1948)	Human, democratic and civil rights	Every person has the same fundamental and inalienable human, democratic and civil rights.
Equality before the law	Pericles (431 BC)	Legal rights	'Treat like cases alike and different cases differently.'
<i>2. Political issues and dimension</i>			
Equal political/democratic rights	National constitutions	Political/democratic rights	Every person has the same political/democratic rights, in particular to elect representatives ('One person, one vote!'), to demonstrate, and to participate in, all forms of political processes, activism and engagement.
Equal power/political power and equality, democratic equality	Mansbridge (1977, 1980), Knight & Johnson (1997), Dahl (1998), Anderson (1999)	Political and social power	All members of a social system shall have equal opportunities, and shall be treated as equally qualified, to participate in the governance of their social system, public affairs and matters of public concern.
<i>3. Economic issues and dimension</i>			
Egalitarian distribution	Religious texts (e.g. early Christian thoughts), Communist Manifesto (Marx & Engels, 1848)	Allocation and distribution of worldly goods, in particular tangible goods, income (salaries and profits) and wealth (especially private property and capital)	'To each the same'; distribution of material and immaterial resources, in particular of income and wealth, so that everyone has the same.
Distribution of resources based on claims	Locke (1690), Nozick (1974)	Ownership, private property	Everyone shall have private property by working on it but only 'where there is enough, and as good, left in common for others'.
Equality in exchange	Bray (1839), Blanc (1851)	Labour remuneration	Everyone (especially workers) shall get fair remuneration for their work, which means that there is no exploitation and no profits (are accumulated by one class, the capitalists).
Equality in utility/equality in welfare	Pigou (1920)	Utility of income and wealth	People shall have equal utility of income and wealth so that the utility for all is maximised.
Equality in	Various communist, egalitarian,	Income	Progressive taxation of income from employment (salaries and wages), business

income	left-libertarian and reformist philosophers		activities (profits), property (rent), financial assets or financial products (capital gains), private transfers (gifts, inheritance) or social transfers (social benefits), redistribution of income via fiscal measures or monetary social policies.
Equality in wealth	Various communist, egalitarian, left-libertarian and reformist philosophers	Wealth	Strong version: Only collective property, no private property (of the means of production).  Moderate version: Progressive taxation and redistribution of wealth via fiscal and social policies.
<i>4. Individual/social issues and dimension</i>			
Needs	Marx (1875)	People's basic needs	Every person shall be provided with sufficient resources following the maxim: 'From each according to his ability, to each according to his needs.'
Equal opportunity/equality of opportunity	Rawls (1971), Roemer (1998)	Opportunities and chances	Everyone shall have equal chances to compete for opportunities (for example, education, work or career) under rules that are the same for everyone, but the outcomes will differ.
Equality of conditions	Held (1987)	Conditions of daily life	'Democratic autonomy': 'Individuals shall be free and equal in the determination of the conditions of their own lives.'
Equality of capabilities	Sen (1980)	Capabilities of people	Everyone shall have (access to) sufficient social resources and institutions so that they can make use of, and develop, their individual capabilities and competences to further their life plans.

Table 21: Main concepts of equality.

Clearly, there is not one, single definition or concept of equality but multiple understandings – and *all* (concepts of) equality are, or can be, important and relevant for making a society more equal. Hence, it is not possible to have *one* specific concept of equality applied to everything and it wouldn't make much sense to argue which concept is *the* right one (or the one and only) in an absolute sense. In contrast, which concept of equality is applied depends on the dimension and issue in question:

- 1) When it is about *formal* and/or *legal* issues and dimensions then equality before the law and (the guarantee and application of) equal fundamental legal, human and civil rights are of particular relevance.
- 2) In regard to *political* issues and the political dimension, equal power and equal political and democratic rights are essential.

- 3) Regarding *economic* issues and the economic dimension, equal distribution of resources, equal exchange and equality in income and wealth are the most important and appropriate concepts.
- 4) And when it is about *social* issues and the social dimension, egalitarian institutions, equal opportunities, equal conditions and equal capabilities to conduct one's life are key aspects.

Equality in respect to *formal/legal* issues and dimension was covered in Part I, 'Free individuals and legitimate institutions', equality in respect to *political* issues and dimension was addressed and utilised in Part IV, 'Civil democracy'. This Part V is especially about *economic* and *social* equality and reducing economic and social inequalities.<sup>353</sup>

### **Economic and social inequalities and the major problems they cause**

When it is about *economic* ('*monetary*') and *social* ('*non-monetary*') equality the talk is usually about economic and social *inequality* – or *inequalities*. *Inequality* means that with regard to a particular entity or issue an individual, group of people or social class is systemically privileged and advantaged whereas others are systemically discriminated against and disadvantaged. Economic and social inequalities emerge and are present in every society.

*Economic* inequality shows itself mainly in form of *income inequality* (differences in income or revenues from employment, business activities, property, capital, gifts, inheritance or social benefits) or *wealth inequality* (differences in property in the form of tangible or intangible assets or capital in the form of financial assets):

In a free and democratic society and market economy, people are relatively free to conduct all sorts of *legitimate* business and market activities. Of course, they will be successful with their economic activities to different degrees, be it in their work and career, running their own business, or in their financial behaviour (such as investing, saving or consuming). Hence, people's economic efforts and success, together with the dynamics of free industries and markets, and a free and democratic market economy, will create differentials in people's income or revenues from work, business activities, property or capital. *Income* will be, or can be, fairly unequal.

Related to the notion of a (regulated) free market economy, people's individual freedom, self-ownership and freedom to conduct business and market activities are people's rights of and to private ownership

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<sup>353</sup> Economic and social inequalities often coincide and mutually strengthen each other. For example, because of their socially privileged positions the rich and powerful have more business opportunities, can take advantage of legal, fiscal, economic and/or social policies and enrich themselves even further via legal and semi-legal activities, running hierarchical organisations and exploiting others. Moreover, many rich and powerful people belong to local or national power elites and the establishment and can influence legislation, regulations and policies in their favour and further disadvantage, exploit and oppress those who are already disadvantaged and don't have much anyway. Economic and social inequalities not only overlap and interact, they are institutionalised and embedded self-sustaining concepts and processes that maintain the current deeply unequal and unjust status quo and perpetuate the inequalities and injustices from the present into the future. However, for analytical reasons and practical purposes economic and social inequalities will be addressed separately.

of property and capital. Over time, differences in people's income and revenues, together with their behaviour, efforts and decisions in respect to investing, consuming or saving financial assets, or because of inheritance, sheer good luck or general economic, political, legal or social conditions and developments, people's *wealth* in the form of property (tangible intangible assets) or capital (financial assets) will differ (greatly) – and can become even more unequal.

And there can also be, and will be, *social* inequalities, i.e. persistent patterns of certain people being systematically and institutionally privileged, advantaged and empowered while others are systematically and institutionally discriminated against, disadvantaged and disempowered. Usually a few are privileged and many are disadvantaged. Social inequality comes either as 1) *personal* problems at an *individual level* or as 2) *systemic and institutional* problems at the *level of society*:

- 1) Although people live under different conditions, in individually unique situations and have specific opportunities and needs, there can be disadvantages or disadvantageous circumstances that might turn into severe problems for the individual (namely, lack of resources, economic and financial problems, unemployment, health and social problems or developmental problems). While these problems might be the result of individual differences in effort, personal lifestyle or simple bad luck, they do happen regularly and predominantly to *certain types* of people or people in the same situations. These problems represent forms of *individual* social inequalities – or social inequalities *at an individual level*.
- 2) The causes of individual disadvantages and problems might not be located at the individual level. Causes, conditions and dynamics that generate, maintain or even increase social inequalities might be found 'in society', i.e. in the fundamental societal areas and institutions of a society – for example, in its constitutional and legal institutions, political institutions, socio-cultural aspects and institutions, forms or types of organisations, or in basic resources and technologies. In this sense, there are *systemic* social inequalities, *systemic and institutional causes of social inequalities* respectively.

That there are, or can be, (economic and social) inequalities in a society could be shrugged aside as one of those inevitable facts of life – especially since nowadays they come (in some countries) with great political, economic and social freedoms and fully fledged democracy, i.e. they are seen as the (unfortunate) side effects of an otherwise good society. They might even be described as *positive*, as the result and outcome of differences in (individual) efforts and performance, i.e. they might not only be *explained* but *justified* by references to individual merits and virtues.

Nevertheless, it can be argued that there is something – actually, *a lot* – wrong with (economic and social) inequality, that such inequalities are bad for individuals as well as for social systems.<sup>354</sup> For disadvantaged individuals or groups of people inequality causes a whole range of problems and produces various negative consequences across a range of dimensions (Neckerman 2004, pp. xix–xxii, Pebley & Sastry 2004, p. 119, Wanner 2004, pp. xiv–xv, Bowles 2012, pp. 37–38, Warwick-Booth 2013, p. 19, Gatzia & Woods 2014, p. 37, Economic Inequality 2015, no page numbers), in particular:<sup>355</sup>

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<sup>354</sup> See also section 'The world is not flat but unequal' in the introductory part 'Status quo and (the search for) a better society', where inequality was criticised in general.

<sup>355</sup> The five bullet points largely correspond with Maslow's (1954) 'pyramid of needs'.

- *Health and social problems*: Lack of, or poor access to clean water, electricity, sanitation, housing, healthy environment, basic health care, appropriate clothing, education, information and communication; deprived neighbourhood, more violence, higher crime rates; higher risk of exposure to infectious diseases, higher infant mortality, more malnutrition, obesity, unhealthy lifestyles; substandard childcare, more developmental problems of children, lower investment in education (material resources, time, institutions), lower school performance; more use of drugs, stress-related diseases, psychosomatic and mental illnesses, homicides, teenage births, family and parenting problems; lower levels of self-esteem, happiness, well-being and (much) shorter life expectancy;
- *Economic and financial problems*: No or little property, much higher living costs (in relative terms), less disposable income (in relative and in absolute terms), insufficient funds, no or few financial assets, less professional management and use of financial assets, higher debt levels, fewer and/or less favourable contracts (such as work contracts, rental contracts/tenancy agreements, mortgages, loans, consumer credit) and investment opportunities available;
- *Work-related problems*: Mostly low-skilled jobs, insecure jobs, sub-optimal contractual arrangements, insufficient wages, hazardous and/or monotonous work, exploitation, greater job dissatisfaction, fewer professional careers, higher unemployment;
- *Reduced social life*: Lower social status, less civic engagement and participation in political affairs (and thus many people's views and interests are under-represented), less participation in social and cultural life, or participation in social activities that are of lower quality;
- *Less personal development*: Economically and/or socially disadvantaged members of society have lower levels of education and higher school dropout rates; do not have sufficient opportunities or resources, skills and knowledge to (further) develop their human capital (through higher education, professional qualifications or skills development); make much less use of existing, or create new business opportunities; build much less wealth that can be invested in their further personal development; and reach much lower levels of self-efficacy and self-actualisation.

Moreover, inequality is also highly problematic for a society as a whole. It means or creates (Mills 1956, pp. 163, 286, 346, 357, Nielsen 1985, p. 8, Schweickart 1993, p. 206, Knight & Johnson 1997, p. 294, Bowles & Gintis 1998, pp. 4–7, Galbraith 2002, p. 202, Peacott 2007/2012, p. 311, Wright 2010, p. 19, Warwick-Booth 2013, p. 19, Ostry et al. 2014, pp. 4, 8, Piketty 2014, pp. 423, 443, Economic Inequality 2015, no page numbers, Utting 2015, p. 8, Baldus 2018, p. 167):

- *Economic problems*: Many poor people/people with below average income and wealth (in absolute and relative terms), sub-optimal allocation of funds and resources, higher costs, less investment, less productivity, less consumption, less economic growth and development;
- *Political problems*: 'The rich' have more political power and influence, there is an over-representation of particular groups of privileged people in political office, dominance of conservative ideas, ideologies and policies in the political/public domain, society is more divided, social consensus and political stability of the social system are threatened, there is an increased possibility of social and political unrest;
- *Social/moral problems*: Moral values, personality traits and behaviour like greed, selfishness, opportunism, ruthlessness and materialism are portrayed (and rewarded) positively (and people are

socialised, educated and conditioned to demonstrate those traits and behaviours); rhetoric and ideologies are prevailing that portray – and praise – the ‘rich and powerful’ as ‘good’ and ‘successful’, claim that they deserve their wealth and privileges (‘meritocracy’), and that ‘the poor and disadvantaged’ also deserve *their* plight.

- *Ethical problems*: Economic and social inequalities are profoundly and in principle unfair and unjust. They provide only certain people (‘the rich’, ‘the privileged’, ‘the power elite’<sup>356</sup>) with (much) more resources, (better) chances to pursue and to realise their interests, socio-political power, better opportunities to influence legal, economic, social and political affairs and the political system, to participate in the governance of the public sphere and in social life, to achieve high(er) levels of personal development and well-being, (much) better life chances and quality of life, individual health and length of life, while they marginalise, disadvantage and discriminate against certain other people and exclude them from all these opportunities and advantages.

### **Features of Pentoutopia preventing inequalities and providing equalities**

The long lists of individual and societal problems that are the direct result and consequence of economic and social inequalities are astonishing. Perhaps even more astonishing are the very long lists of politicians, royals, clerics, academics, intellectuals, professionals, managers, privileged, members of social elites and common people who do not care about these problems and/or find it normal, even fair, that societies are highly unequal and come with these problems (‘the world is a vale of tears’). At least to those with healthy hearts and minds it is very obvious that inequality is bad – and that something needs to be done about it. Because of their serious negative consequences for individuals or groups of people as well as the whole economy and society (the emergence of) inequalities need to be prevented or reduced as much as possible. Pentoutopia does exactly that. Already with its principles and design as a system (as a free and democratic society), Pentoutopia routinely prevents some fundamental inequalities emerging or existing. For instance, Pentoutopia *does not*:

- 1) Propagate a particular model of humans demonstrating a certain type of behaviour that (allegedly) is superior to all other human beings and behaviour (for instance, *homo oeconomicus* demonstrating only ‘rational’, utility-maximising behaviour);
- 2) Accept any illegitimate institution that places people in unequal, superior–subordinate relationships, such as hierarchical social systems like an autocracy, monarchy or oligarchy; unfair contractual agreements like the traditional employment contract or tenancy agreement; or any other institution that privileges (a) particular type(s) of people unfairly and unjustly while it disadvantages and discriminates against certain others;
- 3) Allow any organisation – whether private or public, for-profit or not-for-profit – to be established or to operate that does not meet democratic standards, does not resemble the form, design and functioning of legitimate, democratic organisations;
- 4) Let individual market participants dominate markets or industries, establish oppressive market-

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<sup>356</sup> I refer here to the title of a book by the American sociologist Charles Wright Mills (1916–1962) – *The Power Elite* (1956) – a ground-breaking work and still one of the greatest books on this topic.



related relationships, exploit other market participants, demonstrate hyper-competitive economic behaviour or conduct illegitimate transactions;

- 5) Permit or tolerate any autocratic, oligarchic or otherwise non- or anti-democratic governance of the public sphere, public affairs, matters of public concern, policy-making or implementation of policies.

Pentoutopia simply does not allow any form of constitutional, legal, political, administrative or organisational institution that gives people unequal rights and status, equips people with exclusive and uncontrolled power, is anti-democratic, oppressive and exploitative. In so doing, it prevents a lot of inequality happening in the first place and being institutionalised.

Moreover, and perhaps even more crucially, Pentoutopia is a *positive* concept. With its notions and concepts of free individuals, legitimate institutions, democratic organisations, a democratic market economy and civil democracy it provides and achieves a range of *formal and substantive equalities* already via its fundamental institutions, in its fundamental design and functioning, such as that:

- 1) *All individuals are free individuals*, i.e. they: a) are all as free as possible from external, unreasonable or illegitimate interference, coercion or restraints (*negative freedom*); b) can be, feel, reason, decide, act, organise and conduct their work and live their lives according to their own will (*positive freedom*); and c) are equally entitled, and subject to formal, procedural, substantive, perceived and rational *justice*.
- 2) *All its institutions are legitimate institutions*, i.e.: a) they are consistent with internal and external legitimate claims and requirements such as principles, norms and values, laws, policies, rules and regulations (*formal legitimacy*); b) they apply formal rules to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (*procedural legitimacy*); c) they are designed, managed and maintained, operate and produce outcomes and consequences for everyone equally in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability as well as people's inalienable human, civil and democratic rights (*substantive legitimacy*); d) their existence, purpose(s), design, the way they work and the outcomes and consequences they produce are perceived by people as legitimate (*perceived legitimacy*); and e) they resemble, and adhere to, in their entirety as well as in all their parts, to rationality and reason (*rational legitimacy*).
- 3) It only allows for *democratic organisations* that: a) provide all their members with equal rights and responsibilities to own, manage and control collectively and democratically the organisation and its properties, activities and results based on the principles and concepts of self-ownership, private ownership, property rights and a partnership agreement (*libertarian constitution*); b) are based on, and governed, according to the principles of *democratic governance* (democratic institutions of governance, legitimate authoritative sources, democratic and 'good governance'); c) have *democratic management* in place that provides for heterarchical structures and processes, self-management, distributed leadership, workplace democracy, participation, representative management and democratic managers; and d) are built on the notion of *equalising empowerment*, i.e. that empowered people are disempowered and disempowered people are empowered formally, psychologically and/or socially until all members of the organisation have equal power.
- 4) It has a *democratic market economy* that enables *all* market participants equally so that they: a) enjoy their inalienable rights of and to self-ownership, private ownership and property rights, are

able to make their own economic decisions, conduct market transactions and market-related activities as free from illegitimate external influence and pressure as possible (*freedom*); b) (can) make decisions in decentralised ways, organise themselves, and conduct their market-related activities, in accordance with the principles of democratic governance and management (*democracy*); c) enjoy in principle the same range of legal entitlements and duties, equal opportunities, rights and responsibilities to pursue their interests and to conduct (their) business and economic activities (*equality*); and d) are treated equally with regard to their market-related activities and related consequences, receive the fruits of their own labour, returns for their work and efforts according to desert and performativity (*justice*).

- 5) It is governed in the form of *civil democracy* that provides all people with equal opportunities, constitutional and legal rights and entitlements: a) to enjoy the formal and official status and identity of a ‘citizen’ and ‘citizenship’ and to be entitled to display any type or form of ‘citizenship behaviour’; b) to address issues or matters of public concern in public, to organise themselves in voluntary and democratic neighbourhood groups or associations, and (attempting to) to govern, shape and manage public affairs or matters of public concern via self-organised democratic means and institutions (*self-governance*); c) to gain and to hold power (equal rights to vote, to run for public offices), to rule (via their representatives and/or public institutions of governance), and to control power (to scrutinise their representatives’ conduct of office and to hold them accountable) (*representative democracy*); and d) to participate directly and regularly in public authorities’ governance of public affairs and the governance and delivery of public services, policies, programmes or individual measures that address matters of public concern (*participative governance*).

This is already quite an extensive list of fundamental equal rights, freedoms and opportunities for people – *for each and every individual* – to conduct civil, social and economic activities, to govern and to manage organisations, markets, public affairs and society, and to live their lives in appropriate forms and on equal terms. Pentoutopia’s fundamental institutions already achieve much economic and social equality *before* any possible policies (for example, fiscal or social policies) kick in. This is *predistribution* (Hacker 2011, p. 35, Kerr 2016, pp. 68–70). With *predistribution* I mean that the fundamental principles, institutions and mechanisms of a social system arrange how income and wealth are defined, created and distributed *before* the market and market participants actually create and distribute income and wealth via their economic and market-related activities (*distribution*) and government and other actors tax and transfer income and wealth via fiscal policies and social welfare policies (*redistribution*).

Viewed in this way, the scale and scope of equalities achieved and inequalities prevented in Pentoutopia via predistribution is already *substantially* greater than in any neo-liberal nation state or market economy (of course) – and greater than in social market economies or welfare states as we know them. Already with the inequalities it prevents and the equalities it provides *institutionally* and *systemically*, Pentoutopia is a more equal society by design and *in principle*.

That Pentoutopia is oriented towards equality already in its fundamental principles and basic institutions is all well and good. However, Pentoutopia is also a free and open society, a dynamic market economy and civil democracy – with many of the fundamental characteristics and basic aspects, mechanisms and consequences that vibrant societies and market economies have (namely, that actors make decentralised decisions, act independently and/or interact with others on the basis of, and within institutions, micro and macro processes unfolding in the political realm, the economy and civil society). Even if there was

no (provision for) inequality in the original design of a society and its institutions, these dynamics (caused by actors, institutions and/or their interaction) may lead to economic and social inequalities. In any free and open society and market economy economic and social inequalities *can* and *do* exist or emerge.

The next two chapters will show what kind of *economic* and *social* inequalities exist and can emerge in a fully fledged society like Pentoutopia (or any other free and democratic society and market economy), and how economic and social inequalities can be reduced comprehensively and thoroughly via a broad range of interrelated means and measures.

## Increasing economic equality by reducing economic inequalities

This chapter interrogates *why* economic equality should be increased and *how* it can be increased (considerably) by reducing economic *inequalities*. For this, it first clarifies what can be understood as economic equality, income and wealth and what is the distinction between economic differences and economic inequalities. It also puts forward some arguments *why* economic inequalities should be reduced at all – and as much and as far as possible. The main discussion is then about *how* economic inequalities can be reduced systematically, substantially and comprehensively. It will demonstrate in great detail how economic inequalities, which show themselves in unequal income or wealth, can be reduced via various and stringent taxation measures, and some redistribution of income and wealth from ‘the rich’ to ‘the poor’.<sup>357</sup> Altogether, the chapter develops and represents *a fair and just system of equality-enhancing taxation and redistribution of income and wealth*.

### Income, wealth, economic differences and economic inequality

One rather crucial aspect of a ‘more equal society’ is an *economically* more equal society. ‘Economic’ can be understood as everything that has, or is of, a monetary value. The ‘generic definition of equality’ stated above proposed that ‘*equality* means that with regard to a particular issue everyone is in the same position as everyone else’. In this sense, *economic* equality would connote that every member of a social system (individuals or households) has equal *income* and equal *wealth*.<sup>358</sup>

Such *absolute* economic equality represents an extreme pattern of allocation of income and wealth. At the other end of the spectrum would be that only *one* member of the social system has *all* income and wealth and everyone else has nothing.<sup>359</sup> Whereas the idea of absolute economic equality is theoretically

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<sup>357</sup> Throughout this chapter I use ‘the rich’ and ‘the poor’, ‘low-income’ and ‘high-income’, or similar terms to address groups of people (individuals or households) with different levels of income or wealth. Of course, socio-economic or societal reality is much more differentiated than such a dichotomous model or pair of terms suggests. These descriptors are used in a paradigmatic sense and for the purpose of making a general argument that is ‘by and large’ true but does not claim to describe empirical reality in sufficiently differentiated detail. For instance, a statement like that ‘the rich’ or (most) ‘super-rich’ pursue aggressive tax avoidance strategies and are quite successful in avoiding paying income tax is perhaps a rather stereotypical comment but nonetheless – and unfortunately – ‘by and large’ true. This still leaves room for exceptions and deviating behaviour, i.e. there might be ‘rich’ and ‘super-rich’ people who actually pay all their due taxes in full without resorting to semi-legal tax strategies.

<sup>358</sup> Besides equality in income and wealth, economic equality also means, or could mean, equal distribution of resources, equality in exchange and/or equality in utility. But this chapter focuses solely on income and wealth because those two are the most common and prominent features of economic equality – and *inequality*.

<sup>359</sup> These two extremes apparently refer to the two extreme allocations of items measured via the Gini coefficient. Theoretically/mathematically, the Gini coefficient can have values from 0 to 1, whereby 0 would mean that all actors own items with exactly the same value (in the case here absolute economic equality), and 1 would mean

possible and *might* be applicable to smaller, egalitarian (totalitarian) groups or communes with complete collective ownership (and also collective work, management and governance), it is not applicable to an open, democratic society with a market economy.<sup>360</sup> I therefore propose that, in order to (attempt to) achieve an *economically* more equal society, one should not try to achieve (absolute) economic *equality*, but try to avoid or reduce economic *inequality*. The more one reduces economic inequalities, the more economically equal will be a society.

‘Economic inequality’, obviously, has to be defined in order to be meaningful. In order to know what it could mean, it will be defined here generally by utilising the terms or concepts of *income*, *wealth* and *economic difference*.

First, economic inequality means that the *income* and *wealth* people have gained are unequal. ‘Income’ is earnings from/in the form of (Prasad 2008, p. 2, footnote 2, p. 11, OECD 2012, p. 3, Maynard 2015, pp. 150-151): 1) employment (*salaries and wages*, bonuses, company shares and stock options, employer pension, other monetary incentives); 2) business activities (*profit*); 3) property (*rent*); 4) financial assets or financial products (*capital gains*); 5) private transfers (*gifts, inheritance*); or 6) social transfers (*social benefits*, such as unemployment benefits, sickness, accident or disability benefits, maternity or paternity benefits, child and family allowances, pensions or other retirement benefits).

And ‘wealth’ can be defined as an individual’s (or a household’s) net worth, i.e. the sum of financial and non-financial assets minus debt (Bonesmo Fredriksen 2012, p. 6, Maynard 2015, p. 150). More particularly, ‘wealth’ is the combined (book or market) value of assets in the form of: 1) tangible assets (land, real estate or other tangible assets); 2) intangible assets (goodwill, patents, trademarks, copyrights, other intangible assets); and 3) financial assets (cash, bank deposits, stocks, bonds, other financial assets, financial claims towards other persons); minus 4) debt.

If people are entitled to earn income and/or to possess wealth in whatever form (i.e. if a social system provides the legal institutions of private ownership, property rights and contract law), then there will be *economic differences*, i.e. differences in income or wealth. ‘Economic difference’ means that people have bundles of income and wealth that are different in types, composition and value. Especially in a

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that only one actor has everything and all others have absolutely nothing (absolute economic inequality). Concerning the distribution of actual income or wealth, these values or maxima would only occur in highly unusual situations (for example, the Gini coefficient for income and wealth for a small commune where all members have no private property whatsoever, own all collectively, have exactly the same income and share everything would be 0, the Gini coefficient for a slave owner and their slaves is 1).

<sup>360</sup> Actually, such extreme/radical ideas – like the idea of the ‘perfect market’ or a ‘perfect society’ – should not be applied at all to any kind of social system. Or, to put it differently: Intellectually or philosophically it might be quite enjoyable to develop and play around with some ideal or perfect models. This might even help to see ‘the reality’ more clearly, perhaps even more critically. But ideal or perfect models are just that – intellectual toys. When it comes to the understanding, explanation, design, functioning, governance and management of *real* social systems one needs *realistic*, i.e. *imperfect*, models and concepts because only these are actually applicable. Perfect models are not only useless for practical measures but, as it became so often obvious, *dangerous* and *damaging* when people attempt to realise them in the real world, or attempt to change the real world into a perfect world. Attempting to make the world perfect is nothing but a recipe for disaster.

market economy and society based on private property at any given moment there are economic differences, i.e. members of the social system earn different incomes and/or have different individual wealth. There will be no two people who have exactly the same wealth and income. That people earn different incomes, accrue various types of assets, and thus have different levels of wealth can be due to their family and socio-cultural backgrounds, different social status and positions, rights and entitlements, education, opportunities, connections, professions, jobs, skills and talents, individual effort, productivity, performance, success, economic behaviour, luck or any other reasons or circumstances that may or may not be under their control and a result of their actions or inactions.

But besides economic *differences* there also can be economic *inequality*. Unlike economic *differences*, economic *inequality* means: a) *systematic patterns* of, and b) *considerable* differences in people's income and wealth:

a) *Systematic patterns* means that economic inequality happens between actors (e.g. individuals or organisations) or social constructs (e.g. social groups or classes) not coincidentally or occasionally because of individual acts (it may), but *certainly* because of the actors' or social constructs' types, positions and functions in the social system. For example, economic inequality can exist between two types of actors that are in a dichotomous, formally, legally and substantively unequal/hierarchical relationship, like superior and subordinate, master and slave, employer and employee, landlord and tenant. In such cases, the former gain (most or some of) their income from or via the latter, have higher incomes because of their privileged position, can save some of their income, accumulate it into (increasing) wealth (some of which they can reinvest in order to increase their income further) – which increases the economic inequality between the former and latter even more. A systematic pattern can also exist in social constructs that have various levels that are ranked hierarchically, such as social classes, professions or positions with different pay scales. The economic inequality here is not dichotomous but gradual, i.e. people have a low income when they are at the bottom of the social construct (e.g. working class, the poor, employees), higher incomes when they are in the middle (e.g. middle class, lower or middle managers), and extremely high incomes at the top (e.g. upper class, the rich and ultra-rich, senior managers). Although actors' individual traits, behaviour and performance play *some* role regarding their wealth and income, it basically is the systematic pattern that creates, defines, maintains and shapes most of their income and wealth, and thus economic inequality.

b) The differences in income or wealth are *considerable*, i.e. there is a big difference between the total amount of income and/or wealth that actors or social constructs earn or possess (on average). Obviously, 'considerable' does not represent an absolute measure or a (universally applicable) specific and precise amount or percentage that would immediately indicate when something is no longer an economic difference but an economic inequality. 'Considerable differences' is a relative concept and a matter of interpretation. It needs to be specified/quantified with regard to the particular type and amount of income or wealth in a particular historic and socio-cultural context, also taking situational factors into account. Whether an economic difference is so big that it could be seen as an economic inequality needs to be established objectively (i.e. the monetary value of a certain income or wealth in comparison to others) as well as subjectively (how this is perceived in a particular

historic and socio-cultural context). For instance, the salary packages of lower and senior managers in Japan and Japanese companies are different, but not massively different (the latter might earn a few times the salary of the former). The pay gap, and even the status and positions, are not (perceived as) economic inequality. In contrast, the salaries of people working for American companies differ greatly (often co-workers doing the same job have different salaries). In some cases, senior managers' salary packages (unashamedly) are dozens, even hundreds of times greater than the average employee salary. Highly unequal salaries and wages – and, thus, economic inequality – is a constituting feature of the US type of market economy, if not capitalism.

Altogether, 'economic inequality' can be defined as *systematic patterns of considerable* disparities in income and/or wealth between individuals, households, groups of people, social classes, populations, countries or regions. For example, in almost all countries income and wealth are highly concentrated at the top. Depending on the country or region, the highest-income 1% of households receive 10–20% of all income (each of them at least more than US\$1 million per year, some tens or hundreds of million US dollars), whereas the bottom 80% altogether receive only about 50% of all income (and half of all households especially in developing countries live below the subsistence level of US\$3 per day). Wealth inequality is even more pronounced than income inequality; the wealthiest 1% of households hold about 45% of all global wealth (and the top 10% about 80% of all wealth), whereas the bottom 80% own only 10% (Credit Suisse Research Institute 2019a, pp. 2, 5–13, Marr et al. 2019, pp. 3–4).<sup>361</sup> 'Economic differences' and 'economic inequalities' have been fairly common phenomena in almost every past and present country, market economy and society – but it is the latter one has to be concerned about.

### **Forms and sources of income and wealth**

If one wants to combat economic inequality one first has to look at where it comes from and how the considerable differences emerge. Economic inequality shows itself especially in people's incomes and wealth. As indicated above, income can be in various forms (as *salaries and wages, profits, rent, capital gains, gifts or inheritance or social benefits*) and can stem from very different sources (from *employment, business activities, property, financial assets or financial products, private transfers or social welfare policies*). Wealth can also come in various forms (as tangible, intangible or financial assets) and stem from various sources (from work, acquisitions or people's financial behaviour in the form of saving, investing or consuming). The table below lists the various forms and sources of income and wealth.

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<sup>361</sup> Such massive disparities in income and wealth not only exist *within*, but also *between* countries and regions. For instance, most of the individual and collective wealth in absolute and relative terms is located in developed countries, i.e. North America, Western Europe, Australia, Japan, Singapore and Hong Kong (with much wealth increasingly in China and India in the sense of wealthy individuals and wealthy upper and upper middle classes). There are also poor citizens in these regions, but the share of poor households in absolute and relative terms is much higher in many (Sub-Saharan) African, South and Southeast Asian, South American, and Southeast European countries, i.e. (most) developing countries (Credit Suisse Research Institute 2019a, pp. 5–13).

Forms of income and wealth	Sources
<p><i>Income (1–4 factor income, 5–7 transfer income):</i></p> <ol style="list-style-type: none"> <li>1) Salaries and wages, bonuses, other work-related monetary incentives</li> <li>2) Profits</li> <li>3) Rent</li> <li>4) Capital gains, such as gains from trading shares, bonds, currencies, commodities, derivatives (futures, options or swaps), dividends, interests on savings or deposits, or growth of pension funds</li> <li>5) Inheritance, gifts</li> <li>6) Maintenance payments (child maintenance, spousal maintenance)</li> <li>7) Social benefits, such as: unemployment benefits, sickness, accident or disability benefits, child and family allowances, maternity or paternity benefits, pensions or other retirement benefits</li> </ol>	<p>Employment</p> <p>Business activities</p> <p>Property</p> <p>Financial assets or financial products</p> <p>Voluntary single or irregular private transfers</p> <p>Involuntary regular private transfers</p> <p>Social welfare policies</p>
<p><i>Wealth:</i></p> <ol style="list-style-type: none"> <li>1) Tangible assets (land, real estate or other tangible assets)</li> <li>2) Intangible assets (goodwill, patents, trademarks, copyrights, other intangible assets)</li> <li>3) Financial assets (cash, bank deposits, stocks, bonds, other financial assets, financial claims towards other persons)</li> </ol>	<p>Creation (work), acquisition (initial acquisition, purchase, gift, inheritance, benefit), accumulation (savings, investments)</p>

Table 22: Forms and sources of income and wealth.

In the following, the most relevant forms and sources of income and wealth will be scrutinised in more detail, especially factor income (*salary from work/employment, profits from business activities, capital gains from savings and investments*), transfer income (*inheritance*) and wealth (*wealth creation, acquisition and/or accumulation*).<sup>362</sup> In particular, it will be shown how these various forms of income and wealth establish economic inequalities in contemporary market economies as well as in Pentoutopia.

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<sup>362</sup> Income in the form of *rents* will not be specifically interrogated here because the whole argument would be very similar to the one in respect to profits and the taxation of profits. And *social benefits* will be addressed in subsection ‘Redistribution of income via social welfare policies’ below (and then again in the chapter ‘Increasing social equality by reducing social inequalities’) because social benefits do not contribute to an *increase* of economic inequality but actually *reduce* it (considerably).



### *a) Salary from work/employment*

Most people's main – and most important – source of income is their work, i.e. the salaries or wages (actually, the 'take-home pay', i.e. gross salary minus taxes and national insurances) they get from an employment. Salaries (can) vary greatly due to a range of factors (for instance, type of work, job criteria, contractual terms; organisation, industry, market and economic conditions; individual features of the employee, performance and so on). Usually it is said that (in a market economy) salaries and wages are determined 'by the market', i.e. by (differences in) the supply and demand of jobs and corresponding candidates. But this argument needs to be more differentiated.

In a market economy, salaries and wages are negotiated. And what the parties agree upon in imperfect markets (and *all* markets are imperfect markets in principle and with necessity, including the labour market) depends on their interests and positions (of strength), their (negotiation) skills, the situational context as well as the wider legal and socio-economic conditions. It always has been *certain* types or groups of people that have been in a stronger position, can negotiate more successfully and can command higher salaries (Bakija 2013, p. 20, Economic Inequality 2015, no page numbers); people with higher social background and status, with certain qualifications, belonging to established, highly esteemed and powerful professions. It is those market participants and professions more capable and successful in negotiating and securing better jobs and high(er) remuneration that are 'close to the money', i.e. close to the powerful positions, the decisions and the work that is relevant for the generation and flow of money.<sup>363</sup> In the present day, these are all sorts of managers<sup>364</sup> (especially senior managers/executives, directors, chief officers and middle managers), medical doctors/specialists, (senior) lawyers, (senior) consultants/partners in consultancy firms, software engineers, stock brokers and (financial) analysts – to name some of the professions that are at the top end of the pay scale, or even outside it.

At the same time, imperfect market conditions put those market participants in a weaker position concerning the negotiation and securing of salaries and wages that do not have the right or sufficient societal, social and professional status and standing, skills and information in respect to power and money. They are, in particular, unskilled, low-skilled or semi-skilled workers and employees, people doing work that is far from powerful positions and the flow of money, such as operational or administrative staff, or technical specialists. These market participants are not able to take advantage of opportunities, or create some for themselves, but merely (think they) have to accept what is on offer. They will be paid relatively low or just average salaries.

This systematic pattern shows itself very clearly in 'performance-based pay', i.e. remuneration schemes and packages (e.g. performance-dependent parts of salaries, bonuses, share options or other monetary incentives) that allegedly are linked to (individual and/or organisational) performance, revenues, profit

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<sup>363</sup> In a strict economic sense, 'close to the money' means being influential and relevant with regard to management or business decisions, financial assets and/or work that generates the most added value. In a more general sense and societal context, 'close to the money' means 'close to positions of power and influence', i.e. being influential and relevant concerning any phenomena or decisions that set the conditions for others or impact directly on others.

<sup>364</sup> 'Managers' emerged as a new type of supervisor especially in larger corporations from the middle of the 19th century onwards – i.e. with the emergence of Manchester capitalism – and since then have rapidly developed into a new professional class, even power elite (see my book *Management and the Dominance of Managers* (Diefenbach 2009a) for more on this).

and/or economic growth and development (Hoeller 2012, pp. 11, 14, Bakija 2013, p. 24). It has been mostly, if not solely, managers and members of established professions close to the money that have secured for themselves the highest ‘performance-based’ salaries and financial rewards – and increasingly and (more) disproportionately so since the 1980s (Atkinson 2015, pp. 106–108). Especially more senior managers and certain professionals have managed to negotiate exorbitant salary packages and pay-outs that have hardly anything to do with performance – their actual performance or contributions to an organisation’s performance/value generation. In contrast, for low-skilled workers and simple employees (‘office workers’) performance-based pay mainly means higher workloads, more pressure and a downward trend towards minimum pay. Lower-skilled workers and employees have lost out because they are not able to make the case for a fair remuneration of their work and performance. All the rhetoric/ideology about ‘market-determined salaries’ and ‘performance-based pay’ results in salaries *not* representing ‘fair market value’ or reflecting ‘performance’ accurately or at all. Especially in hierarchical and/or profit-maximising organisations and (neo-classical/neo-liberal) market economies such large pay gaps between employees and workers doing particular jobs/belonging to particular professions represent systematic patterns of considerable differences in income and larger economic inequalities.

In Pentoutopia the major source of income for most people would also be their employment. As outlined in Parts II and III, Pentoutopia is a democratic market economy, i.e. in the private sector there are only democratic organisations (such as partnerships, cooperatives, associations or civil society organisations) that people work for (or they are self-employed). And also in democratic organisations and democratic market economies salaries *will* differ (Arnold 1994, p. 177, Moene & Wallerstein 1998, p. 238, Burczak 2006, p. 129, Peacott 2007/2012, pp. 310–311, Schweickart 2011, pp. 95–96). Salaries will be different *within* organisations (people receive different salaries because of the different work and jobs they do, their qualifications and experience, skills, capabilities and performance, or other individual and work-related factors), *between* organisations (organisations perform differently in the market and thus might pay different salaries) and *between markets and industries* (some industries are more prosperous and dynamic than others and thus might pay higher salaries in general and on average).<sup>365</sup>

Nevertheless, pay differentials within democratic organisations and democratic market economies will be smaller than in traditional for-profit organisations or neo-liberal market economies, *much* smaller. All evidence regarding already existing democratic organisations such as cooperatives or associations clearly shows *much smaller pay differentials* (Carnoy & Shearer 1980, p. 175, Miller 1990, p. 15). For example, Malleson (2013, p. 89) pointed out that ‘an additional benefit of workplace democracy is that it can significantly improve material inequality. One of the most empirically robust facts about worker co-ops is that their wage scale is much more compressed than comparable conventional firms. While co-ops tend to have a pay scale that ranges from complete equality to 6:1 for the highest paid, chief executive officers (CEOs) in social democratic countries make about 15:1, while the average US CEO makes three hundred times the average wage; indeed in 2000 the gap was an extraordinary 531:1.’

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<sup>365</sup> Dahl (1985, p. 104) argued similarly: ‘Would a system of self-governing enterprises constitute a self-regulating egalitarian order? Obviously not. Although it is impossible to say precisely how far such a system, operating autonomously without externally imposed reallocations (e.g., by taxes and transfer payments), would verge toward equality in wealth, income, and other resources, it is clear that inequality would tend to arise both *within* firms and *among* firms.’ And Arnold (1994, p. 177) even made the point that salaries *have to* be different and match workers’ different work, efforts, skills and performance in order to avoid unfair remuneration and exploitation.

For various reasons in democratic organisations and democratic market economies differences in salaries will be relatively reasonable and moderate. One is that in democratic organisations there are no separate groups of people (such as a few owners, senior managers or certain professionals) who can give themselves the salaries – *any* salaries – they want or can at least negotiate special, very favourable terms of their employment. In democratic organisations there is one, transparent partnership agreement and salary scales are negotiated and decided collectively by all members (who are partners and the owners of the organisation). Moreover, in democratic organisations there is also a great(er) notion that people – *everyone* – should be remunerated fairly and *relatively* equally. Vanek (1971, p. 30) argued that ‘the participatory decision-making process is bound to lead to income-distribution patterns within the enterprise reflecting the will of the collective; and this can be expected to lead to income-distribution patterns somewhat more equal than would result from market forces only’. As a consequence, in democratic organisations and in a democratic market economy there simply will not be those exorbitant, unjustified and unjustifiable salaries and pay differentials that exist in capitalist/neo-liberal market economies.

Nonetheless, in Pentoutopia there will, of course, also be differences in salaries, and these differences will represent systematic patterns in the sense that the different salaries reflect different economic performance and success of (groups of) individuals, organisations, markets and industries. Over time, even gradually and moderately different salaries *do* mean, and establish, economic inequalities, especially when one compares the salary grades at the top and bottom of the pay scales, or the salaries of the highest and lowest paid professions. Therefore, in democratic organisations and a democratic market economy, and thus Pentoutopia in general, there will be some (moderate) income inequality due to systematic pay differentials.

#### *b) Profits from business activities*

A second big source of income stems from business activities, from running one’s own business either self-employed or via a sole proprietorship, partnership or a legal entity such as a corporation or publicly listed company. The talk is about *profits*.<sup>366</sup>

The law (corporate law, labour law) – and the business owners – are fairly clear about how profits are allocated; only the owners of a business get the profit – *all* profit. And employees get none.<sup>367</sup> This is

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<sup>366</sup> Throughout this book ‘profits’ is only referred to in a very general sense (as revenues minus costs) and it is not relevant how exactly a profit is determined via specific accounting or tax rules and standards.

<sup>367</sup> This is the traditional or basic business model. But there can be contractual arrangements that deviate from that model. For example, if an organisation is a legal entity, owners can be formally employed by their own organisation and they then also have the legal status of employees and receive a salary. They are then so-called ‘owner-managers’ and get the best of both worlds; they give themselves a (good) salary *and* they get all the profit. Or it could be that employees also get some shares or stock options of the organisation they work for in addition to their salary. As shareholders, legally they are then also owners of the organisation they work for and participate in its profits directly via the dividends they receive and indirectly via increasing share prices. Nonetheless, employee stock ownerships usually are relatively small and do not turn employees into factual owners of the organisation. And between the one, fully fledged owner and all the classical employees (with some symbolic employees’ shares) there can be a whole range of lower, middle and senior managers/top-executives who, although legally employed by the organisation as ‘employees’, are actually on the owner’s/employer’s side and might get some share of the profits (in the form of stock options) according to their position within the organisation.

the *systematic* pattern that prevails within traditional organisations, i.e. organisations that are based on private ownership and employment contracts, and in the capitalist market economy. And it represents *considerable differences* in respect to the participation in profits – actually, the biggest differences possible; concerning the allocation/sharing of profits between the owner(s) of a business and employees the Gini coefficient tends towards 1 (when there are a few owners and some or many employees. In the case of a *single* owner getting all profit and all employees none the Gini coefficient is 1). This is the big divide, the chasm and systematic pattern of capitalism that creates and nurtures all the fundamental and considerable differences – and that makes all the difference; the qualitative differentiation between owners and employees and their (legal) entitlements to the profits of an enterprise (the former get all, the latter nothing).

The second systematic pattern concerning profits is the amount, it is about *quantity*. Profits from business activities can be high, *very* high – and much higher than salaries. All other things being equal, as a rule of thumb one can say: 1) The larger a business is (measured, for instance, in revenues, market share and/or people employed) the bigger is the profit in absolute terms.<sup>368</sup> And 2) The fewer people own a business, the bigger is the share of profit they get both in absolute and in relative terms. From 1) and 2) it follows that in terms of profit-making the ‘best’ business is a business organisation operating globally, owned by a single person (or a corporation with many small shareholders who have no say in the business and one, or a few, big shareholders – the actual owners – that have crucial majorities of the shares), with (tens of) thousands of employees and with a (quasi-)monopolistic position. Meta (formerly Facebook), Amazon, Apple, Netflix and Alphabet (formerly Google) – the famous, infamous FAANG companies and their ‘self-made’ owners, each worth many billions of US dollars and who pay hardly any income taxes or corporate taxes worldwide – are vivid and disturbing contemporary examples for this sort of profit-maximising capitalist firm.

In contrast, in a democratic market economy people *own* the organisations they work for. That is, there is no legal distinction between owners/employers and employees. Instead of employment contracts there are partnership agreements. *All* members of an organisation legally are *partners, owners* of the organisation with the same legal rights and responsibilities.<sup>369</sup> And with the same legal status of owners they are equally entitled to the profit, or a share in profit.

The share, allocation and distribution of profits are decided by the owners of an enterprise. It is possible that every partner gets exactly the same share in profit – which in that respect would mean income equality. Nonetheless, it is more likely that profit-sharing schemes will be more differentiated. For example, the (absolute and relative) size of a partner’s share in profit might be also determined by how

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<sup>368</sup> Of course, whether or not an organisation generates a (positive) profit is uncertain and depends on many factors, such as: the success or failure of market participants’ business model (business idea, services and products, strategy, ways of doing business/conduct of business), the type of organisation (legal form, size, structure and processes) and ways it operates (profitability, productivity, efficiency and effectiveness of structures and processes), the industry an organisation operates in (industries generate different kinds of revenues), market forces (type and stage of market, competition, trends in consumer behaviour, innovation and technology), macroeconomic situation and trends (growth, inflation, unemployment), accounting and tax rules and regulations, governmental and non-governmental regulations and policies, and – last but not least – the entrepreneurial and management skills, motivation, efforts and performance of those working for the organisation.

<sup>369</sup> See the section ‘Partnership agreement’ in Part II, ‘Democratic organisations’.

much a partner has invested in the organisation (either in financial terms, or in terms of other resources, time or expertise), their salary, the length of their membership, individual contributions and performance or other criteria. This is up to the partners to decide. But it would mean that profits in some respects are distributed unequally.

Shares in profit can, and will, vary at organisational level. Moreover, profits will also differ between organisations. In many democratic organisations a non-materialistic, cooperative orientation, a decent business model and decent business practices will prevail. Although in a democratic market economy people show the same range of human behaviour as in a capitalist market economy, by and large there will be *less* profit-orientation (particularly in the form of profit-maximisation), and hence *fewer* profits (to be distributed).<sup>370</sup> Nevertheless, there might be market participants that have a high(er) profit orientation, or are just economically more successful, and (therefore) generate more profits. In the democratic market economy, businesses succeed and fail as they do in capitalist market economies, although probably at a slower pace and a lower scale. Also in a democratic market economy, organisations will be more or less successful in conducting their business and, as a consequence, will generate more or less profit (or no profit at all, or even negative profits, i.e. losses). The economic success of market participants, among other things, decides the size of the profits.<sup>371</sup> Thus, in a democratic market economy the systematic pattern is in principle the same as in any well-functioning market economy; economically more successful market participants, or people who work for economically more successful organisations, will gain larger profits and others, such as less profit-oriented or less successful market participants, will make less profit or no profit at all. The big difference is that in Pentoutopia there is not a constellation where only certain people ('business owners') make profits (at the expense of others) – and some make massive, almost unlimited profits – whereas almost everyone else only works for a salary, and many for a relatively small salary. Salaries and (potential) profits are distributed across the working population (people working in the private sector), although there still are, and will be, differences in the scope and scale of salaries and profits.

All in all, the amount of profit people receive from their work and business activities will differ in both absolute and relative terms according to individual criteria, the economic success of the organisation they own and work for, how much profit the organisation makes and distributes, and other socio-economic aspects. Hence, although in Pentoutopia *all* people working for private organisations have equal *rights* to profits, nonetheless there will *not* be an equal *distribution* of profits, in absolute or relative terms. Also in Pentoutopia there might be differences in respect to the distribution of profits, i.e. economic inequality.

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<sup>370</sup> For people's orientations and conduct of business in respect to doing business, making profit and other economic aspects see sections 'People: (Pro)social orientation and behaviour' and 'Profit: Economic and other performance(s) of organisations' in Part II, 'Democratic organisations', as well as section 'Cooperative actions and interactions between market participants' in Part III, 'A democratic market economy'.

<sup>371</sup> Beside economic and business aspects, (the size of) profit is also decided by corporate and tax laws, accounting and bookkeeping rules and regulations as well as managerial discretion.

### c) Capital gains from financial investments

Besides *salaries* and *profits*, *capital gains* are another important form of income – especially for *some* people, as we will see. Capital gains mean any income from financial assets, financial products or financial activities, such as financial gains from trading shares, bonds, currencies, commodities, derivatives (futures, options, or swaps), receiving dividends, interests on savings or deposits or pay-outs from pension funds.

The idea of capital gains is quite simple – ‘Make your money work for you’. Viewed in this way, capital gains are a convenient (although at times possibly nerve-racking) way to create some income without the need to work for it or conduct a business. However, in order to invest, one has to have money in the first place (or has to be able to get money from others, i.e. borrow money, take out some credit, or use some even more sophisticated, and risky, financial instruments to increase one’s financial basis). The tens of millions of trading accounts so-called ‘retail investors’ have opened with traditional retail or investment banks, but especially with online brokers or trading platforms evidence that also people with little or some money can, and do, invest in financial assets or financial products.

Nevertheless, (in materialistic, profit-oriented societies) the fundamental notion of financial investments and capital gains is to invest *a lot of money* because the more one invests, the higher will be the capital gains (or losses) in absolute terms. And the more money one has, the more one can invest.<sup>372</sup> Those who have already *a lot of money* can make a lot of *more* money. Capital gains are one of the largest forms of income, if not the largest – especially for those at the top of the wealth distribution (Credit Suisse 2014, p. 34, Marr et al. 2019, pp. 8–15). For instance, concerning the UK (in 2018) Advani and Summers (2020, p. 11) found ‘that capital gains are extremely concentrated among a small number of gainers; ... that those gainers are (perhaps unsurprisingly) largely at the top of the income distribution. At the 80th percentile of the income distribution only 1.0% of people had any (taxable) capital gains. By the 95th percentile this had risen to 3.3%, and by the 99th it was 15%. Among those with gains, those who also have high incomes receive much larger gains on average: the mean (median) gains for gain recipients with incomes below the 90th percentile of income was £46,400 (£12,200); for those in the top 1% by income it was £306,800 (£13,600). ... In 2018, 47% of all capital gains went to the top 1% when ranked by income only; 92% went to the top 1% ranked on total remuneration.’

According to Advani and Summers (2020, p. 3) capital gains ‘are extremely concentrated at the top of the existing income distribution. Around 50% of all gains by value go to the top 1% of individuals ranked by income, compared to just 13% of all fiscal income’. It is those who already have the greatest wealth and/or the highest incomes – the top 10%, 1% and 0.1%, the rich and super-rich – that receive the largest capital gains in absolute *and* in relative terms (Bonesmo Fredriksen 2012, p. 18, Advani & Summers 2020, p. 11).<sup>373</sup> In this sense, investing – and, stemming from that, getting capital gains in the

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<sup>372</sup> Or, to be more precise: The money one can *afford* to invest (or to lose in case the investment turns south), i.e. the “spare” money one doesn’t need for consumption, savings, and/or debt repayment.

<sup>373</sup> And it is – *almost* – a given that it will stay that way. The great French economist Thomas Piketty (2014, p. 25) argued (even formulated the law  $r > g$ ) that when the average annual *rate of return on capital*  $r$  (i.e. capital gains as a percentage of the capital invested) remains for an extended period of time significantly above the *growth rate of the economy*  $g$  (i.e. percentage change of GDP) then the distribution of wealth becomes more unequal, i.e. the rich get richer, the middle classes gain a little bit, and the poor remain poor. If one reckons that in the past 100 or 150 years capital has grown globally at an average rate of around 4–5% annually, and that the economies have

form of return on investment – is the prerogative of the affluent.

That capital gains increase (dramatically) with wealth in both absolute and relative terms is mainly because the wealthy are in a much better and stronger position to make their money work for them; they have much greater financial assets available, can obtain loans more easily, have more diversified investment portfolios and asset holdings (that balance risks), can invest in more attractive and/or riskier assets (that can yield higher returns), have higher levels of financial education and expertise, access to professional wealth management, investment and tax planning advice, and have financial advisors, investment brokers, business analysts, lawyers and tax experts working for them – and the corporate, fiscal and tax laws, policies and regulations are largely on their side (OECD 2018, pp. 11, 52).

In Pentoutopia the situation with respect to capital and capital gains would be a different story. One, because people's financial behaviour (i.e. consuming, saving and/or investing) would be rather different. Since most people in Pentoutopia are small owners (they own the organisations they work for, the houses or apartments they live in and/or the land they work on) their financial behaviour would be more prudent.<sup>374</sup> Hence, the savings rate (i.e. the percentage of disposable income people save instead of spending it on consumption) would be higher in Pentoutopia. And if people made financial investments, many would invest primarily in more long-term, traditional and conservative financial products (bonds, fixed-term interests, shares in value companies and/or companies paying high dividends). Financial investments and financial activities would be much more moderate and unsophisticated. There would be little profit-maximising financial behaviour, much less speculation and aggressive tax avoidance because the absolute majority of people would have a lower materialistic orientation. Most people would still be interested in making *some* capital gains – why shouldn't they? – but not to enrich themselves via semi-legal financial products and activities as much and as fast as possible. There is no 'casino mentality' in societies like Pentoutopia.

And two, the institutional conditions would be different. In Pentoutopia, corporate, fiscal and tax laws and regulations would *not* enable, support and encourage the generation of massive capital gains. Government and industry regulators would *not* be on the side of the rich and super-rich. Stock exchanges, financial institutions, investment brokers, financial consultants and lawyers would not spin the speculation wheel as in neo-liberal market economies. There would be no family offices that help the rich and super-rich to amass capital and to stash it away in offshore accounts.

Overall, in Pentoutopia the composition of financial investments and capital gains would be very different. There would be much less speculation and dubious financial instruments and products, and thus much less capital gains from high-risk investments. At the same time, there would be much more conservative/less risky financial behaviour and financial instruments (such as savings or long-term

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grown annually on average by around 3.5–4% or less over the same period (Piketty 2014, p. 355, 359), then it becomes fairly evident that Piketty is right with his observation that capital gains contribute to economic inequality – or, in his own words (p. 361): 'The fact that the return on capital is distinctly and persistently greater than the growth rate is a powerful force for a more unequal distribution of wealth.'

<sup>374</sup> That ownership creates a certain, more moderate and caring mindset and behaviour was demonstrated in chapter 'Considerate conduct of business' in Part II, 'Democratic organisations', especially in section 'People: (Pro)social orientation and behaviour', and sub-section 'Ownership: Owner-managers care' in section 'Profit: Economic and other performance(s) of organisations'.

investments) and much more capital gains from such low-risk investments. The total sum of capital gains might be less, but capital gains would be much more evenly distributed across the whole population. Massive, extraordinary differences in capital gains that emerge in neo-liberal market economies between those who have a lot (the rich and super-rich) and those with few or average financial assets would simply not be the case in a democratic market economy like Pentoutopia. There would be much less income inequality in the form of capital gains. Nevertheless, even with the prevalence of prudent and decent financial behaviour and a large reduction in dubious financial institutions, actors, products and activities, in Pentoutopia there still would be absolute and relative differences in capital gains people could make from their financial assets and various investments.

#### d) Inheritance

Inheritance is the practice of passing on private property (tangible, intangible and financial assets as well as debts) upon the death of an individual.<sup>375</sup> Inheritance is a crucial mechanism for, and plays a central part in, the transfer, allocation and accumulation of property – wealth! – in every economy and society, developed and developing countries alike. Korom (2016, p. 1) mentioned that ‘in most countries, at least 50 to 60 percent of the wealth held in private hands is derived from intentional wealth transfers passed from one generation to the next’. And it is of *increasing* importance and relevance: ‘While the share of inherited wealth in total wealth was 45 percent in France in the 1970s according to Piketty, his calculations suggest that it is today close to 70 percent and may stabilize at 80 or 90 percent, which is a level similar to that at the start of the twentieth century’ (Korom 2016, p. 4).

Intergenerational wealth transfers contribute considerably to the growth and accumulation of individual wealth. Inheritance is very significant – and financially relevant – for the individuals involved. But it is of different significance and relevance for different individuals and groups of people. General speaking, poor people inherit little, middle classes inherit some quite valuable property and financial assets, perhaps even a small family business, and rich people inherit large amounts of financial assets, large(r) estates and larger businesses (Bonesmo Fredriksen 2012, p. 18, Korom 2016, p. 12). For example, (in some Western European countries) poor people inherit on average about €100,000, members of the middle classes up to €500,000, but the rich inherit several million euros (Korom 2016, p. iii). Hence, although poor people might inherit more *in relative terms* (i.e. relative to their current income and wealth), rich people inherit more *in absolute terms* – much, much more. The inheritance of the rich is many times larger than the inheritance of the poor. The differences in absolute terms are *massive*.

In this sense, inheritance contributes substantially to already existing systematic patterns of extreme unequal distribution of wealth. Often, it makes economic inequality worse (Piketty 2014, p. 26).<sup>376</sup> This is because, as a tendency, poor people use most of their inheritance either for themselves (the family house) or for consumption, perhaps some for saving. In contrast, rich people inherit more productive

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<sup>375</sup> Close to inheritance are *gifts*, i.e. passing on private property during the lifetime of an individual. But gifts are not addressed here explicitly or separately, they are somewhat implied and included in the coverage of inheritance.

<sup>376</sup> Piketty (2014, p. 246) concluded that ‘the very high concentration of capital is explained mainly by the importance of inherited wealth and its cumulative effects’. He even called it the ‘supremacy of inherited capital’ (2014, p. 351).



capital (e.g. a business) and can use large parts of an inheritance for investing (because they can cover their current level of consumption with their income or wealth). As a consequence, the inheritance of rich people increases their wealth (considerably) not only at a particular point of time (when the inheritance is transferred and becomes part of the wealth and property of the heir), but also in future over a longer period of time (generating more income and wealth as capital or productive assets). Inheritance therefore sustains or even increases already existing economic inequalities.

The *continuation* of wealth inequality (through gifts and inheritances) is an issue in any society (based on private ownership and property rights). *In principle*, inheritance would be largely the same in Pentoutopia – individuals who have created wealth through their work, acquired through initial acquisition, purchase, marriage, gift or inheritance, or accumulated through their financial behaviour, would pass it on, mostly intergenerationally. And the wealthier people are, the more wealth they can pass on (and the more they have the knowledge and the means to pass on wealth in ‘efficient’ ways). When it comes to passing on wealth (either as gift or inheritance) and the intergenerational accumulation of wealth, it is reasonable to assume that there will also be some large absolute and relative differences in people’s inheritances in a society like Pentoutopia.

#### *e) Wealth creation, acquisition and/or accumulation*

After having briefly analysed some of the main forms of income (salaries, profits, capital gains and inheritance) it is now time to look at people’s *wealth*. (Individual) wealth is usually defined as the sum of all (tangible, intangible and financial) assets that people own, minus debt (whereby both assets and debts are valued in the monetary dimension). Individual wealth can emerge/be generated in various ways. It can be 1) *created* (creating something valuable through work), 2) *acquired* (initial acquisition, purchase, marriage, gift or inheritance) and/or 3) *accumulated* (accumulation through savings or investments).<sup>377</sup> All forms of income discussed so far contribute to the generation of wealth; 1) salaries and profits as creation, 2) inheritance as acquisition and 3) capital gains as accumulation of wealth – and they all (can) contribute to an ever-increasing *inequality* in wealth.

According to the OECD (2018, p. 11), ‘Wealth inequality is far greater than income inequality, and there is some evidence suggesting that wealth inequality has increased in recent decades.’ For instance, all the five Nordic countries have very low Gini coefficients in respect to *income* inequality (Denmark 0.29, Finland 0.27, Iceland 0.27, Norway 0.27 and Sweden 0.29 – Income Equality 2021, no page numbers) – but a very high ones concerning *wealth* inequality (Denmark 0.84, Finland 0.74, Iceland 0.69, Norway 0.80 and Sweden 0.87 – Wealth Equality 2021, no page numbers). It is quite telling, and rather worrying and disappointing, when even countries that do so well regarding income equality fail when it comes to wealth equality. But they are not the exception. Wealth inequality is a global problem. The Gini coefficient for global wealth is a mind-blowing 0.9 – and every single country of the world scores between 0.5 and 0.9 (Countries by Wealth Equality 2021, no page numbers). Wealth is distributed *extremely unequally* – between people and social classes of a particular country, between countries and regions, and in the world as a whole. About the richest 26 people in the world – that’s just two football

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<sup>377</sup> Provided the savings rate or return on investment are positive and above the inflation rate.

teams with two substitutes each – owned in 2018 as much as the poorest 50% worldwide – that’s about 3.5 billion people. According to the OECD (2018, p. 13), ‘the bottom half of adults account for less than 1% of total global wealth in mid-2019, while the richest decile (top 10% of adults) possesses 82% of global wealth and the top percentile alone owns nearly half (45%) of all household assets’. The following table shows how wealth is distributed globally among adults.

Category	Number of adults globally	Percentage of world adults	Wealth range (in USD)	Total wealth (in trillion USD)	Percentage of world wealth
The ‘1%’ – the rich (1–100 million USD) and super-rich (> 100 million USD)	4,834	0.000095	> 500,000,000	> 0.02417*	> 0.0067**
	51,086	0.001	100 – 500,000,000	0.128*	0.035**
	112,113	0.002	50 – 100,000,000	0.8*	0.2**
	1,837,290	0.036	10 – 50,000,000	5.5*	1.5**
	3,682,140	0.072	5 – 10,000,000	27.6*	7.6**
	41,104,790	0.8	1 – 5,000,000	123.3*	34.2**
Total (approx.)	47,000,000	0.9	> 1,000,000	158.3	43.9
Upper middle class	499,000,000	9.8	100,000 – 1,000,000	140.2	38.9
Lower and middle middle class	1,661,000,000	32.6	10,000 – 100,000	55.7	15.5
The poor	2,883,000,000	56.6	< 10,000	6.3	1.8
<b>Total***</b>	<b>5,089,766,000</b>	<b>100</b>		<b>360.6</b>	<b>100</b>

\* These numbers of total wealth are estimates. They were calculated by multiplying the mean wealth range with the number of adults.

\*\* These percentages were calculated on the basis of estimated total wealth.

\*\*\* The sums of absolute numbers or percentages in each column do not equal exactly the total because of some rounding errors.

Table 23: Distribution of wealth among adults globally.<sup>378</sup>

<sup>378</sup> The table is based on data digested from Credit Suisse Research Institute’s *Global Wealth Report 2019* (2019a, pp. 9, 12) and *Global Wealth Data Book 2019* (2019b, pp. 116, 128–129) as well as some minor own calculations (marked \* and \*\* in the table).

The rich and super-rich (i.e. people with a net worth of more than US\$1 million, and more than US\$100 million, respectively) represent only 1% of the (adult) population – the famous/infamous ‘1%’<sup>379</sup> – but have 44% of all wealth. And it is not only that ‘the rich’ – and especially ‘the super-rich’ – own disproportional amounts of wealth, but that their wealth increases over time almost automatically (remember Piketty’s law  $r > g$ , i.e. that for longer periods of time the average annual *rate of return on capital*  $r$  is greater than the annual *growth rate of the economy*  $g$ ). Contrast this with the 3.5 billion or so poor people (not only single adults but households) who own hardly anything/less than US\$10,000 in wealth and who live on roughly \$2, \$3 or \$5 income per day (the poverty lines in poor, lower- or middle-income countries respectively) then it becomes even more blatantly obvious how unjustified and outrageous all this wealth inequality actually is. *Wealth inequality – whether within a nation-state or between nations – is the economic, political and socio-cultural cancer of humankind.*

Pentoutopia definitely does not actively encourage wealth inequality. The institutions of Pentoutopia are not designed for generating massive differences in wealth. As argued above with regard to the various forms of income, democratic organisations (such as partnerships, cooperatives, associations or civil society organisations) are not based on the (legal) distinction between owners and employees, but are owned, governed and managed by partners who have equal rights and responsibilities, are remunerated (more) equally and fairly, and share the profits. In a similar vein Peacott (2007/2012, p. 311) argued that ‘the differences in wealth that arise in an individualist community would likely be relatively small. Without the ability to profit from the labor of others, generate interest from providing credit, or extort rent from letting out and or property, individuals would not be capable of generating the huge quantities of assets that people can in a capitalist system’. There thus won’t be the massive differences in salaries and profits there are in neo-liberal/capitalist market economies. Moreover, organisations’ conduct of business and people’s financial behaviour will also be much more moderate and prudent. Capital will largely go into savings and conservative forms of investments and capital gains won’t differ as exorbitantly as they do in contemporary market economies (Schweickart 1993, p. 198).

Nevertheless, there are still *some* systematic differences in people’s salaries and in organisations’ profits across markets and industries. People’s incomes are still different, sometimes considerably different, i.e. they vary in their forms (salaries, profits, capital gains, inheritance and others) and in their scale. And people create through their work, acquire through their various forms of income, and accumulate via their financial behaviour wealth to relatively different degrees (Sensat 1996, p. 251, Burczak 2006, p. 122). People’s wealth can and will differ (considerably) because of the absolute amounts of incomes people receive (in the form of salaries, profits, capital gains, inheritance or others) and the financial behaviour they demonstrate (consuming, saving and/or investing funds). Hence, the emergence and perpetuation of wealth inequality is not only a theoretical possibility but also a systemic and systematic fact (and problem) for societies and economies such as Pentoutopia. Wealth inequality is a systemic feature of *any* society that is based on private ownership and market economy.

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<sup>379</sup> ‘The 1%’ has become a catchphrase for ‘the rich’ and ‘super-rich’ (the latter are actually ‘the 0.1%’ or ‘the 0.01%’), i.e. people who are millionaires or even billionaires. Statistically, ‘the 1%’ can be defined and identified relatively precisely globally or per country either via their annual *income* before taxes (about US\$0.5 million or more) or via their *wealth* (about US\$1 million or more).

## Taxation of income and wealth

The analysis of the various forms and sources of income and wealth has shown that in respect to all major forms of income (salary from work/employment, profits from business activities, capital gains from investments, and inheritance) as well as the distribution of wealth, large economic inequalities *do* exist in contemporary market economies/societies and *can* exist also in a democratic market economy/Pentoutopia. Income and wealth inequalities are systemic features of any non-egalitarian social system.

The question is whether/to what degree a society accepts, allows or even actively propagates and pursues income and wealth inequalities or rejects them and actively attempts to reduce economic inequalities. As argued at the beginning of this part of the book,<sup>380</sup> economic inequalities mean a whole range of problems and challenges for society (such as economic, political, social and ethical problems) and for individuals/those who are not rich and privileged (such as health and social problems, economic and financial problems, work-related problems, reduced social life and lessened personal development and life chances). Thus, there are many – and (very) good – ethical, moral, economic, social, theoretical and practical reasons for why a society *should*, if not to say *must*, reduce income and wealth inequalities.

With its aim of being ‘a more equal society’, Pentoutopia is serious about reducing income and wealth inequalities. It was explained earlier,<sup>381</sup> that by disallowing any form of constitutional, legal, political, administrative or organisational institution that gives people unequal rights, status and power, Pentoutopia prevents a lot of inequality happening in the first place, and that inequality being institutionalised. It offers and achieves a range of formal and substantive equalities via its fundamental notions and concepts of free individuals, legitimate institutions, democratic organisations, a democratic market economy and civil democracy.

Thus, in Pentoutopia a lot of economic equality is already achieved and guaranteed via *pre*-distributive and distributive principles and measures. Moreover, income and wealth inequalities can be further reduced systematically and comprehensively via *redistributive* measures such as *taxation* and *transfer* of the various forms of income and wealth. *Taxes* – i.e. the tax system; fiscal and tax policies, rules and regulations; and the specific taxation (tax base and tax rates) of particular items – influence the income and wealth distribution in a given society *fundamentally and considerably* (Yunker 2014, p. 86, OECD 2018, p. 11).<sup>382</sup>

This section shows in great detail how and to what extent particular taxes – i.e. *a) income tax, b) corporate tax, c) capital gains tax and financial transaction tax, d) inheritance tax, and e) wealth tax*<sup>383</sup> –

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<sup>380</sup> See the introductory chapter ‘The case for a more equal society’.

<sup>381</sup> See section ‘Features of Pentoutopia preventing inequalities and providing equalities’ above.

<sup>382</sup> For example, Piketty (2014, p. 373) mentioned that ‘until World War I there was no tax on capital income or corporate profits. In the rare cases in which such taxes did exist, they were assessed at very low rates. Hence conditions were ideal for the accumulation and transmission of considerable fortunes and for living on the income of those fortunes. In the twentieth century, taxes of various kinds were imposed on dividends, interest, profits, and rents, and this changed things radically’. Simpson (1939, p. 457) even said that ‘in the long run tax theory is more powerful than either administration or politics’. For some discussion of possible justifications of (the distributive function of) taxation and how distributive justice and taxation are related see, for example, Kornhauser (1996) or Farrelly (2004).

<sup>383</sup> These taxes/sub-sections correspond with the forms of income and wealth discussed in the sub-sections above.

contribute to a reduction of income and wealth inequalities.<sup>384</sup> Each of the following sub-sections demonstrates how that particular tax could/should be designed and realised and interrogates how possible tax avoidance behaviour could be tackled so that the tax in question actually works.

#### a) *Income tax*

Personal income in the form of salaries or wages is the most comprehensively, and most thoroughly, taxed form of income. In most countries, *income tax* (also called ‘personal income tax’ or ‘individual income tax’) is by far the largest source of tax revenues (even larger than VAT – Value Added Tax). And since most working/tax-paying individuals have to pay income tax it is of great relevance for the distribution of income. The Gini coefficient for income inequality *before* and *after* tax (pre- and post-tax) can be 10 to 45 Gini points different (OECD 2008, pp. 109–115). This is *massive*.

An income tax reduces income inequality when it is *progressive*, i.e. when the marginal tax rate increases (across tax brackets) as the taxable amount increases. In contrast, inadequately progressive tax systems (i.e. tax systems that have (too) low a progression and/or are even regressive at the top) and ill-designed tax rates (i.e. tax rates too low to equalise income differentials significantly) benefit wealthy individuals disproportionately and, as a consequence, actually *increase* income inequalities (Gatzia & Woods 2014, p. 33).<sup>385</sup> Hence, in order to achieve a sizeable and meaningful reduction of income inequality, an income tax must be *sufficiently* progressive, i.e. the marginal tax rate must increase with the taxable income to such an extent (disproportionally) that higher incomes are taxed increasingly higher (Meade 1964, pp. 52–54, Prasad 2008, p. 28, Joumard et al. 2012, p. 15, Gatzia & Woods 2014, p. 32, Piketty 2014, pp. 493–514, Atkinson 2015, pp. 187–188) – and it must have sufficiently *adequate* marginal tax rates, i.e. the tax rates must increase so that high-income groups face a (much) higher marginal *and* average tax rate than low-income groups.

In this sense, an equality-enhancing income tax system should have an initial threshold where no income tax has to be paid that roughly corresponds with (large parts of) minimum wages, and tax rates/tax brackets starting with low marginal tax rates of, say, around 10% to 15% for lower incomes, marginal tax rates of 20% to 30% for middle incomes and 40% for higher middle incomes, and then marginal tax rates of 50% for high incomes increasing to a top marginal tax rate of up to 80%.<sup>386</sup>

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<sup>384</sup> Moreover, the taxes described in the following are designed and function according to the same principles and mechanisms and together form a concept I call ‘equality-enhancing taxation and redistribution of income and wealth’ (the final section of this chapter will elaborate more on this).

<sup>385</sup> For instance, looking at *all* taxes individuals have to pay combined, Piketty (2014, p. 496) found compelling evidence that since the 1980s taxes actually have become *regressive* in most countries, especially at the top of the income hierarchy. Moreover, in many countries (statutory) top income tax rates have come down significantly from above 70% in the early 1980s to below 40% (Hoeller 2012, p. 10) – which, again, mostly serves high-income earners and contributes greatly to an increase in economic inequality.

<sup>386</sup> These percentages, as well as the number of tax brackets, are not ‘written in stone’ and could be slightly different. But they give a fairly good general idea of how tax rates should be. Piketty (2014, p. 512) argued that ‘levying confiscatory rates on top incomes is not only possible but also the only way to stem the observed increase in very high salaries. According to our estimates, the optimal top tax rate in the developed countries is probably above 80 per cent’.

No, or very low, tax rates at the bottom, considerable tax rates in the middle and high/very high tax rates at the top – these are the characteristics of an efficient, and truly equality-enhancing, progressive income tax system. Piketty (2014, p. 505) was absolutely right when he argued in respect to high top marginal tax rates: ‘When a government taxes a certain level of income or inheritance at a rate of 70 or 80 percent, the primary goal is obviously not to raise additional revenue (because these very high brackets never yield much). It is rather to put an end to such incomes and large estates, which lawmakers have for one reason or another come to regard as socially unacceptable and economically unproductive – or if not to end them, then at least to make it extremely costly to sustain them and strongly discourage their perpetuation.’

However, there is ample evidence that the elasticity of taxable income (i.e. how much additional tax is paid when the tax rate increases) is substantially higher for high-income individuals – i.e. people pay *relatively less* tax the higher a tax rate is (Hoeller 2012, p. 10). In other words: Not only do people not like to pay (income) taxes – who does? – but the richer people are the less inclined they are to pay taxes.

And they are not only much more *willing* to avoid paying their fair share of income tax, but also very *able* to avoid doing so. For example, some of the richest multi-billionaires like Jeff Bezos (founder and owner of Amazon), Michael Bloomberg (founder and owner of Bloomberg), Warren Buffett (business magnate and investor), Bill Gates (founder and owner of Microsoft), Elon Musk (founder and owner of Tesla), George Soros (investor) or Mark Zuckerberg (founder and owner of Facebook), in some years managed to either pay *no* federal income tax whatsoever or income tax between 0.1% and a few percentage points (ProPublica 2021, no page numbers). ProPublica 2021 (no page numbers) found that ‘according to Forbes, [the 25 richest Americans] saw their worth rise a collective \$401 billion from 2014 to 2018. They paid a total of \$13.6 billion in federal income taxes in those five years, the IRS [Internal Revenue Service] data shows. That’s a staggering sum, but it amounts to a true tax rate of only 3.4%’.<sup>387</sup>

The rich are able to do so largely *legally* by taking advantage of existing tax regulations and loopholes. They either offset their taxable income to a great extent by investment losses or other deductions (mainly expenses, charitable donations or write-offs) or they avoid generating (too much) taxable income and instead borrow against assets owned.<sup>388</sup> A fair and efficient income tax system would close these loopholes, i.e. only very few types and cases of financial investments and losses, (personal) expenses, donations or write-offs would be permitted as deductions to reduce gross income. Any borrowing that is not done, related to and used for a clearly specified, evidenced and accepted business purpose would be treated as taxable income.

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<sup>387</sup> 3.4% (!) income tax – which hard-working employee would not be happy to pay such a tax rate on their salary?

<sup>388</sup> ProPublica 2021 (no page numbers) explained this tax avoidance strategy succinctly: ‘The tax math provides a clear incentive for this. If you own a company and take a huge salary, you’ll pay 37% in income tax on the bulk of it. Sell stock and you’ll pay 20% in capital gains tax — and lose some control over your company. But take out a loan, and these days you’ll pay a single-digit interest rate and no tax; since loans must be paid back, the IRS [Internal Revenue Service] doesn’t consider them income. Banks typically require collateral, but the wealthy have plenty of that.’ Adding insult to injury, the rich then deduct the interest paid on those loans from their taxable income.

### b) Corporate tax

Income of *legal* persons ('corporations') is taxed by a *corporate tax* (also called 'corporation tax' or 'corporate income tax'). If natural persons pay taxes on the returns on their economic activities (i.e. individuals/employees pay income tax on the salaries they have received for their work) it is only right and fair that legal persons also pay taxes on the returns on *their* economic activities (i.e. incorporated organisations pay corporate tax on the returns they have made from their business).

Current corporate tax systems are rather insufficient and not fit for purpose – in almost every respect and every country in the world. In the past decades there has been a steady decline in corporate tax rates (Prasad 2008, p. 9, Gatzia & Woods 2014, p. 30). Currently, the *statutory* corporate tax rate is a mere 20–30% in all regions in the world, and most individual countries fall into a range of 20–35% – although there are some countries that charge even lower corporate tax (10–15%), or tax havens or so-called 'Special Economic Zones' (SEZ) that charge low or no corporate tax *at all* (Asen 2020). Moreover, most corporate taxes are *flat rates* that do not take into account the different sizes of, and incomes (revenues or profits) generated by, corporations.

Moreover, in a global race to the bottom, most national tax laws offer countless opportunities for corporations (and individuals) to reduce their taxable income considerably via tax breaks/tax deductions, in particular: tax credits (certain amounts of money permitted to be subtracted from the tax owed), tax exemptions (reduction or removal of a tax liability) and – the largest item – tax expenditures (expenses that reduce the overall taxable income, in particular all the costs/business expenses associated with generating that income, i.e. costs of all resources, depreciation of assets, capital expenditures, interest payments, additional taxes levied on profits, or losses brought forward – Keightley & Sherlock 2014, p. 2, PwC 2012, pp. 8, 12).

And corporations make use of these – and other – tax avoidance possibilities *extensively* – and the more 'business-like' and profit-maximising they are, the more they apply tax strategies to avoid paying corporate tax or other taxes. Especially large(r) (multinational) corporations pursue aggressive tax avoidance strategies and have managed to get their actual corporate tax rate down to single digits or even close to zero – and not only once but for many years.<sup>389</sup> Some corporations have managed to pay no corporate tax *at all*. Aggressive tax avoidance, and even tax evasion, is rife in the area of corporate tax (see also the discussion on tax avoidance further down). As a consequence, for many years *effective* tax rates have declined even more than statutory tax rates and the difference between statutory and effective tax rates has increased dramatically (Keightley & Sherlock 2014, pp. 3, 10).

In order to accommodate corporations' economic performance and conduct of business, a corporate tax should be *sufficiently progressive* with appropriate tax brackets and tax rates. There should be thresholds and low tax rates (around 10–15%) for relatively small revenues (and particularly for new and/or small businesses), appropriate tax rates (around 20–30%) for larger revenues (usually achieved by established and medium-sized businesses) and high corporate tax rates (around 40–50%, with the top rate of up to 80%) for revenues in the range of hundreds of millions or several billions of USD (such revenues are usually achieved by large, multinational corporations). In other words: When it comes to taxation of

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<sup>389</sup> Facebook, Amazon, Starbucks or Microsoft are some of the most (in)famous perpetrators that are regularly mentioned when it comes to (global) tax offenders and corporate antisocial behaviour. But they are only the most blatant examples for what are rather usual practices.

income, legal and natural persons should be treated the same. *The tax brackets and marginal tax rates of a corporate tax should be the same as those of income tax.*

Like individuals, corporations *should actually pay* their average tax rate.<sup>390</sup> This means that the difference between the *statutory* tax rate (i.e. the legally defined and imposed tax rate) and *effective* tax rate (i.e. the tax rate effectively paid by corporations) has to be minimised. In order to minimise the difference between statutory and effective tax rate, the deductions, exemptions, credits or expenses that corporations can legally claim in order to reduce their taxable income (and thus the rate and amount of tax they have to pay on their calculated profits) should be reduced largely or removed completely – in particular and especially those tax credits, exemptions and tax expenditures that disproportionately benefit large(r) corporations and high-income and/or wealthy individuals (OECD 2012, p. 10, Joumard et al. 2012, p. 28). Tax breaks should be limited to those deductibles that have actually occurred and that are directly linked to the generation of the product or service the organisation offers as its main business.

A corporate tax (and the related tax system and tax policies) designed and applied in such a way would enhance tax justice considerably and reduce economic inequalities.

### c) Capital gains tax and financial transaction tax

Capital gains are profits made from financial investments or financial transactions. As demonstrated in ‘c) Capital gains from financial investments’ above, capital gains are allocated across the population extremely disproportionately; whereas low-income households have no or hardly any capital gains, and middle-income households only some, capital gains represent the largest form of income for many of the rich and super-rich (i.e. the top 10%, 1% and 0.1% of income earners and wealthy individuals) in both absolute and relative terms.

In many contemporary tax regimes, capital gains are taxed at much lower rates than personal income – in some countries they are even not taxed at all (Hoeller 2012, p. 6, Joumard et al. 2012, p. 29, Advani & Summers 2020, p. 3). Nonetheless, since capital gains are just another form of personal income, it is therefore only fair that they are taxed in the same way and at the same tax rates as other personal income, in particular salaries and wages.<sup>391</sup> This means that a capital gains tax has to be sufficiently progressive, as progressive as income tax, i.e. having an initial threshold where no capital gains tax has to be paid,

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<sup>390</sup> In this respect it needs to be remembered that the ‘income’ corporations generate in a market economy is *not* their *profits*, but their *revenues* – which obviously is, and makes, a big difference. It means that corporations’ *revenues* (minus legitimate deductions) are to be taxed (as people’s *gross* salary minus legitimate deductions is taxed).

<sup>391</sup> For example, with regard to the taxation of personal and corporate income in the USA, and the tax rates different taxpayers have to pay, Marr et al. (2019, pp. 1–2) rightly criticised that ‘a significant part of the income that does show up on wealthy households’ annual tax returns is taxed at preferential rates. Capital gains and dividends are taxed at a maximum tax rate of 20 percent, far below the 37-percent top rate on wages and salaries. Also, the 2017 tax law created a new 20-percent deduction for certain pass-through business income (income that the owners of businesses such as partnerships, S corporations, and sole proprietorships report on their individual tax returns), which lowers the tax rate on this income by up to 7.4 percentage points. The deduction disproportionately benefits wealthy people: 61 percent of the benefit will ultimately flow to the top 1 percent of households, the Joint Committee on Taxation (JCT) estimates. The 2017 law also slashed the corporate rate from 35 percent to 21 percent, which disproportionately benefits wealthy shareholders’.



and then tax brackets of around 10–15%, 20–30%, 40%, and finally 50% up to 80% for increasingly large amounts of capital gains.

In addition, *all* capital gains – whatever they are and wherever they stem from – are to be taxed at the same rate. Joumard et al. (2012, p. 39) argued that ‘tax reliefs granted to specific savings instruments – such as reduced taxation of capital gains resulting from the sale of a principal or secondary residence – should be reconsidered since they often distort resource allocation, without boosting total savings and growth, and benefit mainly high-income groups. Specific tax relief may also provide tax avoidance instruments for the top-income earners. In particular, there is little justification for tax breaks for stock options and carried interest.’ There should be a capital gains tax on *any* gain (minus financial losses that have occurred) made from any type of financial investment or transaction, including, but not limited to: the buying and selling (‘trading’) of financial assets or financial products, such as shares, bonds, currencies, commodities, derivatives (futures, options or swaps), dividends, interests on savings or deposits, or growth of pension funds.

In this respect, it is important to stress that capital gains do not only mean *realised* but also *accrued* capital gains. Especially for wealthy people, most capital gains come in the form of an increase in the value of assets they own or hold (such as the market value of land, real estate or financial assets or products) – but such gains are often not defined as taxable income unless and until realised, i.e. sold (ProPublica 2021, no page numbers). The massive increases in wealth (of already wealthy people) and economic inequality to a large extent are due to an increase in the value of assets held – but they are not taxed because they don’t fall under a narrow definition of ‘income’ (in the sense of realised income). In order to capture all capital gains accurately – and to tax them properly – it therefore would be paramount to come back to the original meaning of capital (gain) and to tax any increase in capital a (natural or legal) person held or holds, i.e. realised *and* accrued capital gains.

Moreover, capital gains stem not only from financial investments but also from financial transactions. It is only right and fair that such transactions are also taxed with a *financial transaction tax*.<sup>392</sup> A financial transaction tax is ‘a tool to selectively discourage excessive speculation without discouraging any other activity’ (Financial Transaction Tax 2021, no page numbers).<sup>393</sup> It is *not* meant to raise large amounts of tax but only to curb speculation (without discouraging hedging) and to reduce the volatility of financial markets (Financial Transaction Tax 2021, no page numbers). The fundamental idea of a

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<sup>392</sup> Also called, or similar to, ‘financial speculation tax’, ‘currency transaction tax’, ‘Tobin tax’ or ‘Robin Hood tax’. These concepts differ to some degree and there are various suggestions in respect to their design and application. However, the focus here is on the *general idea* of such a speculation/transaction tax and, hence, the various concepts, their differences, advantages or disadvantages do not need to be discussed here in detail.

<sup>393</sup> It is possible to differentiate between ‘investment’ and ‘speculation’. *Both* mean allocating money to financial assets or financial products with the hope or expectation to get a positive return on one’s investment, i.e. to make a profit. But whereas a positive return on investment means an increase in an asset’s or product’s *value* (also called ‘intrinsic value’), a positive return on speculation means an increase or decrease in an asset’s or product’s *market price* (Angel & McCabe 2009, pp. 277–278, Engel 2013, p. 566). Whereas (financial) ‘investment’ means to develop and to nurture an asset or product (usually over a longer period of time), ‘speculation’ aims solely or primarily at making a profit because of market fluctuations, in particular *price movements*, as fast as possible. One could say that *investors* look at, and care about, the asset or product they invest in *as such* whereas *speculators* regard an asset or product only *as a means* to achieve a different goal (to make a profit or as much profit as possible).

financial transaction tax is that only *certain* financial products, processes (transactions) and/or financial (investment) behaviour are taxed *as such*, i.e. *although* they produce a gain or loss, and *in addition to* other taxes applied (e.g. capital gains tax). For instance, a financial transaction tax is levied only on *certain* financial products and transactions (in particular trading currencies and derivatives such as futures, options or swaps) and financial strategies and behaviour (such as day-trading, high-volume/high-frequency trading, or automated trading) (Tobin 1996). In contrast, *regular* bank transactions or investments people or organisations make as part of their common daily activities or business activities are *not* taxed. Usually, a financial transaction tax is thought of as being about a fraction of a per cent, one or two per cent. But if one is serious about discouraging (highly) speculative financial products or financial behaviour then a financial transaction tax needs to have a high(er) marginal tax rate, say, from 1% up to 5% on each speculative financial product or behaviour.

#### d) Inheritance tax

People might also receive personal income in form of gifts or inheritance.<sup>394</sup> Although inheritance happens only very occasionally (or even just once or twice in a lifetime), its financial implications might be considerable for the individuals involved in absolute as well as in relative terms. As argued above, inheritance, as well as an inheritance tax, is highly relevant in respect to the (intergenerational) transmission of wealth between individuals, the emergence and continuation of income and wealth inequalities in a society as well as their possible equalisation (Meade 1964, pp. 54–58, Bowles et al. 1993, p. 138, Yunker 2014, p. 86). Estrin (1987, p. 40) argued that ‘because wealth is accumulated at a compounding rate, initially small differences in holdings become enormously magnified over time, particularly if the time-scale spans generations. This effect explains the crucial importance of breaking the inequality cycle by drastically hindering the capacity of the rich to pass their ever-accumulating fortunes from generation to generation’.

Thus, an inheritance tax must at the same time address inheritance’s important function to *preserve* wealth, especially to preserve relatively *small* amounts of wealth (within families) *and* tackle inheritance’s tendency to *increase* wealth inequality (between social groups). It can do both if it does the following:

First, an inheritance tax should have a very big threshold under which transferred wealth is tax-free. The family home of average size and value, moderate lifetime savings and/or other tangible, intangible or financial assets of average value would fall largely under such a threshold. This means that most inheritance, and in particular inheritance of little or average worth, would not be taxed at all. For poor and lower-income heirs to an estate such a threshold preserves the wealth that is transferred and it reduces economic inequality because it increases the heirs’ wealth without deductions.

Second, beyond that threshold of reasonable size, inheritance should be taxed progressively with increasing value (Joumard et al. 2012, p. 31, Yunker 2014, p. 86). There should be low marginal inheritance tax rates, around 10–15%, for estates of lower value, and then increasingly progressive marginal tax rates up to 40%, or even 50% on the inheritance of estates of wealthy, rich and super-rich testators.

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<sup>394</sup> In the following ‘gifts’ are not treated separately but subsumed under ‘inheritance’ and inheritance tax.

And third, inheritance tax law (and enforcement) must make sure that the gap between the *statutory* and *effective* tax rate is minimised. Tax *evasion*, i.e. the non-declaration of certain assets, is still an issue regarding inheritance, but it is in decline because nowadays (national, and even international) banks are compelled to inform tax authorities about the finances of an estate in the case of an inheritance. The problem is more tax *avoidance*. Especially wealthy persons and families pursue, with the help of financial consultants and legal experts, tax planning and tax strategies that minimise their payment of taxes not only during their lifetime but even beyond, including the possible taxes their family/future heirs to their estate may have to bear. For instance, wealthy families often set up special charities or opaque trusts, offshore corporations or other incorporated organisations that do not have to pay inheritance tax (or capital gains tax or corporate taxes, for that reason). Their heirs can then inherit these shell organisations with all their (financial) assets at no, or reduced, (inheritance) tax rates. These, and other, questionable ways to pass on (large) family wealth while avoiding inheritance tax must be outlawed and also made technically impossible.

All in all, robust, highly progressive inheritance tax without loopholes for tax avoidance is a very efficient tool that can contribute to a (long-term) alteration of the massive wealth inequalities that exist in most countries especially when accumulated (excessive) wealth is transferred between generations.

#### *e) Wealth tax*

After having looked at various *income* taxes (personal income tax, corporate tax, capital gains tax and inheritance tax) we will now interrogate how a *wealth* tax could contribute to a reduction of economic inequality. As demonstrated earlier (see sub-section ‘e) Wealth creation, acquisition and/or accumulation’ above) wealth inequality is not only *massive* – a Gini coefficient of 0.9 worldwide! – but has been constantly increasing and is a lasting problem. Piketty (2014, p. 443) was right to criticise that ‘no matter how justified inequalities of wealth may be initially, fortunes can grow and perpetuate themselves beyond all reasonable limits and beyond any possible rational justification in terms of social utility’.<sup>395</sup> And if nothing is done about wealth inequality, the problem only gets worse. According to the OECD (2018, p. 11), ‘wealth accumulation operates in a self-reinforcing way and is likely to increase in the absence of taxation. High earners are able to save more, meaning that they are able to invest more and ultimately accumulate more wealth’.

Since wealth is created, acquired and accumulated via various forms of income, income taxes like those outlined above help to reduce (future) wealth inequality substantially. But if one wants to reduce wealth inequality directly then one has to do it through direct taxation of wealth, i.e. a *wealth tax* (Yunker 2010, p. 98) – even a *global tax on capital* (Piketty 2014).

Like most income taxes, a wealth tax is supposed to be a recurrent tax (usually levied annually) on individual net wealth stocks (OECD 2018, p. 16, Marr et al. 2019, p. 21). The key thing is to define (and then to apply) a wealth tax properly.

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<sup>395</sup> And he concluded (p. 364): ‘Clearly, equality of rights and opportunities is not enough to ensure an egalitarian distribution of wealth. Indeed, once the rate of return on capital significantly and durably exceeds the growth rate, the dynamics of the accumulation and transmission of wealth automatically lead to a very highly concentrated distribution.’

First it is about defining, i.e. identifying and evaluating – people’s (individuals’ or households’) *wealth*. This wealth is usually referred to as ‘net assets’ and means the total monetary value of larger tangible assets – such as land/real estate, buildings, business assets or even personal and household effects of particular material value – as well as (all) financial assets (Yunker 2014, p. 96) (whereby it is irrelevant whether or not these assets yield an explicit financial return).

However, the taxation of ‘wealth’ or ‘net assets’ is meant more as taxation of *excessive* wealth. A wealth tax is *not* supposed to tax modest or average wealth. Similar to inheritance tax (see above), there would be a large threshold/some exemptions where net assets are not taxed at all (OECD 2018, pp. 12–13, 79–89), such as the average family home, car or even small private business. Also basic financial assets, such as modest savings ‘for rainy days’, small investments or pension funds, would not be taxed. A net wealth tax targets *large* fortunes and is only levied on ‘the very wealthy’ (OECD 2018, p. 12). In order to tax excessive wealth appropriately, a wealth tax needs to be progressive, with tax brackets/marginal tax rates targeting especially large, very large and the largest fortunes. Piketty (2014, pp. 516–517, and in a similar vein Marr et al. 2019, p. 21) suggested taxing wealth up to US\$1 million at less than 1%, US\$1–5 million at 1%, and wealth of more than US\$5 million at 2%.

All in all, a well-designed progressive wealth tax would contribute significantly to a reduction of wealth inequality. Yunker (2010, p. 100) argued that ‘if a significant reduction in capital wealth inequality is desired, the only feasible means of attaining this objective is to initiate a significant annual capital wealth tax. ... imposing even a relatively modest rate of annual capital wealth taxation will have, over a sufficiently long period of time, a major reducing effect on capital wealth inequality’.

## **Tax avoidance and realisation of taxation**

### *Taxation and tax strategies*

The discussion of various income and wealth taxes above has shown that there are two crucial aspects that decide whether or not taxation does what it is expected to do (i.e. to tax fairly and efficiently and to reduce economic inequalities) – its design and its realisation. The design of all the various income taxes and a wealth tax is fairly similar and has been tried and tested; highly progressive with a large threshold for low-income households (‘the poor’ and lower middle classes), low marginal tax rates at the bottom, appropriate ones in the middle and increasingly high and very high ones towards the top. That’s all what is needed for (the *design* of) a good tax regime.

The other crucial part is the *realisation* of a tax, i.e. that taxpayers meet their tax obligations and pay their due taxes. Above it was indicated that there can be quite a difference between the *statutory* tax rate (i.e. the legally imposed tax rate) and the *effective* tax rate (i.e. the tax rate actually paid by the taxpayer). Generally speaking, the higher the income and/or the greater the wealth of an individual or the revenues or profits of a corporation, the greater is the difference between their statutory and effective tax rate.

The great gap or difference between statutory and effective tax rate is due to *tax avoidance*, *tax evasion* – and *aggressive tax avoidance*. The three tax strategies are quite distinct and can be differentiated on the basis of their purpose and legality:

- *Tax avoidance* means the legal use of tax credits (deductions), tax exemptions or tax expenditures that are granted to compensate for disadvantages or hardships.
- *Tax evasion* is the illegal, deliberate misrepresentation of one’s income or wealth (in particular declaring less income, profits or gains than actually earned or overstating expenditures or deductions) in order to gain an unfair advantage.
- *Aggressive tax avoidance* is the systematic planning and pursuit of unfair advantages and tax privileges, in particular by exploiting tax loopholes and grey areas in legal regulations in order to reduce one’s overall tax liability as much as possible, to avoid, evade, limit and/or delay paying taxes.

Table 24 below shows the purposes and legality of these three distinct tax strategies.

	<i>Tax avoidance</i>	<i>Aggressive tax avoidance</i>	<i>Tax evasion</i>
<i>Purpose</i>	To compensate for a disadvantage, hardship	To gain unfair advantages and privileges	To gain unfair advantages
<i>Legality</i>	Legal	Legal (but mostly loopholes and grey areas)	Illegal/criminal

Table 24: Purposes and legality of different tax strategies.

Aggressive tax avoidance – the ‘grey area’ – ‘gives the best of both worlds’; it gains *unfair advantages* like illegal tax evasion or criminal conduct but it is formally (mostly) *legal* and the people and organisations that pursue aggressive tax avoidance walk free. Wealthy individuals and profit-maximising corporations can have their cake and eat it.

#### *Aggressive tax avoidance*

Tax avoidance is legitimate, tax evasion is criminal – but aggressive tax avoidance is the real problem. Aggressive tax avoidance is conducted especially by many high-income and/or wealthy individuals and families (multi-millionaires and billionaires) and (larger) corporations in order to protect and preserve their wealth (estate or assets) and to maximise their income and profits (to minimise possible reductions). By conducting aggressive tax avoidance strategies they enrich themselves undeservedly and unfairly at the expense of everyone else and the general public. Aggressive tax avoidance represents serious problems not only for tax offices worldwide but also for societies because every year governments around the world lose hundreds of billions of dollars in tax revenues that could be used for public spending and for increasing the welfare of needy individuals and the general public (Tax Justice Network 2020, pp. 13–21, Tax Avoidance 2021, no page numbers).<sup>396</sup> Aggressive tax avoidance makes already

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<sup>396</sup> According to the Tax Justice Network (2020, p. 4), ‘the world is losing over \$427 billion (USD) in tax a year

rich individuals and corporations (much) richer and, in so doing, preserves and even increases economic inequality considerably.

‘Aggressive tax avoidance’ sounds emotional – but it is actually a very cold-blooded concept and business carried out systematically by certain individuals and institutions. The greatest tax offenders are profit-maximising organisations in general, and in particular large multinational corporations, and high-income/(very) wealthy individuals and families (‘the rich’ and ‘super-rich’ or ‘the 1%’ and ‘0.1%’ – or even ‘the 0.01%’). They manage to pay comparatively *less* tax (or *no* taxes *at all*) mainly for two reasons. One is that many national tax systems and tax policies offer very favourable fiscal conditions, tax brackets, marginal tax rates (especially on personal incomes, corporate incomes/profits and capital gains) and a number of generous tax benefits, privileges and preferential treatment for them that dramatically lower their tax bills. And two, profit-maximising corporations and the rich engage in systematic tax planning – especially in aggressive tax avoidance and tax evasion strategies – more than anyone else.

Usually, aggressive tax avoidance is done rather professionally,<sup>397</sup> in cunning ways via special purpose entities, family offices, complicated business structures, elaborate investment schemes and/or special legal constructs (e.g. holdings, trusts, charities, offshore companies or so-called ‘special purpose vehicles’) that are primarily designed for managing and transferring financial assets and estates and keeping them out of the reach of tax authorities. Beside exploiting tax advantages and loopholes ‘at home’, aggressive tax avoidance and tax evasion strategies often comprise the transfer of capital, revenues, profits or capital gains into other jurisdictions (‘capital flight’, ‘off-shore’ or ‘abroad’), in particular from high-tax to low-tax territories or tax havens (such as the British Overseas Territories and Crown Dependencies, Luxembourg, Switzerland, Monaco, The Netherlands, United Arab Emirates (UAE), Singapore or Hong Kong) – which makes prosecution of aggressive tax avoidance schemes even more difficult.<sup>398</sup> Aggressive tax avoidance strategies are the professional con jobs in the field of taxation.

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to international tax abuse. Of the \$427 billion, nearly \$245 billion is lost to multinational corporations shifting profit into tax havens in order to underreport how much profit they made in the countries where they do business and consequently pay less tax than they should. The remaining \$182 billion is lost to wealthy individuals hiding undeclared assets and incomes offshore, beyond the reach of the law’.

<sup>397</sup> Aggressive tax avoidance would not be possible if ‘the rich’ and powerful corporations did not have so many willing abettors – financial consultants, family offices, lawyers and other legal experts, tax specialists, financial institutions and investment houses that willingly provide their knowledge, skills and expertise to develop ‘optimal’ tax planning and tax strategies and to exploit tax regimes as much as possible; that help to set up and/or utilise offshore corporations, letter box companies and bank accounts in tax havens; and that make sure that their clients are protected from tax authorities. Moreover, even many national governments, politicians and officials are keen to provide wealthy individuals and multinational corporations with tax incentives and legal, fiscal, administrative and operational support, perks and advantages.

<sup>398</sup> For example, according to the Tax Justice Network (2020, p. 38) ‘The UK with its network of Overseas Territories and Crown Dependencies [in particular the British Virgin Islands, Bermuda, Cayman, the Isle of Man, Turks and Caicos, Anguilla, Jersey and Guernsey] together serve as the world’s greatest enabler of corporate tax abuse. The UK spider’s web accounts for over a third of the world’s corporate tax abuse risks as measured by the Corporate Tax Haven Index. That’s four times more than the next greatest contributor, the Netherlands, which accounts for less than 7 per cent. The State of Tax Justice 2020 reveals that profit shifting by multinational corporations into the UK spider’s web costs the world nearly \$70 billion in lost corporate tax. The UK spider’s web is responsible for 28.5 per cent of the \$245 billion in tax the world loses to corporate tax abuse every year,

### *Dealing with aggressive tax avoidance*

There should be just one rule for dealing with aggressive tax avoidance: *Anything that looks like aggressive tax avoidance must be deemed illegitimate and either taxed like any other income or wealth or rendered illegal.*

For example, any larger sums of money with no underlying business that go into special purpose entities or vehicles, family offices, complicated business structures, elaborated investment schemes, holdings, trusts, charities, investment portfolios, (life) insurance, offshore companies, or any other similar legal structure or financial instrument should be taxed as income at the usual (progressive) income tax and wealth tax rates. Also unrealised gains on publicly traded assets like shares, capital borrowed against assets, or private assets over certain thresholds should be taxed at the usual tax rates for income or wealth.

It is important to note that all of the above is not any *extra* tax but just bringing back formerly exempted taxable income or wealth into the *normal* taxation scheme. Any loopholes where large sums of capital, financial, tangible or intangible assets can be parked, invested or transferred tax-free (also and especially to (potential) heirs and/or family members) have to be closed. There must be no exemptions that can be used only to gain unfair advantages and to enrich oneself at the expense of the general public.

When it comes to the actual taxation, if technically possible and feasible, any income or wealth tax ought to be calculated and collected by a neutral third party, levied at the source, and paid directly to the tax office, i.e. in a similar way to how, for example, the income tax on salaries and wages is calculated and collected (income tax is levied at the organisation an employee works for, calculated ‘to the penny’ by the employer, deducted automatically from the gross salary and paid directly to the tax office *before* the salary is paid out to the employee as net salary or ‘take-home pay’). Especially income taxes like corporate tax or capital gains tax and the wealth tax should be levied at source, calculated and deducted by a third party (the financial institutions that hold and manage individuals’ capital or financial assets, or the accountants/accounting firms that work with corporations) and transferred directly to the relevant tax authorities. Capital gains, revenues/profits and wealth can provisionally be taxed on an estimated tax base (‘presumptive taxation’).<sup>399</sup> Individuals or corporations can then claim back overpaid taxes via their tax returns.

In order to guarantee a fair calculation and collection of taxes, countries’ tax authorities/revenue services must be able – must be *enabled* – to deal with taxpayers’ tax strategies efficiently and appropriately (OECD 2018, pp. 21, 57–70, 89–93). *All* taxpayers’ tax returns/tax reports have to be scrutinised systematically, that is *regularly* (i.e. every time/every year an individual or corporation files their tax report), *comprehensively* (i.e. every item declared in a tax report is to be checked) and *thoroughly* (i.e. an

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which is in line with the Corporate Tax Haven Index 2019 estimate.’

<sup>399</sup> Bird (2009, p. 3) explained as follows how presumptive taxation works: ‘Presumptive systems may, for example, calculate taxable income based on key factors that are presumably associated with income generation such as sales, turnover, number of employees, size of firm, assets of the taxpayer, and so forth. The estimated tax base typically is calculated based on coefficients for different factors applied to specific taxpayers or specific types of taxpayers (such as certain sized enterprises in particular industries). The idea is to use data available to officials to capture at least some minimum level of tax from those taxpayers who are considered to be unreliable sources of information on their own activities.’

item is only accepted if it meets the legal requirements/tax policies and is supported by evidence).<sup>400</sup> Having or getting the *complete* relevant financial data/tax-relevant data (especially about income, revenues, profits, financial assets, property, capital movements and transfers) is paramount for tax authorities. Since financial transactions are largely conducted, and financial products and financial instruments are traded mostly via established banks and other registered financial institutions, it is possible to establish the financial data concerning capital and financial transactions by these institutions and to forward the data automatically to the relevant tax authorities. Financial institutions simply have to be compelled by law to do so – and they would comply because it is their business and how they make money. This works at a national level, but increasingly also at international levels/globally.<sup>401</sup>

Obviously, profit-maximising corporations and wealthy individuals or families do not like the idea that their corporate revenues and personal income, their capital gains, profits and wealth would be taxed fairly and treated like other taxpayers' income (for example, employees' salaries). Already now, under rather favourable circumstances, 'the rich and powerful' try everything they can to avoid or evade taxation (Williamson 2014, p. 227) – and they constantly find new and creative ways to bypass tax regulations and to exploit the system. To have *everyone's* income and wealth taxed properly and fairly requires a lot of political will and determination as well as legislative and institutional changes at national and international levels. But the history of tax systems has shown that fair and efficient taxation *is* possible and that income and wealth inequalities *can* be reduced via taxation.

### **Redistribution of income and wealth**

Whereas above it was about reducing economic inequality via the *taxation* of income and wealth (of everyone, but especially of high-income and wealthy individuals and corporations), it now shall be looked at how a *redistribution* of income and wealth ('from the rich to the poor') can further reduce economic inequality.

#### *Redistribution of income via social welfare policies*

In democratic welfare states large parts of income can be redistributed to people via *social welfare policies*. Social welfare policies might be classified as follows (Titmuss 1974, Korpi & Palme 1998, pp. 665–669, Pebley & Sastry 2004, p. 120, Adema & Whiteford 2010, pp. 121–122, Tanzi 2011, pp. 253–254, Verbist et al. 2012, pp. 4, 14):

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<sup>400</sup> For example, Marr et al. (2019, p. 27) found in their investigation of the British tax system that the Internal Revenue Service (IRS) had been able to audit just 3.2% (!) of millionaires in 2018 (down from 8.4% in 2010) because of UK policymakers' cuts to IRS funding and reduction of its workforce.

<sup>401</sup> Piketty (2014, p. 520) demanded to 'force governments to clarify and broaden international agreements concerning the automatic sharing of banking data. The principle is quite simple: national tax authorities should receive all the information they need to calculate the net wealth of every citizen'. However, and unfortunately, international collaboration and transparency concerning (the recording of) capital and capital flows/financial transactions and the (automatic) exchange of relevant data and information between countries, financial institutions and authorities from different countries and jurisdictions respectively, let alone the same taxation of individuals' and corporations' income or wealth, is still fairly underdeveloped (Tax Justice Network 2020, p. 10).



- a) *Public welfare*: Either *social benefits* in form of direct payments – e.g. unemployment benefits, family benefits/child and family allowances, maternity or paternity benefits, incapacity-related benefits (sickness, accident or disability benefits), housing benefits and subsidies, state pension, early retirement pension, retirement benefits, other cash benefits, or *public social services* provided for free, for a (low) fee, or at reduced/subsidised prices – e.g. public institutions of childcare and education (nursery, kindergarten, pre-school, schools, colleges, higher and further education), active labour market programmes, publicly funded healthcare and health services (medical centres, hospitals), social housing, residential care/care services for the elderly, public transport, public utilities, public libraries, recreational programmes and activities, community services, and other services made available by local authorities.
- b) *Fiscal welfare*: Tax benefits granted by, and distributed through, the tax system – e.g. working tax credit, child tax credit, tax incentives for pension saving, other tax incentives or tax credits.
- c) *Occupational welfare*: Benefits given by employers or employee associations for employees and workers – e.g. monetary and non-monetary employment-related benefits ('cafeteria system'), occupational pension scheme/workplace pensions, other occupation-related benefits.
- d) *Voluntary welfare*: Social services provided by individuals or private organisations / civil society organisations – e.g. child care, education, active labour market programmes, health care and health services, housing, residential care / care services for the elderly, other social services.
- e) *Informal welfare*: Voluntary provision of activities or services free of charge – e.g. care for children, partners, parents, (other) family members or friends, housekeeping.

All these social welfare policies help people, especially more vulnerable and needy individuals and families. Many people who apply for, are entitled to and/or receive a particular social welfare policy are poor, low-income or (lower) middle-income individuals or households. But if a social welfare policy is *universal*, i.e. *everyone* is entitled to, and can receive the benefit whatever their wealth or income, then it reduces economic inequality only marginally in relative terms. If, in contrast, a social welfare policy is income-related/means-tested then it reduces economic and social inequality in absolute *and* relative terms. Especially social welfare policies that offer benefits in the form of direct payments – i.e. social benefits (public welfare), tax benefits (fiscal welfare) or monetary employment-related benefits (occupational welfare) – contribute *considerably* to a reduction of income inequality (Saunders 2010, p. 527).<sup>402</sup> The redistributive character of social welfare policies is widely evidenced:

- Prasad (2008, p. 2) found that 'there is a relatively strong negative association between spending on social transfers and inequality ... The correlation between social benefit spending by central

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<sup>402</sup> The exception is mandated welfare (e.g. child maintenance and spousal maintenance). Although it also involves direct payments, it does not contribute to a change of economic inequality because in many instances payer and payee belong to the same socio-economic category and their gains and losses in income and wealth due to maintenance payments balance each other out.

government and income inequality is  $-0.75$  for the 64 countries for which data are available. In other words, countries that spend more on social transfers tend to have lower income inequality. For example, among developed countries, income inequality is relatively high in the United States, where spending on social transfers is limited. By contrast, the countries that spend the most on social transfers (mostly European countries, such as Austria, Belgium, Denmark, France, Germany and Sweden) have relatively low-income inequality’.

- In regard to the distributive impact of public services, Verbist et al. (2012, p. 62) argued that ‘broadening the income concept to account for in-kind benefits considerably increases households’ economic resources and impacts on inequality and poverty outcomes. If all social public services were imputed in disposable cash income, households’ resources would increase by close to 30%, on average. The increase exceeds 40% in Sweden and 30% in Denmark, Norway, Iceland, as well as in France and Hungary. In a typical OECD country, the average annual household income would be close to USD 28 000, rather than USD 22 000 in purchasing power parities when in-kind benefits are included. Publicly-provided service benefits also contribute to reducing income inequality. Depending on the indicator, in-kind benefits taken together reduce income inequality by one fifth (on the basis of the Gini coefficient) to almost one third (when alternative inequality measures are used which give more weight to the bottom and the top of the income distribution).’
- Verbist et al. (2012, p. 35) mentioned that ‘given the large shares of in-kind services in disposable income, especially for poorer groups, it is interesting to see how the income distribution changes once services are taken into account. Before considering services, income inequality as measured by the Gini coefficient is high (around 0.37) in Portugal and the United States and highest in Mexico (0.47), and comparatively low (0.25 and below) in Slovenia, Sweden, Norway and Denmark ... But when services are included the Gini coefficient falls by roughly around one fifth, on average, from 0.30 to 0.24.’
- Atkinson (2015, pp. 60-67) put forward compelling data and evidence that the strong and widespread reduction in inequality of household incomes in the US and Western Europe from the mid-1940s to the early 1980s was due to a dramatic expansion of the welfare state and increases in social welfare policies, in particular federal government welfare programmes, government transfers and expenditure on welfare payments to individuals (all financed at least in part by progressive income taxation). And concluded (p. 67) that ‘these country case studies illustrate the role played by the welfare state in reducing income inequality and in preventing any rise in market income inequality from feeding into inequality in disposable income. The immediate postwar decades were a success for the European welfare states. But in each case, too, the race was eventually lost, and more generally there has been an unwinding of redistributive policies in OECD countries, with serious adverse distributional consequences.’

Comprehensive social welfare policies reduce social and economic problems and inequalities on a massive scale. The Gini coefficients of income equality ‘before and after taxes and transfers’ differ noticeably for countries that offer wide-ranging social welfare policies (Rothstein 1998, p. 150). The evidence is clear: The more social welfare policies, the less income inequality.

### *Redistribution of wealth via following through on private ownership*

The taxation and redistribution of *income*, any form of income, might raise some legal problems (and triggers political controversies), but is mainly about policies and ‘technicalities’, i.e. getting a particular tax, its tax base, tax brackets and tax rates, possible benefits and exemptions as well as relevant social welfare policies and their implementation right. In contrast, the taxation, and especially a possible redistribution of *wealth*, i.e. property or even financial assets, is not only technically problematic but raises fundamental political, economic and legal, if not constitutional questions about *private ownership* and *property rights*.

Earlier it was made clear that private ownership (and related property rights) is one of the founding pillars and a fundamental and necessary institution of any free and democratic society and market economy.<sup>403</sup> In such a context, thus, measures to redistribute wealth (i.e. property, in particular ‘productive’, income-generating property) in order to reduce economic inequalities must be consistent with, and adhere to, the fundamental, constitutionally guaranteed right and notion of private ownership and the protection of legitimate private property and related property rights. Abolition of property or systematic expropriation of private property in order to achieve more economic equality are neither appropriate nor legitimate means.<sup>404</sup>

The solution to an equality-enhancing redistribution of wealth that is compatible with the fundamental ideas, principles, laws and regulations of a free and democratic society and libertarian market economy based on the rule of law is *to take the idea of private ownership* (and related property rights) *seriously* – *very seriously*; *everyone* shall have private ownership, in particular private ownership of assets that are productive, i.e. assets that produce economic returns in any form and/or assets that otherwise would need to be paid for. Hence, redistribution of wealth does *not* mean taking property *away* from people but *giving* people (the rights of and to) property, entitling and enabling everyone to have their own property. This means in particular that:

i) People own their work and the organisation they work for

In a democratic society and democratic market economy *private ownership of organisations* is centre stage. And private ownership of organisations means what it says – *that all people who work for an*

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<sup>403</sup> See sub-section ‘Private ownership and property rights’ in Part I, ‘Free individuals and legitimate institutions’ and sub-section ‘Entitlements, rights and law: The legal basis of and for market activities’ in Part III, ‘A democratic market economy’.

<sup>404</sup> Nonetheless, abolition or expropriation of property *can* be legal and legitimate when it is, for example, about illegal property (illegally generated, obtained or used property), or when it would be ‘in the general interest’. Actually, even the (early or original) communists were against the abolition or expropriation of *all* private property. For example, in their famous *Communist Manifesto* from 1848, the German philosophers and economists Karl Marx (1818–1883) and Friedrich Engels (1820–1895) declared that ‘the distinguishing feature of communism is not the abolition of property generally, but the abolition of bourgeois property. ... We Communists have been reproached with the desire of abolishing the right of personally acquiring property as the fruit of a man’s own labor, which property is alleged to be the groundwork of all personal freedom, activity and independence. Hard-won, self-acquired, self-earned property! Do you mean the property of petty artisan and of the small peasant, a form of property that preceded the bourgeois form? There is no need to abolish that’ (Marx & Engels 1848/2008, p. 50). What they were against was ‘that kind of property which exploits wage labor’ (Marx & Engels 1848/2008, p. 50), but not private or productive property in general.

organisation *own* it. As it was argued in Parts II and III,<sup>405</sup> only democratic organisations that are constituted on the basis of a partnership agreement and, as a consequence, owned and managed by all their members (i.e. ‘partners’) individually and collectively, can be regarded as legitimate organisations. Such a shift towards democratic organisations can be supported by relevant laws and regulations. For example, profit-maximising organisations that are still based on exploitative employment contracts can be burdened with higher tax rates that make them less attractive. Moreover, the employment contract can be deemed illegitimate and slowly outlawed and abolished (as was done with slavery) (Diefenbach 2021). At the same time, the government can provide financial and fiscal incentives and support to people starting their own democratic organisations. Such incentive schemes could be similar to the packages offered to companies in Special Economic Zones (SEZs), only this ‘zone’ would not be a *geographical* but a *legal* zone, the zone of democratic organisations. The range of legal, fiscal, administrative or financial positive measures to support the establishment of democratic organisations as well as the legal, fiscal, administrative or financial negative measures to slowly discontinue profit-maximising organisations are all legitimate and already existing rules and regulations of fully fledged democratic societies and economies. And they conform with a fully functioning democratic market economy. They only need to be put into place and applied.

That people would own the private organisations they work for would mean a *massive* shift in wealth and the allocation of wealth – and since this shift is towards former employees who have not previously possessed productive capital it would mean a considerable reduction in wealth inequality.

ii) People own the land and real estate they live or work on

People should not only own their work and the organisation they work for but also the land and real estate where they live or work. Private ownership of land and real estate is as fundamental to a free and democratic society and market economy as private ownership of organisations. There always had been land reforms that impacted heavily on how privately owned land is allocated. Via tax incentives and other regulations small land privately held and used by families can be supported and via inheritance law it could be ensured that small landholdings remain owned and used privately. Home ownership could also be greatly supported via fiscal regulations, tax incentives or financial schemes like schemes for first-time buyers, tax-financed low-cost mortgages, low-interest loans, or even cash payments (Bowles 2012, p. 161, Maynard 2015, pp. 154–155). Moreover, at community level real estate property could be transferred especially to less wealthy people and households in the form of council houses, social and affordable housing projects, or housing cooperatives.<sup>406</sup>

In addition, similar to the termination and abolishment of the employment contract (Diefenbach 2021) tenancy agreements could also be deemed illegitimate because of their exploitative and oppressive nature and could slowly be terminated. The idea is that in the long term there are no landlords and tenants,

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<sup>405</sup> See particularly chapters ‘Alternative types of organisations – *democratic* organisations’ and ‘Libertarian constitution and democratic governance’ in Part II, ‘Democratic organisations’, and chapter ‘Legitimate and illegitimate participants in the free market’ in Part III, ‘A democratic market economy’.

<sup>406</sup> See also sub-section ‘Housing: Private owners and housing cooperatives’ in Part III, ‘A democratic market economy’. Somewhere I read that in the 1920s more than one-fifth of all housing in downtown Manhattan – i.e. the very heart of New York, the ‘capitol of capitalism’ – was cooperative housing. Housing cooperatives were a thriving, attractive and successful business and business model at that time.

no rented real estate and occupants, but only individuals and institutions that own the places where they live and work. In the meantime, one could think about additional taxes landlords have to pay on property they rent out as well as on the income they make from renting out, the termination of any tax advantages or direct subsidies for landlords or so-called property ‘investors’, and the legal termination of ‘buy-to-let’ or similar speculative and exploitative schemes. All measures together towards people owning the land and real estate they use would mean a substantial shift in wealth, as well as in the allocation and distribution of wealth (in the form of privately owned land and real estate) – and, again, completely in line with the fundamental notions and laws of private ownership and related property rights.

iii) People have the financial means to invest and to earn capital gains

Finally, it is about (the redistribution of) wealth in the form of financial assets. Traditionally, governments have supported poor or lower-income individuals and households with various financial aids and asset-building policies targeted at generating or increasing savings and investments (Sherraden 2018), such as child development or child savings accounts, student loans, individual development accounts, microcredits or government-guaranteed (investment) credits (Maynard 2015, pp. 156–158). Such schemes definitely help people to accumulate *some* financial wealth, but they are relatively limited and targeted in their scope and outcomes.

People will create even more financial wealth if they can do it on their own – if they are enabled and have the opportunities to create financial wealth. This is what the measures outlined in i) and ii) above do. As owners of organisations, land or real estate, people have the opportunities to earn more (profits on top of their salaries), to save more (the lease or rent they otherwise would have to pay), and thus are able to accumulate and to invest more money *in general and on average*.<sup>407</sup>

All the policies and measures mentioned above show that an equality-enhancing redistribution of wealth as is proposed here does *not* mean taking away property or wealth from people, any kind of expropriation or compulsory purchase (or any other scenario that proponents of the old capitalist/neo-liberal order come up with, or invent, in order to discredit ideas of a more equal society, particularly of a reduction of income or wealth inequality). An equality-enhancing redistribution of wealth happens *entirely* via following through on the notion and legal concept of private ownership, progressive taxation of the various forms of income and wealth, and tax-based policies supporting not so wealthy people to start their own businesses or work for organisations they own, to own the land and real estate where they live and work, and to develop their financial assets via various income streams, capital accumulation and capital growth. Equality-enhancing redistribution of wealth is a *positive* concept.

And it works. Actually, it works *very* well. Policies as outlined above have shown time and again that they increase economic growth and development noticeably at individual as well as at societal level. They not only turn people with no or little property/wealth into property owners and make them economically more secure and independent but, in so doing, cause shifts in the distribution of wealth and contribute to a considerable redistribution of wealth in the long term. *Private ownership for everyone* is (a key part of) the solution to the problem of wealth inequality that both communism and capitalism have failed to achieve.

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<sup>407</sup> ‘In general and on average’ because – like any owner, saver or investor – they can also make bad economic decisions, can just simple bad luck and/or can go bust. In regard to ownership and related economic activities only the responsibilities and rights (property rights) are (legally) guaranteed, but not the factual outcomes.

## Equality-enhancing taxation and redistribution of income and wealth

This chapter was about how income and wealth can, and should, be taxed and redistributed in order to reduce economic inequality. A variety of measures had been proposed and described in some detail. Together, they form *one* comprehensive and coherent *concept* – the concept of ‘equality-enhancing taxation and redistribution of income and wealth’. The concept is based on some fundamental principles about the taxation and redistribution of all forms of income and wealth that are in line with a libertarian and democratic market economy and society. In respect to the *taxation* of income and wealth, it means that *all* forms of income<sup>408</sup> and wealth shall be taxed:

- 1) In particular: a) *salaries and wages* from any form of dependent work or employment; b) *profits* from any form of business activity; c) *capital gains* from financial investments, financial transactions or any other financial product; d) *financial gains* in the form of gifts or inheritance; or e) *wealth* in the form of tangible assets (‘property’) such as land, real estate or other larger/highly valuable tangible assets, intangible assets such as goodwill, patents, trademarks, copyrights, other intangible assets), or financial assets such as cash, gold, bank deposits, stocks, bonds, derivatives or any other financial assets or financial claims towards other persons;
- 2) Above a generous tax-free threshold that corresponds with the lower range of income (with the exceptions of inheritance tax and wealth tax that have even bigger thresholds that correspond with low and average wealth);
- 3) With the same tax brackets and marginal tax rates ranging from 10% up to 80% (with the exception of the inheritance tax that has lower top tax rates and the wealth tax that has tax brackets of less than 1% up to 2% maximum);
- 4) Highly progressively (in particular the top marginal tax rates) reflecting diminishing marginal utility of income and wealth;
- 5) With as few loopholes and opportunities for tax avoidance as possible;
- 6) At the source reflecting the PAYE principle (‘Pay-As-You-Earn’).

And in respect to the *redistribution* of income and wealth it means that:

- 1) *Income* shall be redistributed via social welfare policies that provide benefits in the form of direct payments/cash transfers through social benefits (public welfare), tax benefits (fiscal welfare), and/or monetary employment-related benefits (occupational welfare).
- 2) *Wealth* shall be redistributed via following through on the notion and legal concept of private ownership for everyone, progressive taxation of the various forms of income and wealth, and tax-based policies supporting not so wealthy people to start their own businesses or work for organisations they own, to own the land and real estate where they live and work, and to develop their financial assets via various income streams, capital accumulation and capital growth.

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<sup>408</sup> This includes other forms of income that have not been addressed explicitly in this chapter or are not mentioned in the list, such as income in form of rent, leases, royalties, monetary employment-related benefits, social benefits or maintenance payments. All these, and other forms of income should also be taxed fully or partly.

Reducing income inequality and wealth inequality to a great extent and on a long-term basis requires a combination of various measures (Credit Suisse 2014, p. 37, Atkinson 2015, pp. 179, 237–238) – particularly raising several income and wealth taxes, taxing the various forms of income and wealth equally and progressively, increasing marginal tax rates substantially, and especially at the top, eliminating or scaling back tax deductions that disproportionately benefit high income earners and the rich, ensuring their tax compliance, and redistributing income and wealth broadly via wide-ranging social welfare policies and – perhaps the most fundamental and crucial measure – making sure that all people own private property, own the means of their work and life. The concept of an *equality-enhancing taxation and redistribution of income and wealth* offers such a broad and consistent set of fiscal, legal and welfare measures. And it works (Joumard et al. 2012, p. 5, Ostry et al. 2014, p. 6, Atkinson 2015, pp. 65–74). For instance, Joumard et al. (2012, p. 5) found that ‘taxes and transfers have a significant redistributive impact. Inequality in income *after* taxes and transfers, as measured by the Gini index, was about 25% lower than for income *before* taxes and transfers on average in the OECD area in the late 2000s. For the same period, poverty measured after taxes and transfers was 55% lower than before taxes and transfers for the OECD average’.

Moreover, the concept of an *equality-enhancing taxation and redistribution of income and wealth* also increases tax revenue – quite considerably. Williamson (2014, p. 229) summarised the revenue a similar concept of taxation would produce for the United States:

Analysts at the progressive American think tank the Institute for Policy Studies (IPS) in 2009 spelled out a menu of tax proposals aimed precisely at raising taxes on the wealthy, which they estimate could in fact raise roughly \$450 billion in new revenue a year ... An important feature of this set of proposals is the strong emphasis placed on increasing taxation of not just the wealth but also the incomes of the rich and super-rich, for it is with respect to income taxes that the most regressive changes have taken place in the United States over the past half-century. IPS thus calls for immediately eliminating Bush-era tax cuts on income and capital gains (projected additional revenue: \$43 billion); creating a new top tax bracket of 50% for incomes over \$2 million (\$60–70 billion); taxing capital gains and dividends at the same rate as income from labor (\$80 billion); introducing a financial transaction tax of 0.25% (\$100 billion); reforming the estate tax so that it is paid by just 1 of 200 decedents but at higher effective rates (\$40–60 billion); shutting down overseas tax havens used by the wealthy and corporations (\$100 billion); and ending a variety of subsidies for exorbitant CEO salaries (\$18 billion). Over a 10–12 year period taxation of this kind should produce an accumulation of over \$5 trillion which could be used to steadily capitalize, year on year, a series of universal asset funds.

The numbers speak for themselves. One can reckon that such a tax concept would achieve similar results in any country. It is important to note that it is not about increasing tax revenue as such. It’s about changing (the monetary and financial conditions of) people’s lives and livelihoods by changing the tax system and fiscal policy. Maynard (2015, p. 145) rightly criticised the current tax systems as ‘disproportionately benefiting those with wealth and further reinforcing wealth inequality’. An *equality-enhancing taxation and redistribution of income and wealth* means a paradigm-shift from a ‘capital-friendly’ to an ‘equality-friendly’ fiscal policy. A reform or modification of the tax system, welfare system, private law, corporate law and property rights as outlined above would ensure that the taxation

as well as redistribution of people's and corporations' various forms of income and wealth are targeted towards a substantial reduction of economic inequalities between the rich and the poor across society. Such reforms help to reduce many of the negative consequences of economic inequality for individuals, in particular for people with lower incomes and little wealth.<sup>409</sup> Moreover, enhancing economic equality via taxation and redistribution of income and wealth brings a range of further advantages:

- *Basic needs*: Taxation and redistribution of income and wealth make a difference – for those who have to pay more taxes but even more for those lacking (minimum) income or basic wealth. In general, it makes a *small* difference for the former but a *big* difference for the latter. Reducing or even eliminating (some of) the economic and financial problems of people with no or little income and wealth enables them to meet their basic (economic) needs.
- *Individual well-being and development*: Private ownership – especially of the means of production and people's livelihoods – and sufficient income and wealth to cover the necessities of an average lifestyle obviously increase people's general health and well-being, self-image, (participation in) social and political life, educational and professional attainment and development (Maynard 2015, p. 153).
- *Enhanced welfare*: According to (the law of) diminishing marginal utility of income and wealth, taxing the income and wealth of actors with lower marginal utility (i.e. richer individuals and larger corporations) comparatively more (i.e. progressively), and redistributing it to actors with higher marginal utility (i.e. poorer/not so wealthy individuals and households), increases the welfare of a very large majority of people as well as the overall welfare considerably (Pojman 1997, p. 288, Murphy & Nagel 2001, p. 60, Bakija 2013, p. 4, Williamson 2014, p. 298, Atkinson 2015, p. 12).
- *Economic growth and development*: The more widely dispersed are economic resources, factors of production, and income and wealth, the greater the chances for an efficient functioning of markets and the market mechanism, innovation, economic growth and development (Williamson 2009, p. 438 Yunker 2014, p. 85). (More) economic equality is good for business.
- *Distributive justice*: A reduction of income and wealth inequalities has a moral or ethical dimension and implications; the poor do not deserve their persistent poverty and the rich and super-rich do not deserve their sky-rocketing incomes and unfettered wealth. Equality-enhancing taxation and redistribution of income and wealth brings back some distributive fairness and justice into fiscal policy, taxes and taxation as well as into the actual distribution of income and wealth.

So, equality-enhancing taxation and redistribution of income and wealth according to the motto 'To take from the rich and to give to the poor' not only greatly enhances economic equality and distributive justice but also brings about a whole range of direct advantages and actual improvements for individuals/the absolute majority of people as well as society in general. It just makes a lot of sense.

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<sup>409</sup> Health and social problems, economic and financial problems, work-related problems, reduced social life, and lessened personal development and life chances – see the section 'Economic and social inequalities and the major problems they cause' above.



## Increasing social equality by reducing social inequalities

This chapter is about *social* inequalities, in particular about *reducing* or even *minimising* social inequalities in order to increase the overall equality in a given society. For this, it first interrogates what are (only) individual and social *differences* and what are social *inequalities* – and why the latter should be reduced as much and as far as possible (and the former actually celebrated). The larger part of this chapter is then about discussing solutions for reducing social inequalities. The solutions focus on both people and institutions, i.e. on individuals and on systemic conditions. In regard to *individuals* it is mainly about universal and targeted social welfare policies, welfare programmes and public services that aim at accommodating individuals' immediate and/or basic needs and at improving their personal situation so that all people in principle have equally appropriate and sufficient conditions, means and opportunities to conduct their lives in reasonable/adequate forms. In regard to *institutions* it is primarily about identifying and tackling the systemic causes, conditions and dynamics that generate, maintain or even increase social inequalities, and to create institutions that work against (the emergence and/or continuation of) social inequalities.

### Individual and social differences and the concept of social inequality

#### *Individual and social differences*

People are different. People are born with genetic and biological differences and different character dispositions/personality traits, into different family backgrounds and social conditions. They grow up and are socialised under different circumstances, are raised differently, and go through different institutions (of education, work or services). Over their lifespan people develop, acquire and/or are provided with different skills and experiences, competences and capabilities, expertise and knowledge. They think and act differently. People have different preferences and worldviews, goals and tastes, have different understandings of success and happiness and encounter life differently. They work in different jobs, pursue different economic and social activities, and conduct their private and social lives in different ways. People sometimes try their best and sometimes put hardly any effort into their activities, sometimes they succeed and sometimes they fail.

People are different in every society, i.e. in every society there are *individual differences*.<sup>410</sup> Individual differences mean that people:

- Are genetically, physiologically, psychologically and socio-culturally different;
- Have different personalities or character traits, personal and social identities;
- Show all types and levels of emotional, cognitive and moral development;

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<sup>410</sup> Buchanan (1975, p. 11) even said that 'We live in a society of *individuals*, not a society of *equals*'.

- Have different (cognitive and physical) talents, skills and capabilities;
- Gained various different kinds of competences, expertise and knowledge;
- Have different worldviews (personal, political, ethical or religious beliefs and convictions, perceptions, norms and values), interests and value preferences;
- Demonstrate all kinds of attitudes, emotions, behaviour, activities and actions;
- Find themselves in different personal and social situations; and
- Have different lifestyles.

Moreover, there are not only *individual* but *social* differences. *Social differences* mean that individuals who have:

- Certain factual, claimed or ascribed characteristic(s) in common (genetic, biological, physiological, psychological, personal, cultural, historic or social traits, appearances, interests, preferences, beliefs, norms, values, attitudes or behaviour);
- The same or similar social status and positions, professional values and orientations, and conduct similar work or activities;
- Access to, and use of, similar resources, including income and wealth; and
- Similar interests and convictions, socio-cultural norms and value preferences,

represent a social group (or social class) that is different to, and differentiates itself from, other social groups (or social classes).

Social differences can be based on, for example: race, ethnicity, gender, age; sexual, religious, philosophical, political or social orientation; family background, class, upbringing, neighbourhood, friendships, memberships, community; education, qualifications, social status, income and wealth or poverty (Warwick-Booth 2013, pp. 29–32, Thompson 2016, p. 6).

That there are, and always will be, individual and social differences is not a bad thing, on the contrary; that people have, and show, individual and social differences is consistent with the notions of *individualism*, *pluralism* and *diversity*. In any social system that is based on the fundamental ideas of freedom, democracy, equality and justice, all its members, either individuals or groups of people, are equally entitled to appreciate different values, to reason and to act as *they* deem appropriate, to be different and to pursue different ways of life within limits that are consistent with the social system's fundamental ideas. In this sense, people's individual and social differences – and the coexistence of their different values and lifestyles in the sense of individualism, pluralism and diversity (Marcil-Lacoste 1992, Kymlicka 2006, Jintra 2014, Thompson 2016) – should not only be acknowledged, but appreciated, propagated and nurtured.

#### *Social inequality as a comprehensive concept*

The existence of individual and social differences led some to claim that there is, or should be, *inequality*. For example, Pojman and Westmoreland (1997, p. 1) contended that 'it is an empirical fact that

human beings are unequal in almost every way'.<sup>411</sup> No, it is *not* a fact – or, at least, it does not have to be a fact. Human beings are *different* (and always will be), but not necessarily *unequal*. *Many* actually *confuse* 'different' and 'unequal' – accidentally or even purposely. But inequality is *not* the same as difference (Raphael 1980, p. 61). Hence, the question is: what is the distinction between individual/social differences on the one hand and social inequalities on the other?

There have been various attempts to differentiate between them.<sup>412</sup> In contrast to 'social differences', 'social inequality' means that within a social system a certain individual, group of people or social class:<sup>413</sup>

- 1) Has privileged access to exclusive and restricted entities or issues;
- 2) (Because of that) is systematically advantaged and empowered;
- 3) Is put into a privileged, superior and dominating position in regard to others;
- 4) Whereas those others are excluded from these restricted entities or issues, are disadvantaged and disempowered, and put into inferior positions; and
- 5) People's privileges and exclusions, advantages and disadvantages, superior and inferior positions are institutionalised systematically and comprehensively.

This means in particular:<sup>414</sup>

1) *Privileged* access connotes that a certain individual, group of people or social class is enabled to, entitled to, in possession of, provided with, has access to, can make use of and/or can utilise particular entities or issues (and others can't, or not to the same degree). Such entities or issues can be *anything*, i.e. conditions, situations, opportunities, treatment, consequences; physical or virtual spaces, artefacts, physical, immaterial or virtual resources; institutions, structures, processes, networks; privileges, prerogatives, rights, responsibilities, positions, functions, prestige, status; knowledge, power, income, wealth or social welfare. Crucially, such entities or issues are (made) exclusive and are restricted so that they are highly valuable in that particular social system, appreciated by the members of the social

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<sup>411</sup> Pojman and Westmoreland (1997, p. 294, italics added) even went so far to allege that 'contrary to egalitarians there is good reason to believe that humans are not of *equal worth*. Given the empirical observation, it is hard to believe that humans are equal in any way at all'.

<sup>412</sup> For example, Raphael (1980, pp. 62–63) distinguished between 'natural inequalities' and 'social inequalities' and explained it using an example (p. 62): 'A tall man and a small man are unequal in size; a rich man and a poor man are unequal in wealth. The first is a natural inequality, the second an artificial one.' Pojman and Westmoreland (1997, pp. 3-4) distinguished between 'morally permissible inequalities' and 'morally wrong inequalities'. The former are 'differences in ethnicity, interests, aptitudes, intelligence, and conceptions of the good' (p. 3), the latter are '[the distribution of] primary goods, resources, economic benefits (wealth), power, prestige, class, welfare, satisfaction of desire, satisfaction of interest, need and opportunity' (p. 4). One can see similarities in the two concepts. 'Natural inequalities' or 'morally permissible inequalities' would roughly resemble what had been defined above as *individual or social differences* and can be accepted as a fact of life. But 'social inequalities' or 'morally wrong inequalities' should be corrected by a more equal distribution.

<sup>413</sup> In Appendix 1 there is also an extended definition of social inequality (principle 219).

<sup>414</sup> The following considerations also draw somewhat on Galeotti (1997, p. 230), Rousseau (1997, p. 37), Schmitz (2002, p. 244), Young (2008, pp. 79-81, 95), Warwick-Booth (2013, p. 54), and Thompson (2016, p. 8).

system, and others are, or can be, excluded from them. It is a decisive characteristic of social inequality that only *some* have privileged access to exclusive entities or issues and are systematically advantaged and empowered. The 'right' or privilege of access can be deducted from *anything*, i.e. certain factual or socially constructed (claimed, alleged or ascribed) common characteristic(s) (features, behaviour, actions) of that particular individual, group of people or social class. This common characteristic not only serves then as an *explanation* but (also) as a *justification* why *they* – and *only* they – have that exclusive privilege of access.

2) Those who have privileged access to the exclusive entities or issues become, or are made, *powerful*.<sup>415</sup> They are (made) powerful in psychological, social, cultural, religious, political, organisational and/or economic terms, often in *all* of those. They *see* themselves as powerful – and are seen by others as powerful – they *know* that they are powerful, they know how to *use* their power, they *are* powerful. Powerful people are systematically advantaged and, quite understandably, most of them use their power to their own advantage – although this is usually covered by layers of ideology and rhetoric about 'serving' (for instance, 'serving the country', 'serving the people', following a higher call or purpose or whatever). But the powerful and privileged do *not serve*, they *exploit*. To be in a powerful, privileged, superior and dominating position (in regard to others) offers boundless opportunities to get what others can't. The more powerful have, and/or have access to, (much) more material, immaterial and financial resources, more and better opportunities to satisfy all their needs, to do what they want to do, to pursue their interests and to develop themselves. They have the status and the power to influence things and people, to dominate others, to participate in the political and social life, to have their prevailing values institutionalised, *and* they have the capabilities to do so and to get their interests through (Benello 1971, p. 48, Nielsen 1990, p. 84). They are *systematically and systemically* empowered – and they want to make sure that it stays that way. Most of the things they have or do increase, at least protect and maintain their power – and the very social inequalities that have made them powerful in the first place.

3) The privileged and powerful individual, group or class is *made* superior, i.e. they will be given superior and dominating positions – which makes them even more privileged and powerful, especially in regard to others. These positions can be formal or informal, within structures and/or processes. The most obvious and visible superior position is the elevated formal position within a structure, i.e. within a *hierarchy*. Usually such a position also stretches into processes, i.e. the functions the official holder of the position conducts regularly or occasionally. Beside this, superior positions can also be of an informal nature, ideally coinciding with the formal position and functions (ideally from the perspective of the powerful), but not necessarily.

4) Social inequality, like power, social dominance, hierarchy, exploitation and oppression, takes two: ruler(s) and ruled, empowered and disempowered, superior(s) and subordinates. Whereas the former are privileged and advantaged, the latter ('the people', 'the poor', 'the followers', 'the others') are not only excluded from those particular entities or issues, but (because of that) are systematically *disempowered*, discriminated against and put into disadvantaged, subordinate and obedient positions. These others ('the many') lack (necessary) resources, opportunities and capabilities to meet their needs, to pursue their

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<sup>415</sup> Willmott (1984, p. 361) stressed the fact that 'the power or powerlessness of any particular group or individual is directly related to their structurally limited access to the resources needed to secure compliance with their demands'.

interests (fully), and to live their lives as they would like to. They are fairly limited in what they do and can do. They are principled and practically confined in their capabilities to make decisions, to participate, to do what they would like to do, to develop themselves and to achieve well-being.<sup>416</sup> In one word: They lack power – they are *disempowered*. They are *systematically and systemically* disadvantaged and disempowered. As a consequence, they have low status and self-esteem, are being stigmatised and marginalised, oppressed and exploited. And they behave *accordingly*, i.e. they demonstrate the whole range of the required obedient behaviour of the ‘good’ subordinate, and disempower themselves in addition to being disempowered by others.<sup>417</sup> As with regard to the powerful, there will be ‘good’ reasons why they are disempowered, discriminated against and disadvantaged. Their unequal position, discrimination and disadvantageous treatment is ‘explained’ and ‘justified’ by certain characteristics (features, traits, attributes, behaviour, actions) they factually or allegedly have in common. There will be elaborated ideologies and rhetoric explaining and justifying their inferiority and disadvantages (like the will and wisdom of a supernatural force, destiny, ‘natural laws’, historical reasons, market forces, individual shortcomings, misbehaviour or whatever). Because of their common characteristics, the disadvantaged are ‘rightfully’ excluded from the restricted entities or issues, disadvantaged and disempowered, and put in their inferior positions. They rightly belong there.

5) The superior positions, privileges and power of the empowered and the inferior positions, disadvantages and powerlessness of the disempowered are no coincidence and are not established randomly but *systematically*. They are carefully drafted, implemented and executed. There are principles, norms and values prevailing, as well as laws and institutions, rules and regulations established in that particular social system that are meant to justify the social inequalities, privileges and disadvantages, to protect and to nurture them, to make sure that they continue, and that everyone behaves accordingly. There is a certain logic about social inequality that seems to make sense to almost everyone who is part of it. Social inequality is a relatively consistent, comprehensively and thoroughly institutionalised, self-contained and self-perpetuating system of social inequalities.

#### *Why social inequality should be reduced as much as possible*

The clear definition and description of social inequality exposes its innate immorality. Social inequality means:

- Unequal rights and privileges, material and immaterial resources, opportunities and life chances for different types of people (privileged/advantaged and discriminated against/disadvantaged);
- That only some people are (made) *powerful* and many others are (made) *less powerful* or even powerless;<sup>418</sup>

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<sup>416</sup> In my book *Hierarchy and Organisation* (Diefenbach 2013, section ‘3.5.4 The systemic nature of societal institutions and resources’) I made the same argument with regard to (power differentials in) hierarchical relationships or hierarchical social order.

<sup>417</sup> See sub-section ‘Social disempowerment of the disempowered many’ in Part II, ‘Democratic organisations’.

<sup>418</sup> Following Lukes’ (1974) three dimensions of power, ‘power’ might be defined as *the ability to pursue one’s interests within a social context (even against others’ will), to make others think, behave, and/or act in certain ways, and to have one’s values institutionalised*. In Part II, ‘Social empowerment of the disempowered many’, I

- That only a minority of people (the privileged, rich and/or powerful) has sufficient (access to) resources, opportunities and capabilities to meet their needs (in appropriate forms), to pursue their interests (fully) and to live their lives appropriately;
- That the privileged and powerful continue to have and to get more and the discriminated against and powerless continue to have and to get less.

However they are portrayed or justified, and whatever they are called, social inequalities – or power differentials – to a great extent decide who people are, what they get and can do, how they are treated and how they do in their lives. And, to add insult to injury, all these social inequalities and power differentials, unequal distribution of resources and participation in outcomes, privileges and discriminations are usually portrayed as ‘fair’ and ‘just’, as ‘right’ and as ‘deserved’. Social inequality makes it appear ‘right’ and ‘just’ that the powerful have so much, and rule and enrich themselves, and that the powerless have so little, and are oppressed and exploited.<sup>419</sup> And most people believe this nonsense.

But there is no justification for social inequality or power differentials – and for everything that comes with them. And it is not just that social inequalities are bad as such, unfair and unjust, but they are also profoundly dysfunctional and simply do not fit with any kind of free and democratic, fair and just society. Social inequality makes social constellations (how people relate to each other) illegitimate, it makes social processes and outcomes illegitimate, it *is* illegitimate. Social inequality cannot be justified in functional terms, or in any other way. Social inequality is just wrong.

Because of all of the reasons stated, social inequalities are simply unacceptable for a social system that is based on, and functions according to, the ideas of people having equal rights and equal opportunities. People deserve to be *different* (i.e. they have every right to be different and should celebrate and enjoy, or at least tolerate the differences), but they don’t deserve to be made *unequal* – they don’t deserve a superior position, and all the privileges and advantages that come with it, or an inferior position, and all the discrimination and disadvantages that come with that. It is perfectly normal that people’s *individual* being and behaviour constitutes social *differences* (and even *economic* differences) – but there should not be social *inequality*, i.e. institutionalised privileges and advantages, discrimination and disadvantages of people. Social *differences* are ok. Social *inequality* is not ok. Individuals deserve to be *socially equal*, they deserve *social equality* (Walzer 1983/1997, pp. 306–307, Nielsen 1985, p. 146, Ingram 1994, pp. 157–158, Ravlin & Thomas 2005, p. 977). ‘Social equality’ means that *all* members of a social system:

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defined *social empowerment* similarly as ‘the ability to pursue one’s interests within a social context; the ability to have an influence and an impact on others, within a range of possibilities from merely being accepted to making others behave in certain ways; and even the ability to have one’s values institutionalised and/or internalised by others’. ‘Social dominance’ would also be rather similar (see section ‘3.9.2 Social dominance theory’ in my book *Hierarchy and Organisation* (Diefenbach 2013), where I discussed social dominance theory as developed by Sidanius and Pratto (1999) and Sidanius et al. (2004)).

<sup>419</sup> For instance, Cook and Hegtvedt (1986, p. 20) found ample evidence ‘that power ultimately determines the distribution of rewards in a group or social system’. As they explained (p. 21): ‘When power differences exist, powerful (as well as powerless) actors are likely to promote the distribution that maximizes their own outcomes. The resources that powerful actors have at their disposal enable them to affect the attitudes and behaviors of others, most importantly to extract their compliance ... If those in power can influence others to accede to the basic fairness of the distribution of benefits, legitimating its inequality ... then the “just” distribution of the outcomes is merely a reflection of the distribution of power.’

- a) Are constitutionally, legally, politically and socio-culturally *equal*;
- b) Have the same fundamental inalienable *rights*, in particular human, democratic and civil rights, rights of and to self-ownership, private ownership, governance and management;
- c) Shall have similar *social conditions* and *equal opportunities* in respect to their personal development and well-being; and that
- d) There are no institutionalised privileges and exclusions, advantages and disadvantages, superior and inferior positions, i.e. there are no institutionalised *power differentials* between individuals, groups of people or social classes.<sup>420</sup>

As I argued early in this Part V (see chapter ‘The case for a more equal society’ above) it is neither possible, nor recommended, to try to achieve full or complete (‘total’) equality – whether economic, social or any other form of equality. But in the face of that broad range of problems and all the negative characteristics of (economic or social) inequalities and the dire consequences they cause,<sup>421</sup> there are good, *very* good, reasons for trying to reduce or even minimise social (and other) inequalities as much as possible, to make a society more equal. Social inequalities should be reduced – they *must* be reduced as much as possible.

The following two sections discuss measures to achieve social equality mainly by reducing social inequality systematically and comprehensively. They will show: 1) how specific social inequalities at the individual level can be tackled, and 2) how systemic conditions that cause and maintain social inequalities at societal levels can be minimised.

### **Tackling social inequalities at the individual level**

#### *Basic needs, equal opportunities and capabilities*

Social inequality – and doing something about it – is first about individuals – and especially those that are systematically disadvantaged, in inferior positions and lacking resources. Hence, if one wants to tackle social inequality at the individual level one first has to look at what people lack, what they need, and what can satisfy those needs. Usually, this is done via a *basic needs* approach that tries to identify the minimum resources necessary for people to conduct their lives in decent and adequate form (Basic Needs 2021, no page numbers). These basic needs comprise ‘absolutely necessary’ items such as food,

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<sup>420</sup> Walzer (1983/1997) termed this ‘complex equality’ or ‘complex egalitarian society’ and formulated a fitting distributive principle (p. 307): ‘No social good x should be distributed to men and women who possess some other good y merely because they possess y and without regard to the meaning of x.’ Nielsen (1985, p. 146) called it an ‘heuristic ideal of a statusless, as well as classless, society without social stratification’. In a similar vein, Ingram (1994, p. 157) argued that ‘the moral and political task of autonomous agents is to structure their interdependencies in ways that prevent domination of some by others’. He (p. 158) named such a social structure ‘undominated interdependence’. And Ravlin and Thomas (2005, p. 977) called it ‘horizontal individualism’ and explained that ‘the self is autonomous and people are generally considered or claimed to be equal. These cultures are characterized by patterns of social behavior that emphasize equity in resource sharing according to contribution (a source of status differentiation linked to performance) and distribution of resources equally among members ... They are characterized by social systems that emphasize both the values of equality and individual freedom’.

<sup>421</sup> See chapter ‘The case for a more equal society’ above.

water, clothing, housing, utilities, sanitation, healthcare, education, information and communication technologies, but they might also include items that represent a more advanced lifestyle, such as participation in the social and cultural life (pastime activities, entertainment, memberships) (Basic Needs 2021, no page numbers). Concepts like ‘poverty threshold’, ‘self-sufficiency standards’, ‘living income standards’ or ‘minimum income’ (Basic Needs 2021, no page numbers) indicate that there is a need to somehow define human beings’ basic needs and the minimum levels individuals and households should not fall below.

However, it is impossible to define basic needs once and for all universally and in absolute terms. Basic needs are (also) context-dependent and can be determined only against and within a particular cultural, social, political, economic, technological and geographical context and within the tension between ‘universal’ and ‘specific’, ‘absolute’ and ‘socially relative’, ‘objective’ and ‘subjective’ needs (Doyal & Gough 1984/2011, p. 97, Deutsch 1985, p. 43, Zutavern & Kohli 2010, pp. 171–172).<sup>422</sup> Either way, even in face of methodological, political and practical challenges it is both possible and necessary to develop a conceptual as well as detailed concept of basic needs that in a given society can serve as a landmark for defining and identifying what (disadvantaged) people might be lacking and need.

A basic needs approach, at least in a narrow understanding, first and foremost covers *goods* (consumer goods). But individual people’s disadvantages, disadvantaged position and the discrimination they face, are only partly down to (a deficiency of necessary) material goods. It is also immaterial things they lack, such as *opportunities* – equal opportunities – adequate opportunities to pursue their dreams and to conduct their lives appropriately (Schaar 1967/1997, p. 144). Equal opportunities means that every person has the same or similar, formal *and* substantive, realistic and feasible options available in respect to any major aspect that is relevant for a person’s life, in particular the constitutional, legal, political, socio-cultural, organisational and/or technological conditions and institutions, people’s education, work and professional career, social life and (political) participation, private life, health and well-being.

Also equal opportunities are not a universal, absolute concept, but comprise some broad ideas about which opportunities in general people usually should have in their lives (e.g. regarding growing up, education, professional careers, personal development, health, environment) as well as some more specific opportunities that are context-dependent.

Moreover, in addition to *having* equal opportunities, people must also be *able* to make use of opportunities that are available to them, or even create some for themselves. People must have the *capabilities* and competences to lead their lives in decent ways. In this sense, the well-known Indian economist Amartya Sen introduced the concept of *equality of capabilities* (Sen 1980, p. 218, or what he called ‘basic capability equality’). If the concept of ‘equal opportunities’ focuses on the things and possibilities that are (potentially) available to people, the capability approach is about people and what they can actually do (Sen 2010, p. 253). And it especially looks at which skills and competences people may need – or might need to develop – in order to pursue their goals, carry out activities they want to do, and to live healthy, confident and active lives (Anderson 1999, p. 316). Such skills and competences are mostly about an individual having sufficient cognitive, emotional and cultural intelligence and social

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<sup>422</sup> Moreover, and to make things even more complicated, it is also a question of *who* decides what are basic needs (Doyal & Gough 1984/2011, pp. 96–97) – politicians/the government, ‘experts’ (professionals of all kind), academics or those in need?



competence to understand, critically reflect on, and cope with social phenomena, to express themselves, act and interact in any social context as *they* deem right and feel comfortable with, that they are able to reason independently and formulate their own will, to pursue their own interests, to manage and to maintain social interactions and social relationships, to engage with institutions and to conduct their life according to their own interests, needs and liking.<sup>423</sup>

#### *Non-monetary social welfare policies instrumental for individuals*

To provide people with the means to cover their *basic needs*, with *equal opportunities* and supporting conditions so that they can develop the necessary *capabilities* to conduct their lives in appropriate ways requires policies and measures. Such policies and measures can be subsumed under the broad programme of *social welfare policies*.<sup>424</sup> Social welfare policies were mentioned earlier as a means to reduce *economic* inequality by redistributing income (see the examples of social welfare policies in the sub-section ‘Redistribution of income via social welfare policies’ above). There it was mainly about social welfare policies that grant *monetary/financial benefits* (e.g. social benefits, tax benefits or employment-related benefits in the form of direct payments or cash benefits) that contribute to a reduction of *income* inequality. But these social welfare policies also offer *non-monetary/non-financial services* that are especially relevant for a reduction of *social* inequalities, in particular:

- *Public social services*: Social services offered by public sector organisations (e.g. childcare and education (nursery, kindergarten, pre-school, schools, colleges, higher and further education), active labour market programmes, publicly funded healthcare and health services (medical centres, hospitals), social housing, residential care/care services for the elderly, public transport, public utilities, public libraries, recreational programmes and activities, community services, and other services offered by local authorities).
- *Voluntary welfare*: Social services provided by individuals or private organisations/civil society organisations (e.g. childcare, education, active labour market programmes, healthcare and health services, housing, residential care/care services for the elderly, other social services).

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<sup>423</sup> See section ‘Social dimension: The individual among others’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>424</sup> In a philosophical or ethical sense such social welfare policies reflect essential ideas and goals of *egalitarianism* and *humanitarianism* (Nielsen 1990, p. 84, Schmitz 2002, p. 250, Hahnel 2005, p. 32). In a political sense, such policies represent the notion of the *welfare state* (Briggs 1961/2014, p. 14, Esping-Andersen 1990/2014, pp. 143–145, White 2010, p. 20). Briggs (1961/2014, p. 14) neatly summarised the core idea of a welfare state providing social welfare policies: ‘A welfare state is a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain “social contingencies” ... which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services.’ In general, social welfare policies are also good for the whole, i.e. the functioning, stability and development of the social or political system and the society they are part of (Esping-Andersen 1985/2011, p. 335, Estrin 1987, p. 40, Robertson 1988, pp. 223–224), but the focus here is on their use and usefulness for individuals.

- *Informal welfare*: Social services given by partners, family members, friends or neighbours free of charge (e.g. care for children, partners, parents, (other) family members or friends, housekeeping, common activities).

Such non-monetary social services in the form of public social services, voluntary or informal welfare offer a broad range of invaluable benefits, goods and services in monetary terms. They are made available directly to (eligible) individuals and households so that they can cover their basic and/or immediate needs, make use of equal opportunities to address and solve a whole range of personal problems and/or to develop their personal skills and capabilities. Such services ensure that all people in principle have equally appropriate and sufficient conditions and non-financial means available to conduct their lives in reasonable, adequate and decent ways, i.e. they contribute to an increase in individual and social welfare and well-being.

Whether or not a non-monetary social welfare policy has some equalising effect depends on its purpose and design. All-encompassing, ‘universal’ programmes that offer social services to *all* citizens irrespective of their income, occupation or social position (Korpi & Palme 1998, p. 662)<sup>425</sup> might not contribute much to a reduction of social inequalities because (almost) everyone benefits from them or is entitled to make use of them. Some universal social services might even favour the better off (for instance, social services that serve more educated or aspirational people) and, thus, contribute to an *increase* in social inequalities (Prasad 2008, p. 5) – in which case they would even be counterproductive if the goal, or one of the goals, of social services was indeed to reduce inequality (Korpi & Palme 1998, pp. 662–663).

On the other hand, one could argue that most universal social services *do* reduce social inequalities in the sense that generally they are used (much) more by disadvantaged people than the better off and that these services especially improve the conditions and enhance capabilities and human capital of the disadvantaged over the long run (Korpi & Palme 1998, pp. 671–672, Prasad 2008, p. 4). For example, Verbist et al. (2012, p. 34) found that ‘all types of public services considered here account for a much higher share of disposable income among lower-income than among higher-income households: 76% of disposable income for the poorest 20% and only 14% for the top 20% ... In relative terms, services from social housing and elderly care have more significance in the incomes of low-income than those of high-income households. This differential is weaker in the case of the other services considered’.

Social welfare policies, and particularly non-monetary social policies, reduce social inequality even more if they are not *universal* but *targeted*, i.e. if they are meant primarily or solely for clearly identified individuals or groups of people in need (e.g. poor, vulnerable or otherwise specifically disadvantaged people) and if the eligibility for such social services is *means-tested* (usually income- or wealth-tested) (Shapiro 2002, p. 2). The more targeted and means-tested a social service is, the more it helps the disadvantaged and those who really need the service, and the more it reduces (economic and social) inequality. Viewed in this way, targeted and means-tested social welfare policies really practice the Robin Hood principle of taking from the rich and giving to the poor – equality-enhancing measures *par excellence*.

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<sup>425</sup> There might be some contingency in the sense that a person must have made previous contributions (e.g. social insurance payments) and/or must fulfil certain criteria in order to be eligible (like being a ‘citizen’, ‘resident’ or ‘family member’), but these are rather general (Shapiro 2002, p. 2).

### Minimising systemic social inequalities

Social welfare policies reduce social inequalities considerably by addressing the specific needs of *individuals*, by providing them with equal opportunities, and by supporting them in developing their individual capabilities. However, social inequality – or social inequalities – can also emerge/manifest itself in any lasting *structural* or recurring processes of a social system; it can be in a direct relationship between individuals that has turned into a *superior/subordinate relationship*, organisational structures that embody a *hierarchy*, between social groups establishing a *group-based social dominance*, or it can define the relative positions of social classes in the form of *stratification*.

Obviously, these social systems are different and function differently. But what they do have in common is that they represent forms of *systemic social inequality*. It therefore makes sense to target also these systemic causes, conditions and mechanisms that create and magnify social inequalities and to make sure that a society's fundamental areas and institutions are designed and function consistent with the notion of keeping social inequalities at a minimum. Societal areas and institutions that are particularly relevant for social equality/social inequalities are (Abercrombie et al. 1980, p. 130, Willmott 1984, p. 361, Shrivastava 1986, p. 365, Pollitt 1990, p. 6, Beetham 1991, pp. 48–50, Sidanius & Pratto 1999, Levy et al. 2001, p. 10, Sidanius et al. 2004, Diefenbach 2013, p. 61):<sup>426</sup> a) *constitutional and legal institutions*, b) *political institutions*, c) *organisations*, d) *socio-cultural aspects and institutions* and e) *resources*.

The following sub-sections address these societal aspects and institutions in turn and will outline some fundamental principles and measures that can reduce, minimise or even end social inequality in this regard.

#### *Constitutional and legal institutions meeting all forms of legitimacy*

In any larger social system, the status of individuals, their fundamental human, civil and democratic rights and freedoms (as well as their responsibilities and duties) and, therefore, their relationship to others, to institutions and to the whole, are defined and decided first by a more or less complete set of prevailing basic principles (rules, norms and values) – i.e. the *constitution* or basic law.<sup>427</sup> And taken from the constitution or constitutional law, or at least consistent with it, are other laws (like civil and criminal law) and more specific rules and regulations – i.e. *legal institutions*. Constitutional and legal institutions establish and shape social (in)equalities by creating, applying and executing the law and legal principles, regulations and measures regarding people.

Obviously, constitutional and legal institutions can establish considerable social inequalities by granting different people different rights and responsibilities, by privileging some and discriminating against others and/or by treating, enabling or hindering people differently. And, indeed, constitutions and legal institutions often have been designed and applied in favour of the rich and powerful – also because they

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<sup>426</sup> In my book *Hierarchy and Organisation* (Diefenbach 2013, pp. 60–72) I discussed these societal dimensions or institutions with regard to hierarchical social order.

<sup>427</sup> As outlined in chapter 'The public sphere and (the need for) its democratic governance' in Part IV, 'Civil democracy'.

are mostly drafted by members of the power elite (leading politicians, senior administrators, ‘the rich’ or other influential people or power elites), and because many powerful individuals and institutions/organisations have – or seek – direct or indirect, legitimate or illegitimate influence upon the process of drafting and implementing laws, rules and regulations. As a consequence, *social inequalities are constitutionalised, institutionalised and even legalised*.

It is immediately clear that this is the case in totalitarian and kleptocratic regimes as well as in illiberal or fake democracies since these systems by definition are designed and continued in order to establish, maintain and exploit all sorts of inequalities (in particular political, economic and social inequalities). In contrast, the constitutions and legal institutions of fully fledged democracies provide many of the desirable political and social equalities. If one is serious about reducing, minimising or even eliminating social inequalities at the level of the constitution, the law, (legal) rules and regulations, one has to make sure that these areas or institutions adhere to, and grant, *equal rights – or equality of rights – for everyone*. Constitutional and legal institutions do so if, and only if, they are *legitimate*. They must propagate and comply with all five types of legitimacy,<sup>428</sup> in particular with *procedural* legitimacy (rule of law) and *substantive* legitimacy (equal rights and entitlements). It means that a constitutional or legal institution must be designed, managed and maintained, operate and produce outcomes and consequences in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability, as well as people’s inalienable human, civil and democratic rights, that it upholds, protects and strengthens these principles and rights (*substantive legitimacy*), and that formal rules are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (*procedural legitimacy*). For instance, in order to be legitimate a constitution *must* comprise and propagate the whole range of human, civil and democratic rights (as stipulated by the *United Nations Universal Declaration of Human Rights* of 1948) and *must* grant them equally to all people without exception, in particular:<sup>429</sup>

- a) *Rights of the person*: life, liberty and security of the person; privacy, freedom of movement; ownership of property; freedom of thought, conscience, religion.
- b) *Rights associated with the rule of law*: equal recognition before the law and equal protection of the law; equal legal and effective rights; impartial hearing and trial; presumption of innocence.
- c) *Political rights*: freedom of expression, assembly and association; the right to take part in government; periodic democratic elections.
- d) *Economic and social rights*: adequate standard of living; free choice of employment; protection against unemployment; just remuneration; labour laws, education; social security; well-being and welfare.

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<sup>428</sup> See section ‘Types of legitimacy’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>429</sup> The list is copied from section ‘People and their fundamental rights: *Human rights*’ in Part I, ‘Free individuals and legitimate institutions’. Of course, the legitimacy of a constitution depends on more than the inclusion of human rights (for example, that the constitution has been ratified in democratic ways, that it adheres to the same principles, standards, rules and regulations it pronounces, that it also falls under the rule of law, or that it can be scrutinised and altered in legitimate ways). But in respect to social equality it is especially the inclusion of equal rights / human rights that makes a constitution legitimate and turns it into a useful instrument to reduce social inequality.

One can imagine that *if* a nation state were to hold human, civil, and democratic rights in high esteem *and* make sure that all human, civil and democratic rights are not only enshrined in the constitution but are reflected in every law, regulation and any other legal institution, then social inequalities would be noticeably lower, much lower. In this sense, at the level of, and in respect to, constitutional and legal institutions, *legitimacy* is the first and foremost principle, and *equal rights* of and for everyone are the primary means to largely and enduringly reduce social inequality. For a free and democratic society it is paramount that any constitution and law, rules and regulations as well as legal institutions meet *all* criteria of legitimacy and grant equal rights to *everyone equally*. There is no alternative.

Nevertheless, even in such libertarian states and societies fundamental laws and legal arrangements can still establish systemic and widespread social inequality. For instance, the common *employment contract* advantages a minority (owners and employers) and systematically and considerably disadvantages many people (employees). In particular, the employment contract (Diefenbach 2021):

- Turns people into masters and servants, giving the former (owners/employers) *all* power and control ‘rights’ and taking away or restricting some of the latter’s (employees) *fundamental* freedoms; human, democratic and civil rights; and legal rights and responsibilities (such as freedom of thought, freedom of expression, free development of personality, right of ownership of and to property, or just remuneration).
- Establishes hierarchical superior–subordinate relationships where power, resources, rights and responsibilities are allocated *deliberately* unequally; where only a few people (owners and managers) are allowed to make decisions; and where the many (employees) are left with the prime duty to obey and to carry out orders. It creates a fundamentally autocratic or oligarchic and *anti-democratic* system.
- Constitutes *a highly unequal, asymmetrical relationship* between owners/employers and employees whereby the former takes advantage of the latter through an *exploitative exchange* and profits disproportionately via wrongfully appropriating *all* value added without legitimate reasons and at the expense of the employee. It is institutionalised, *contract-based exploitation*.
- Goes against the fundamental principles of *substantive justice* because some people (owners) wrongfully appropriate all profits whereas others (employees) are not rewarded for their contributions as they deserve. It privileges the former and discriminates against the latter unfairly and unjustly.

The employment contract goes against the universal principles and values of freedom, democracy, equality and justice *in principle* and – because of its widespread and common use – creates and represents systemic social inequality throughout society. The employment contract is *illegitimate*. It is, sadly, a typical example for the (seemingly legitimate, but actually illegitimate) establishment and institutionalisation of systemic social inequality (as well as legal and economic inequality) in otherwise free and democratic societies.

In order to reduce – actually, to end – this systemic legal, economic and social inequality, the employment contract would need to be rendered unlawful and outlawed and replaced by partnership agreements that grant everyone who works for an organisation the same equal rights and responsibilities (especially equal status as partners and related ownership and property rights as well as the fundamental human, democratic and civil rights).<sup>430</sup>

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<sup>430</sup> See section ‘Partnership agreement’ in Part II, ‘Democratic organisations’, and sub-section ‘Entitlements, rights

### *Political institutions providing equal political power and participation*

A second area where social equality and social inequalities are created and decided is *political institutions*, i.e. government, parliament and other institutions of (national, regional and local) governance, political organisations (associations, parties), as well as the electoral system.

Political institutions are the only institutions that are primarily and officially established in order to create and establish *power* (Weber 1921/180, Lukes 1974), i.e. the political and institutionalised power to make decisions, to govern and to rule. The traditional understanding of power means power *differentials*, i.e. that political and administrative offices (and office holders such as representatives, delegates and/or administrators) are provided with the powers and the resources to rule whereas others (the public/the people) do not, and shall not, have these powers. There is an *institutionalised* and *systemic* power differential between institutions of governance and office holders on the one hand, and (all) other institutions and members of a social system on the other. As a consequence, any such power differential means social inequality; office holders have privileged access to power, are systematically advantaged and empowered, and put in a privileged and dominant position in regard to others who don't have this access and, therefore, are systematically disadvantaged and disempowered.

But there are principles and methods that can confine and democratise power (and thus reduce social inequality). So that power differentials and related social inequalities are kept to a minimum, the political institutions of governance (i.e. institutionalised political power or authority as well as the conduct of political offices) have to be *legitimate*. A political institution is legitimate (only) if:<sup>431</sup>

1. Its purposes and design, the ways it operates and the outcomes and impacts it causes are consistent and correspond with its own claims, adhere to its formal policies, rules and regulations (internal formal legitimacy), fit to the social system and society they are part of, and comply with relevant legitimate laws, policies, rules and regulations (external formal legitimacy) (*formal legitimacy*);
2. Formal rules are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (*procedural legitimacy*);
3. It is designed, managed and maintained, operates and produces outcomes and consequences in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability, as well as people's inalienable human, civil and democratic rights, and it upholds, protects and strengthens these principles and rights (*substantive legitimacy*);
4. People regard its existence, purpose(s), design, the ways it works and the outcomes it produces as legitimate (*perceived legitimacy*); and
5. It resembles in its entirety as well as in all its parts with rationality and reason, is up for scrutiny and can be contested and altered for good reasons (*rational legitimacy*).

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and law: The legal basis of and for market activities' in Part III, 'A democratic market economy'.

<sup>431</sup> The list is copied from sub-section 'Legitimate government: And why only democracy is a legitimate form of government', Part IV, 'Civil democracy', where it was about the legitimacy of government.

A *legitimate* political institution means small(er) power differentials, less abuse of power and less social inequality than any form of *illegitimate* political institution. Nonetheless, even legitimate political institutions face the possible threat of illegitimate power or abuse of power – especially when their institutions of governance are not (or only poorly) controlled, are unbalanced, when they offer opportunities for power holders to gain privileges and advantages others can't have, and when power elites are able to institutionalise their privileges and preferential treatment.

A principle, and mechanism, that can further confine legitimate or illegitimate (political) power – and that can reduce social inequalities related to political institutions – is *participation*. Participation means that *all* members of a social system have equal (formal, legal and political) rights and actual opportunities to participate *regularly and fully* in the governance and management of the social system, its public affairs and issues of general concern, in particular to participate in all political institutions and formal decision-making processes at all levels (e.g. local, regional and national) of the social system.<sup>432</sup> In line with such an understanding, participation not only means to be informed, heard or consulted but it means *full* involvement in (joint) decision-making and co-determination.

Hence, participation is not only some tokenistic involvement in decision-making processes but complete control, not only *representative democracy* but *civil democracy* (as outlined in Part IV). 'Civil democracy' can be defined as 'the democratic governance of a society, its public spheres, public affairs or any matter of public concern by: 1) people either directly or via voluntary democratic associations (*democratic self-governance*); 2) legitimate private or public institutions of governance representing the will of the people (independent democratic political parties, local, regional and national parliaments, and/or a democratic government) (*representative democracy*); 3) citizens and civil society organisations collaborating with decentralised public authorities and other third parties (*participatory governance*); and 4) citizens demonstrating (proto-political, basic political, advanced or radical) *citizenship behaviour* in public.'<sup>433</sup>

Concerning a far-reaching reduction of social inequality related to political institutions and power differentials civil democracy means:

1) The greatest social equaliser is self-governance – *democratic self-governance*. People governing themselves, their own affairs and the conditions of their existence have equal political status, equal political rights and equal opportunities to be involved in the governance of the whole (see chapter 'Democratic self-governance' in Part IV, 'Civil democracy'). Democratic self-governance, whether locally in small, voluntary, self-organising groups that are entitled and enabled to govern, via established associations, or online via social media, enables people to participate in the governance of (local) public affairs and matters of public concern and thus equalises their socio-political influence and standing.<sup>434</sup> Moreover, the decisions of people who govern themselves collectively are usually politically, socially and economically more balanced, i.e. they do not allow for greater inequalities since these go against the notion of equal rights and equal status of everyone.

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<sup>432</sup> This definition of participation is based on section 'Participative management: From information given to full control' in Part II, 'Democratic organisations'.

<sup>433</sup> This definition stems from sub-section 'Civil democracy' and the concepts that constitute it' in Part IV, 'Civil democracy'.

<sup>434</sup> There is, however, the danger of local power elites dominating all self-governance and strengthening already existing social structures and patterns of stratification. This problem will be discussed in more detail in the planned Volume 2 *Discussions*.

2) Where self-governance is technically not possible, *representative democracy* takes over.<sup>435</sup> A fully representative democracy means that delegates and the government are controlled and held accountable by the electorate, parliament and/or other interested parties constantly, comprehensively and thoroughly along a 'chain of delegation, representation and accountability'. Representatives are not sovereigns but have to execute the will of the people, their conduct of office is scrutinised and they are replaceable at any time. Moreover, strong and diverse political parties, a fully functioning democratic electoral system with free and fair elections, and a strong and powerful parliament make sure that all people's diverse needs and interests are represented in the political arena. Altogether, a representative democracy gives people great opportunities to control power, to hold those in power accountable and to rule, i.e. the usually less powerful are empowered. In this sense, representative democracy reduces political and social inequalities quite considerably.

3) In civil democracy representative democracy does not come alone. At all levels it is complemented by *participatory governance*. 'Participatory governance' can be defined as institutionalised potential participation of interested citizens and civil society organisations in public governance, i.e. that citizens and civil society organisations have formally established equal rights and opportunities to participate directly and regularly in public authorities' governance of public affairs, matters of public concern, and the governance and delivery of public services, as well as in related decision-making processes in regard to the preparation, formulation, implementation and control of relevant policies, programmes or individual measures.<sup>436</sup> Participatory governance means that every natural or legal person (i.e. individual or organisation) has the same right, and shall be given the same appropriate opportunities, to participate in public authorities' decision-making processes concerning public affairs or matters of public concern.

4) All the political institutions and methods mentioned above – self-governance, representative democracy and participatory governance – depend on people's participation. Civil democracy is defined by, and depends on, people – all people – being *citizens* and demonstrating corresponding *citizenship behaviour*. A lot of social equality can be achieved in the political realm if each and every person in a society has the formal, legal and official status of a *citizen*. Citizens have the same bundle of fundamental legal, human, civil, political and social rights and entitlements (as well as responsibilities and obligations) – and they make use of them. When people see themselves consciously as citizens of a particular formal, legal, social and/or cultural entity among others, as full members of a social system (i.e. they have the *personal* and *social* identity of 'the citizen'), then they are also keen to participate in its public life, to be politically and socially relatively equal and to make sure that the social system reflects their equal status. Most 'citizenship behaviour', in particular proto-political, basic political and advanced citizenship behaviour, is citizens participating in the governance of society – or attempting to participate.

Altogether, with its four elements – democratic self-governance, representative democracy, participative governance and citizens' citizenship behaviour – civil democracy is the political system that provides for the greatest possible amount of freedom, democracy, equality and justice at the same time. In so doing, in the realm of political institutions it reduces social inequality to a minimum.

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<sup>435</sup> See chapter 'Representative democracy' in Part IV, 'Civil democracy'.

<sup>436</sup> This definition of participatory governance is from section 'The idea of participatory governance and some arguments for its realisation' in Part IV, 'Civil democracy'.



### *Organisations as democratic organisations*

Social inequality comes not only from/via constitutional and legal or political institutions but also from even more organised entities, from *organisations*. Social inequality can be embedded, if not to say enshrined, in the founding principles of an organisation (e.g. as ownership and property rights), the organisational institutions and regulations of governance and decision-making, structures and processes, management and/or the formal and informal social relationships of the members of the organisation.

For example, so far almost all organisations have been hierarchical. In my book *Hierarchy and Organisation* (Diefenbach 2013) I described (and criticised) this type of organisation systematically and in great detail. In respect to hierarchy or hierarchical social order I critically remarked that (p. 22): ‘hierarchy is mainly a tool for gaining and securing privileges and prerogatives for specific individuals and groups of people. Social systems such as hierarchy are the functional instruments (and preconditions) for certain individuals’ or groups of people’s struggle for social dominance and exploitation. The primary function of hierarchical social order is to guarantee and to support the interests of leaders and ruling elites. ... The ideology of hierarchy is basically an attempt to legitimise specific individual or group interests and unequal power relationships in order to secure the privileges of power elites and the continuing participation of subordinate groups and classes in exploitative social relations (...).’

And with regard to the hierarchical social relationships of people within this type of organisation I continued to criticise that such a relationship (p. 37): ‘is based first and foremost on the principle of inequality. It is a relationship of rights and duties allocated deliberately unequally; ‘hierarchy’ stands for dominating and obeying, giving and receiving orders (nowadays often called ‘advice’, ‘support’, ‘help’, or ‘guidance’), controlling and being controlled, telling and being told, guiding and being guided, leading and being led, having and not having, exploiting and being exploited. It is the fundamental idea and key characteristic of hierarchy that privileges and prerogatives are allocated unequally amongst members of the social system according to a system of social rank – whatever the specific criteria this is based on. Hierarchy means the systematic introduction, establishment, maintenance, and ideological justification of social inequalities between individuals or groups of people (...).’

In a hierarchical organisation, social dominance and social inequalities permeate the whole organisation; they show themselves in the constitution of the organisation (only one person or a few own the organisation and many people work for them on the basis of an employment contract. Only the former have all ownership and property rights, the latter have the duty to follow the former’s orders); in the governance of the organisation (hierarchical organisation with authoritarian decision-making); in its management (differentiation between managers and employees, whereby only the former have all the rights and resources to make managerial decisions, to supervise and to control, and the latter only execute orders, are being controlled and supervised); and in the social relationships within the organisation (classical superior/subordinate relationship with empowered superiors and disempowered subordinates). The hierarchical organisation, the ‘standard organisation’, is institutionalised and organised social inequality par excellence.

Hence, in order to reduce social inequalities related to organisations one not only needs a different principle of organising but a completely different type of organisation – the *democratic organisation* (Diefenbach 2019). The *democratic organisation* has all the settings and mechanisms that provide for the greatest possible social equality of all its members (see Part II):

- 1) Its *libertarian constitution* and partnership agreement specify and guarantee the equal status and rights of every member. All people who work for the democratic organisation own it (individually and collectively), i.e. they are partners with equal legal, formal and organisational status, rights and responsibilities. They own, manage and control the organisation they work for together *as equals*. People with equal rights and status do not let social inequalities come between them easily.
- 2) A democratic organisation is based on and governed by the principles of *democratic governance*, i.e. its institutions of governance (boards, committees, councils or assemblies) are designed in accordance with the principles of separation of power/checks and balances and subsidiarity, and function according to democratic rules and standards that protect and promote the equal rights of all owners and members (so-called 'good governance'). All members of the democratic organisation govern the organisation and its affairs, properties and assets, activities and results collectively and democratically, either directly or via democratically elected representatives. All decisions that are about constitutional, strategic or operational issues are made democratically (*democratic governing*). Usually, democratic governance and decisions made democratically are fairly balanced and don't produce much inequality.
- 3) *All* members of the democratic organisation are managers, have equal rights – and the responsibility – to manage, to conduct the whole range of management functions (planning, organising, leading and controlling) and to participate in all formal decision-making processes at all levels of the organisation (via *self-management*, *representative management* and/or *participative management*). Such *democratic management* creates a high degree of social cohesion and social equality.

Thanks to its libertarian constitution, democratic governance and democratic management, in the democratic organisation there is no hierarchy, no formal hierarchical relationships in principle. Social dominance and social inequalities, privileges and marginalisation are not envisaged in the design of the democratic organisation. And if social inequalities do emerge – something that can always happen in any social system, including free and democratic societies or democratic organisations – then there is a strong notion of *equalising empowerment*. As outlined in Part II,<sup>437</sup> equalising empowerment means that the empowered few are formally, psychologically and socially disempowered, and the disempowered many are empowered until both are equally powerful. In line with this notion, empowered people can and should be disempowered:

- *Formally* by directly limiting office holders' formal responsibilities and authority of office via formal principles and regulations of democratic governance (especially via the principles of transparency, accountability and legitimate authority), and democratic management (via full participation), limiting the number of memberships, formal positions and functions, terms in office and conduct of office. However, questionable personal management styles (such as an autocratic/authoritarian management style) cannot be tackled by such formal measures;
- *Psychologically* by fostering the idea of people being 'in balance', moderate, 'not striving', showing a strong prosocial orientation. This might counter the disproportionate psychological empowerment of *some* of the empowered few to a certain degree – but not of most and not fundamentally;
- *Socially* by *challenging privileging knowledge and privileged positions* by demystification (e.g. everyone does, and is able to, manage or to lead/contribute to distributed leadership), *social control*,

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<sup>437</sup> See especially sections 'Empowering the disempowered many', 'Disempowering the empowered few' and 'How equalising empowerment works' in Part II, 'Democratic organisations'.

especially upward control (in particular making sure that (self-)empowered members do not aggrandise themselves, gain illegitimate power or become leaders) and *social actions* to confine leaders (in particular to contain the social dominance of leaders and other aggrandisers by criticising and challenging them openly).

And disempowered people can and should be empowered:

- *Formally* by making *all* formal roles and positions within the official structures and processes of an institutionalised social system consistent with the fundamental ideas and principles of *democratic governance* (i.e. ‘good governance’, in particular: authoritative sources, democratic institutions of governance, separation of power/checks and balances, subsidiarity, democratic decision-making, transparency and accountability) and *democratic management* (self-management, representative management and participative management);
- *Psychologically* by enabling *all* members of the social system to develop the mindset and identity of the *autonomous individual*, i.e. to be able and confident to formulate their own will and live accordingly (*self-mastery*), to feel confident about themselves and their personality traits (*developed personal identity*), to reason independently without guidance or interference from external authorities (*independent intellect*), and to judge all issues of concern on the basis of and against universal norms and values *they* deem right and appropriate (*enlightened morality*).
- *Socially* by helping *all* members of the social system to gain a *comprehensively developed social orientation*, i.e. to enhance their capabilities to manage and maintain social interactions), social relationships and their lives within social settings (*social mastery*), to feel confident and comfortable among others in their social statuses and positions, roles and functions (*advanced social identity*), to have the education, knowledge, cognitive, emotional and cultural intelligence and social skills necessary to communicate and interact effectively with others, express themselves and realise their interests within a particular social context (*social competences*) and to care about themselves, others and social systems (*prosocial orientation*).

Only democratic organisations enable and support equalising empowerment. Democratic organisations are not only designed for keeping social dominance and oppression, social inequalities and exploitation away from the organisation but they also have the institutions, means and mechanisms to cope with any possible emergence of such unwelcome phenomena.

#### *Socio-cultural aspects and institutions seen critically*

Constitutional/legal, political and organisational institutions establish social equality or social inequalities *explicitly* via laws, rules and regulations, and policies. But many social inequalities ‘just emerge’ in and via social relationships of people, the social life and fabric of a society. And they are then established and maintained via socio-cultural aspects or institutions. Socio-cultural aspects or institutions can be anything that has a meaning to humans or has been given a certain meaning by humans – and that offers meaning, explanations and justifications for people (of a particular cultural sphere). Socio-cultural aspects or institutions can be:<sup>438</sup>

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<sup>438</sup> See also my book *Hierarchy and Organisation* (Diefenbach 2013, pp. 64–72) where I differentiated and analysed some of these aspects (especially cultural elements and concepts) in a similar vein as ‘socio-cultural institutions and resources’ contributing to the establishment and continuation of hierarchical social order.

- 1) *Cultural elements*: Artefacts, symbols, rites, rituals, tradition, ethnicity, language;
- 2) *Concepts*: Norms and values; religious, philosophical, political, psychological, sociological, economic and business theories/belief systems/ideologies);
- 3) *Personal characteristics of people*: Genetic predispositions, race, gender, age, physical appearance; orientations (for instance, sexual, religious, philosophical, political or social orientation) and related identities, attitudes and behaviour;
- 4) *Social background, status and positions*: Family, upbringing, neighbourhood, peers, memberships, community; education, qualifications, profession/occupation, professional career; social status/social position.

These socio-cultural aspects or institutions can create and maintain social inequalities in various ways, for example that they:

- Are accessible, or can be carried out (as ceremonial, representative and/or professional tasks and functions), only by certain members of a community, i.e. members of an elite (cultural elements such as handling artefacts, carrying or interpreting symbols, or conducting rites and rituals);
- Identify certain personal characteristics of people and – *because of these* – classify, stigmatise, judge and treat people differently, privilege or disadvantage them;
- ‘Explain’ and ‘justify’ why there are an elected few and the others, rulers and ruled, leaders and followers, superiors and subordinates, and why there is hierarchy and stratification (concepts such as theories, belief systems or ideologies);
- Provide people with different opportunities and life chances (social background, status and positions such as family, education or professional qualifications and occupation).

*Any of these socio-cultural aspects and institutions can be used – and most of them are widely used – to establish, indicate and cement social inequalities. Together, they build and shape a society that can last for centuries. Most history of humankind, most of what has been called ‘civilisation’, is nothing but endless attempts to turn socio-cultural and social aspects into tokens and instruments of power and social dominance, privileges and inequality, oppression and exploitation.*

Moreover, such social inequalities can have been institutionalised, and can have become systemic, so fundamentally, comprehensively and thoroughly that they have become so deeply embedded in our daily lives that we no longer recognise them as an artificially created social inequality. Most social inequalities are so ingrained in our lives that we just accept them as ‘the way things are’, as the unnormal normality of our lives and no longer see them as what they actually are, i.e. human-made social *constructs*.

Of course, that socio-cultural aspects and institutions can create, maintain and protect social inequalities, hierarchy and stratification, and justify a hierarchical system as well as people’s unequal status and positions, tasks, functions and corresponding (‘appropriate’) behaviour and treatment within it, is *not* a necessity or natural law, of course not. *None* of these – or other – socio-cultural aspects or institutions have to create or establish any form of social inequality. Social differences, yes. To be different from other people is part of people’s identity (and their inalienable right). In this sense, socio-cultural aspects and institutions can mean common and shared values as well as social *differences* – but that’s it. Or, that’s how it should be. But not social inequalities.

Socio-cultural aspects and institutions – i.e. cultural elements, concepts, personal characteristics of people, and social background, status and positions – will *always* exist in a society (one might even say that they are some of the constituting elements of a society or social system) – but they do not need to represent or establish and maintain any kind of social inequality. It is not the existence or presence of socio-cultural institutions per se that is the problem but their meaning and usage, i.e. what they mean and do (for and to people). The question, hence, is how socio-cultural institutions could, or even should be understood and function so that they simply mean social differences but do not create and maintain hierarchy, stratification, social dominance or social inequalities. In particular, one needs to ask:

- Why should (certain) cultural elements be only accessible by, available to or carried out by certain members of a community? Why is it that only they have these privileges, allegedly special characteristics, skills or knowledge for utilising these cultural elements exclusively?
- Why are people allegedly of different value – and thus are treated differently – because of (their) personal characteristics?
- Why should people be superior and subordinate to each other? Why is there – why should there be – hierarchy and stratification?
- Why are people provided with different opportunities and life chances due to their social background, status and position?

Obviously, there are no good or convincing answers to these questions (or there are quite some good explanations but no good justifications for socio-cultural aspects constituting social inequalities). But to start asking such questions is to counter social inequality established through socio-cultural institutions. It is to question and to challenge the very institutions that make people unequal. As soon as one starts to ask these questions – and in so doing to challenge the inegalitarian implications of existing socio-cultural aspects or institutions – the case for social inequality *collapses* because there is not a single good reason why socio-cultural aspects or institutions should lead to any sort of social inequality. There are only bad reasons.

In this sense, social inequalities established and maintained via socio-cultural institutions can be challenged and reduced through critical theory and critical thinking, through the rigour of the Enlightenment. An enlightened person rejects that socio-cultural elements are being used to privilege or to belittle people, that theories, belief systems or ideologies claim any kind of superiority of particular people (or that there are ‘chosen’ people, leaders or elites), that some people are privileged, and (many) others are stigmatised, disadvantaged, oppressed and exploited because of their personal characteristics, social background, status or position. A critical interrogation of a society’s socio-cultural aspects and institutions would lead people – rightly – to the conclusion that all socio-cultural elements should be available to everyone, that there must not be superiors and subordinates, hierarchy and stratification, that people should never be seen and treated unequally because of any of their personal characteristics, and that everyone should have equal opportunities and life chances – and they would start to change the institutions and society they live in accordingly. Such would be the insights and conclusions of enlightened people, of people who have not been conditioned by any of the prevailing traditional ideologies or belief systems but dare to reason on their own.

*Resources and their sufficient availability for everyone*

And then there are *resources* – i.e. anything that is, or can be, useful to humans.<sup>439</sup> Resources are probably the largest, and most diverse, group of things. Resources can be:

- 1) *Natural environment and resources*: biosphere, ecosystems, natural resources/materials, plants and animals, geographic aspects/location, land;
- 2) *Built environment/physical infrastructure*: physical man-made entities, transport facilities, water supply, electricity, sewerage, cultural, sports and leisure facilities;
- 3) *Virtual environment/information and communication technologies (ICT)*: hardware, software, internet, domains, applications, social media;
- 4) *Institutions*: constitutional and legal institutions, political institutions, organisations, socio-cultural aspects and institutions;
- 5) *Technology*: techniques, skills, methods or processes that achieve a transformation;
- 6) *Services*: actions or systems providing private or public services (e.g. business services, administration/administrative services, emergency services, public safety, health services, childcare, education, community and social services);
- 7) *Goods*: materials, semi-finished goods, finished goods, consumer goods;
- 8) *Property/economic resources*: intangible assets (rights in non-material entities), tangible assets (material factors of production, goods), financial assets (cash, bank deposits, stocks, bonds, other financial assets, financial claims towards other persons).

Clearly, resources can be available to people on a different scale and, therefore, can create and maintain various inequalities between people. Social inequality in respect to resources means that a resource is only available to some people, certain types or groups of people respectively, that these people are then privileged, advantaged, in a superior position relative to others, and can even dominate others who are partly or completely excluded from that resource. The more people diverge from having resources available for conducting their work and life appropriately – either positively in the sense of that they have more resources than they actually need or negatively in the sense that they lack (necessary) resources – the greater is the (economic and) social inequality.

A principle that could reduce social inequality in respect to resources is *sufficiency*. Sufficiency means that there is an adequate amount of something. Now, whether something is sufficiently available can be either factually the case or as seen by people, i.e. there is a '*factual sufficient availability*' and a '*perceived sufficient availability*'. In this sense, social inequality with regard to resources can be reduced in two possible ways – one is to change or to equalise the *factual availability* of a resource, a second is to alter (people's) *perception* about (the availability and/or the possession of) a resource.

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<sup>439</sup> This is obviously an anthropocentric view. For some elaboration of the problem of (strong and weak) anthropocentrism, environmentalism and (pro-)environmental orientation and behaviour particularly in regard to the natural environment see section 'Environmental dimension: The individual and the environment' in Part I, 'Free individuals and legitimate institutions'.

#### i) Factual sufficient availability

People need resources as a matter of fact. As Malleson (2014, p. 1) so rightly stated, ‘liberal freedoms are empty without the necessary *resources and material means* for their enactment’. If all forms or parts of the (natural, built or virtual) environment, institutions, technology, services or goods, or economic resources were factually *sufficiently* available for every person then social inequality would be reduced considerably. Factual sufficient availability does not mean that people necessarily own or possess a resource (in the case of things that can be owned), but that people have equally appropriate and possible access to it and that they are equally able to use/make use of that particular (necessary) resource or an equivalent in order to cover their (basic) needs, to pursue their legitimate interests and to live their lives in an appropriate manner within a particular social context.

Changing the factual availability of resources has been already discussed earlier with regard to the redistribution of income and wealth and tackling social inequalities at the individual level (see especially sub-sections ‘Redistribution of income via social welfare policies’ and ‘Non-monetary social welfare policies instrumental for individuals’ above). Resources are redistributed to people in the form of income, assets or services via social welfare policies (such as directly paid social benefits or the provision of public social services as public welfare, tax benefits distributed through the tax system as fiscal welfare, occupation-related benefits for employees and workers given by employers as part of occupational welfare, involuntary private maintenance payments as mandated welfare, social services provided by individuals or private organisations as examples of voluntary welfare, or the provision of activities or services free of charge by people close to each other as informal welfare). Via these social welfare policies, not only income inequalities but also social inequalities are greatly reduced *factually*.

#### ii) Perceived sufficient availability

Beside their practical usefulness and their (demonstrated) use, resources also have some *meaning* (within a particular socio-cultural) context – and meaning shapes social relations. Some resources are created, acquired and used partly or primarily not only for practical purposes but for creating, demonstrating and widening social inequality (or for narrowing the factual or perceived gap between people). From a psychological point of view, this might stem from, and reflect, (some) people’s greed, envy, compensation for feelings of inferiority, an urge to show off or strive for aggrandisement. In a socio-cultural or economic context the talk is about *consumerism* (culture of consumption, overproduction and the tendency to establish large parts of a person’s status and identity via the possession of things), *conspicuous consumption* (purchase and consumption of goods in order to demonstrate material wealth and financial well-being) and *materialism* (the ideology of the superior value of material goods and the importance of money). And in a more sociological context it is about the sign value of things, status symbols, affluenza (psychological or mental disorders, ignorance and anti-social behaviour of wealthy or wealth-seeking individuals) and elitism.

That social inequality is constituted via the (demonstrated) possession, use and consumption of (certain) resources is neither a necessity nor the automatic consequence of people or societies getting richer (though growing economic wealth and mass production definitely help). It is the result of people’s psychological (under-)development and people believing in, and following, certain ethical convictions, socio-cultural or socio-economic ideologies. Thus, the solution to reducing social inequality in regard to resources can also be found in people’s value orientation that addresses psychological, sociological,

economic and ethical aspects at the same time. One of such principles and orientations is *modesty*. Modesty can be understood in the original meaning of the Latin word *modestus* (keeping with measure), i.e. modesty means being relatively moderate, unassuming in one's orientations, value preferences, attitudes and behaviour. Modest people do not use resources to show off or to demonstrate any kind of superiority or dominance. They don't want to and they don't need to – and they are neither impressed nor intimidated when others show off. In general, cultures and societies where modesty is a more appreciated value and behaviour than aggrandisement are socially (and often even economically) more balanced and equal.<sup>440</sup>

**Key principles and methods to enhance social equality**

The five sub-sections above discussed how social inequalities can emerge in various areas or institutions of a society and which principles and methods could reduce these social inequalities, perhaps even prevent their emergence in the first place, and enhance social equality. The table below gives an overview of the areas, principles and methods.

Area and/or institutions where social inequalities can emerge	Equality-enhancing principles or institutions	Methods to enhance social equality
Constitutional and legal institutions – the law	Legitimacy	All forms of legitimacy, in particular procedural legitimacy (rule of law) and substantive legitimacy (equality of rights/equal rights and entitlements)
Political institutions – political power	Equal political power, participation	Self-governance, representative democracy, participative governance, citizenship behaviour
Organisations – organisational principles, structures and processes	Democratic organisation	Libertarian constitution, democratic governance, democratic management, equalising empowerment
Socio-cultural aspects and institutions	Enlightenment	Critical thinking, critical theory
Resources	Sufficiency/sufficient availability	Social welfare policies (factual sufficient availability), modesty (perceived sufficient availability)

Table 25: Principles and methods to enhance social equality.

<sup>440</sup> Obviously, modesty can be a means only against social inequalities stemming from pretence or perceptions related to resources. With regard to, for example, social inequalities coming from hierarchy, direct social dominance or oppression modesty would not help at all; on the contrary, in such cases modesty, especially when demonstrated by the disadvantaged, would even be counter-productive, i.e. strengthening and enhancing social inequality. Then other measures, such as changing the social system or equalising empowerment, are needed for reducing social inequality.



There are various societal areas where social inequalities can emerge – and there are various methods that can reduce *systemic* social inequalities in those areas. Social equality can be provided and enhanced in a:

- *Constitutional/legal sense* that the constitution, laws, rules and regulations as well as legal institutions of a society meet all criteria of *legitimacy* (i.e. formal, procedural, substantive, perceived and rational legitimacy), in particular that the law is applied to everyone equally and that everyone is treated equally by the institutions of law (procedural legitimacy) and that everyone has equal rights and entitlements, in particular human, civil and democratic rights (substantive legitimacy).
- *Political sense* that all political institutions (i.e. the government, parliaments and other institutions of local, regional and national governance, political organisations and the electoral system) provide *equal political power* to everyone and that the (voluntary) *participation* of every member of society is guaranteed and happens at every level of governance in the form of democratic self-governance, representative democracy, participative governance and citizenship behaviour (‘civil democracy’) so that everyone has equal opportunities to participate in the governance of public affairs, matters of public concern and society as a whole.
- *Organisational sense* that organisations are *democratic organisations* with a libertarian constitution and partnership agreement that specify and guarantee the equal legal, formal and organisational status, rights and responsibilities of every member of the organisation as partners; democratic governance that enables all partners to govern the organisation and its affairs and assets, activities and results collectively and democratically; democratic management that provides every member of the organisation with equal rights to manage and to participate in all formal decision-making processes at all levels of the organisation (either via self-management, representative management and/or participative management); and equalising empowerment so that the powerful are disempowered, and the powerless are empowered until both have equal power.
- *Socio-cultural sense* that people dare to think on their own (*Enlightenment*), that everything and everyone is scrutinised, accepted only if found valid (either because of theoretical validity or empirical evidence) or rejected if there is no good reason for it, in particular that socio-cultural aspects and institutions (i.e. cultural elements, concepts, personal characteristics of people, or social background, status and positions) are interrogated and only accepted if all cultural elements are available to everyone, that there are no superiors and subordinates, hierarchy and stratification, that people are portrayed, perceived and treated equally and are provided with equal opportunities and life chances. There are no institutionalised privileges and exclusions, advantages and disadvantages, superior and inferior positions, i.e. there are no institutionalised *power differentials* between individuals, groups of people or social classes.
- *Resource-oriented sense* that resources (natural environment and resources, built environment/physical infrastructure, virtual environment/information and communication technologies (ICT), institutions, technology, services, goods or property/economic resources) are *sufficiently* available to every person (*sufficiency* showing itself as ‘*factual* sufficient availability’, if not directly then via social welfare policies) *and* that resources as such, as well as their (demonstrated) generation, acquisition, possession and usage are seen in a relatively moderate, unassuming manner (*modesty* showing itself as ‘*perceived* sufficient availability’ in people’s preferences, attitudes and behaviour).

The legitimacy of constitutional and legal institutions, equal political power and participation in and via political institutions, democratic organisations, enlightenment and critical thinking in regard to socio-cultural aspects and institutions, and (factual as well as perceived) sufficient availability of resources prevent settings or mechanisms that privilege only some people and discriminate against (many) others. Consequently, the principles outlined above reduce systemic social inequalities – or prevent them emerging in the first place.

Moreover, the principles enhance social equality noticeably. They do so *not* by ‘equalising people’, they do not make everyone the same, but by equalising the *conditions* for people – the conditions that constitute humans as individuals in an existential sense. Equality-enhancing principles as outlined above equalise the institutional conditions so that each and every person is – or can be – a free individual, and can live their life as a free individual within a societal context. Social equality does not mean that everyone is the same – or has to be the same – but that everyone has the same conditions and opportunities to be, or to become, a free and fully developed individual. The more a society’s institutional conditions are equal, the more there is social equality – and the more free and socially equal are people.

## How Pentoutopia copes with (re-)emerging inequalities

The previous chapters have demonstrated how and to what extent economic and social inequalities can be reduced. This chapter discusses how Pentoutopia prevents inequalities from emerging and copes with (re-)emerging inequalities. In the first section it will be argued that even with its very favourable, equality-enhancing institutions and conditions, (economic and social) inequalities can (re-)emerge and happen also in Pentoutopia – although on a much smaller scale than in other democratic societies, welfare states or regulated market economies. It will be demonstrated how institutions and people – legitimate institutions and free individuals – together prevent, or at least reduce, inequalities. A second section develops a comprehensive (stylised) example; it will be shown how a Gini coefficient of household income of 0.07 (!) can be reached – a level of economic equality no complex society has so far achieved.

### Emergence and prevention of inequalities

#### *About the possibilities of inequalities (re-)emerging*

As demonstrated in the previous chapters, Pentoutopia has a range of institutions, mechanisms, policies and measures in place (see also the brief list in the following sub-section ‘Institutions and people preventing inequalities’) that can considerably reduce (economic and social) inequalities and that enhance overall equality comprehensively and systematically. Also because of its low levels of inequality, Pentoutopia is a very stable and balanced society – but it is not a static society. On the contrary; it is an open and (highly) dynamic society. In open and dynamic social systems there are always intended and unintended, planned and unplanned, even unforeseen processes at work. Such dynamic developments can lead to many changes and consequences, including increases or decreases in inequalities. And such dynamic developments also happen in Pentoutopia.

For one thing, institutions are never ‘complete’ or ‘perfect’, and they never work perfectly or achieve all the aims they were built for in the first place.<sup>441</sup> Moreover, institutions might develop and change over time and might produce consequences that were not anticipated. Thus, even the most legitimate institutions Pentoutopia is built on – such as a libertarian constitution, democratic organisations, a democratic market economy, civil democracy and equality-enhancing fiscal and social welfare policies – might not achieve and maintain equality as they are supposed to do, and there is a real possibility of inequalities (re-)emerging. In fact, inequalities can always emerge anywhere and at any time. Even the legitimate institutions of Pentoutopia can’t entirely prevent the emergence of inequalities.

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<sup>441</sup> In a similar vein Molander (2017, pp. 87-88) argued that ‘a policy or control mechanism designed to keep the system within range of a desirable social state will never be perfect. The system is always vulnerable to disruption from various sources, and design imperfections make it impossible to do away with these disruptions entirely. A mechanism that has been developed to manage certain disruptions does not activate until the disruptions become apparent. In the same way, distribution policies can be created to reduce the effects of the inequality that arise from the instability of the negotiation process, but policies cannot eliminate these effects entirely, nor should they aim to.’

Beside institutions not being perfect, there can be more causes that can bring (unintended) changes to equality in the form of individual or social differences turning into inequalities. As argued earlier,<sup>442</sup> there are always individual differences, even in the most egalitarian organisations and societies (Rothschild-Whitt 1979, p. 524, Fleurbaey 1993, p. 225, Wanner 2004, p. xiii). Whether it is genetic, physiological, psychological or socio-cultural differences, differences in personality, cognitive or moral development, talents, skills, capabilities, professional expertise and knowledge, or just the different ways people pursue their interests and conduct activities<sup>443</sup> – they all can turn, or can be turned, into inequalities that are first *individualised*, then slowly *institutionalised* until they have become ‘the new normal’. For example, in moderate cultures greedy people are perceived largely negatively and they are usually sanctioned if they try to enrich themselves at the expense of others. In contrast, in capitalist societies and neo-liberal market economies greedy people are celebrated as ‘self-made millionaires’ (or even billionaires), many people study business and economics, law or medicine not because they like the profession but in order to get rich, and mediocre financial consultants give seminars about ‘the 10 golden rules to beat the market’. Individual differences (here in psychological traits and value preferences) have been institutionalised as a new value system – profit-maximisation, materialism and consumerism – that produces large economic and social inequalities.<sup>444</sup> Although such travesties probably would not happen in Pentoutopia, it is still possible that such, or other anti-egalitarian preferences and behaviour could gain the upper hand and lead to increased inequality.

Also, social differences can turn, or be turned, into all sorts of inequalities. Since social differences are fundamental demographic, sociological or cultural characteristics (e.g. traits, appearances, norms, values, interests, behaviour, status, work, or positions) that certain people have in common it is even more probable that such social differences can become inequalities. For example, characteristics such as race, ethnicity, family background, class, upbringing, neighbourhood, social status, income or wealth – if they have turned into classifiers of inequality – impact strongly on people’s status and opportunities and thus disproportionately (and unjustly) privilege or discriminate against them – turning into social inequalities. Over time, such inequalities become thoroughly institutionalised and – if nothing is done about them – they become dominant not only within the current generation but are even passed on to the next generation (Molander 2017, p. 15, Baldus 2018, pp. 177–180).

So, whether it is imperfect legitimate institutions, individual or social differences – there is always the possibility, if not to say the danger, that things are turned into (legal, organisational, economic and/or social) inequalities and manifest as such.

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<sup>442</sup> See sub-section ‘Individual and social differences’ above.

<sup>443</sup> For example, Kymlicka (2006, p. 18) argued that ‘inequalities that are the result of people’s own choices about how to lead their lives – such as the choice to save rather than consume, or to give up leisure for higher income – are legitimate. People should be free to make different choices about how to lead their lives – including different choices about the trade-off between work and leisure, or caution and risk, or consumption and savings – and people should accept responsibility for the costs of these choices.’

<sup>444</sup> These changes are part of the great *Wertewandel* (German for ‘change in values’ or ‘shift in values’) that started in the early 1980s when the whole Western world changed from ‘left’ and ‘progressive’ to ‘right’ and ‘conservative’, from ‘welfare states’ to ‘neo-liberal market economies’, and from civil society to consumer society.

### *Institutions and people preventing inequalities*

Free and democratic societies, even if they are truly libertarian, fully fledged democracies and civil societies like Pentoutopia, are not immune to individual or social differences turning into inequalities, even into institutionalised and long-term societal inequalities. Inequalities – whether political, social, economic or any other inequality – can emerge in *any* society, i.e. also in Pentoutopia. And they can emerge whether planned or unplanned, intended or unintended. But in contrast to most past and present societies, Pentoutopia is able and willing to cope with inequalities, to reduce them as much as possible, and even to prevent them from emerging in the first place. This needs to be explained.

Pentoutopia's fundamental institutions are not only all legitimate but also equality-oriented and equality-enhancing in their purposes, design and functioning:

- 1) A libertarian constitution, and other systems-constituting legitimate institutions, that propagate and protect the equal rights of all citizens;
- 2) Democratic organisations that provide everyone with equal rights of and to property, to govern and to manage organisations collectively and on equal terms;
- 3) A democratic market economy that enables legitimate market participants equally to conduct business and economic activities in decent and balanced ways;
- 4) Civil democracy that provides equal opportunities of representative, participative and self-governance; and
- 5) Fiscal and social welfare policies that reduce economic and social inequalities via equality-enhancing taxation and redistribution of income and wealth, monetary and non-monetary universal or targeted welfare policies.

Now, in the previous sub-section it has been (rightly) argued that these institutions are not perfect and might contribute to, or even cause, the emergence of inequalities. But Pentoutopia is not only institutions, it is institutions *and* people – *legitimate* institutions and *free* individuals (see Part I). This means that in every institution there are people with the right mindsets, attitudes and behaviour that can counter anti-egalitarian tendencies:

- Free individuals showing high levels of independent, prosocial and pro-environmental orientation and behaviour;
- Owners governing and managing their own lives, work and organisations, and conducting business in considerate, collective and cooperative ways; and
- Citizens demonstrating the whole range of (proto-political, basic political, advanced and radical) citizenship behaviour.

Free individuals, owners, citizens need equal rights, equal conditions and equal opportunities for their activities, work and lives, for their very existence, for what they do and for who they are. They need equal, equality-oriented and equality-enhancing institutions and keep such institutions going – and they would not accept institutions deteriorating towards inequality. In Pentoutopia, institutions and people do not work in isolation or against each other but interact constructively because they are legitimate institutions and free individuals. There is a *dynamic and constructive interaction* between free individuals and legitimate institutions that strengthens both of them. For example, free individuals associate,

create democratic organisations to pursue political, social, economic or other goals and conduct activities collectively only on the basis of agreements that grant everyone the same and equal rights, like a libertarian and democratic constitution or a partnership agreement. And such legitimate institutions offer the right conditions for free individuals to conduct their business; they provide concepts and systems of participative, representative and self-governance and management that equip everyone with the same equal rights, equal conditions and equal opportunities. People can make use of these rights and opportunities, utilise these institutions for the pursuit of their goals and at the same time make sure that these institutions as well as processes and activities that happen on the basis of these institutions take place in legitimate ways and that everyone can participate equally in the processes as well as the outcomes.

In this sense, free individuals and legitimate institutions not only fit to, and necessitate, each other but also mutually reinforce each other, and work hand in hand to establish, maintain and apply the very fundamental principles and values they both admire and propagate. One outcome of such dynamic interaction is that there are higher levels of equality; people's positions and statuses (and everything that is related to them) are more equal, participation in governance and management is more equal, and the outcomes of collective efforts are more equally shared and distributed. One might say that these are equality-enhancing 'systemic effects' of the dynamic interaction between free individuals and legitimate institutions. And *if* inequalities were to emerge – and inequalities *can* and *do* emerge – people would tackle them because such inequalities are alien to the very systems and institutions as well as to the members of these systems and institutions and their very existence.

#### **Achieving a Gini coefficient of household income of 0.07**

In the previous section it has been argued in a general way why and how Pentoutopia can reduce inequalities at a scale no other society can. This will be demonstrated here in this section through a specific example – in regard to the distribution of income or *income inequality*.

Contemporary societies (*countries* or *nation-states*) have a *Gini coefficient of household income before taxes and transfers* between 0.2 and 0.6 (Income Equality 2021). Almost all countries that score in the 0.2s, i.e. that have a *relatively* low income inequality, are either Eastern European countries or the Nordic countries. Most Western European (or OECD) and Asian countries have a higher Gini coefficient of household income of 0.3s or 0.4s and could be considered as average or more unequal, whereas countries with a Gini coefficient of (high) 0.4s and 0.5s (the USA, almost all African, South and Central American as well as some Asian, especially South Asian, countries) are very unequal in the distribution of income (Income Equality 2021). South Africa is the record holder with a Gini coefficient of 0.63 of income inequality.<sup>445</sup>

Either way, *all* countries face the problem of income inequality – and an income inequality that does not get less but increases. Here in this section it will be shown that Pentoutopia would achieve a *Gini coefficient of household income of 0.07* – which would be the lowest income inequality of all countries by far and second to none in the recorded history of all free and democratic societies.

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<sup>445</sup> It is one of several troublesome characteristics of former and current British colonies (now called 'British Commonwealth' or 'British Overseas Territories') that they suffer under extreme political, legal, economic and social inequalities.

How would – or could – Pentoutopia achieve such an incredible low score of income inequality? It can achieve this not by a single measure but by all its principles, legitimate institutions, concepts and policies combined. In order to demonstrate this, I have created a step model that shows how each of the measures removes *some* of the income inequality, each step reducing the Gini coefficient by 30%.<sup>446</sup>

0. The model starts with the assumption – the baseline, so to speak – of a country with a government and public administration that provide only the most basic functions (‘minimal state’ or ‘night-watchman state’), an unregulated market economy, and that has only few concerns or policies regarding ‘the essential five’ principles (freedom, democracy, equality, justice and sustainability), i.e. kind of a feudal, classical capitalist or extremely neo-liberal state and society. Such a country would likely have a rather high Gini coefficient of income inequality of about 0.6.
1. The first step would be to have a *legitimate libertarian constitution* that would adhere to, and establish, formal *and* substantive legitimacies comprehensively and substantially. For one thing, it would precisely outline the powers and limits of government, democratic institutions of governance and the country as a state of law with rule of law. Moreover, in the spirit of substantive legitimacy it would already have ‘the essential five’ principles as *explicit and inalienable rights* included in its fundamental principles, goals and policies. Such a constitution would not only offer specific protections for individuals and their freedoms, but would grant and guarantee the full range of equal human, democratic and civil rights as well as equality and justice to everyone. It makes a *massive* difference when a country is a legitimate and developed state, a fully fledged democracy with a regulated market economy and a welfare state orientation (like many Western European countries). It achieves much constitutional, legal, political, social and economic equality (or equalities) already via its fundamental principles and institutions, their design and functioning. If equality (like the other essential principles) is already enshrined in the constitution as a fundamental right, it means that people can demand equality across social differences, equal opportunities, equal conditions, equal education, equal salaries. As a consequence, in such a legitimate and developed country the Gini coefficient of household income would be down 30%, from 0.6 to 0.42.
2. One of the essential, and crucial, differences even to relatively well-developed countries is that in Pentoutopia all organisations are *legitimate*, i.e. *democratic* organisations. Everyone who works for a private organisation is its owner and thus has the same rights of and to private ownership and related property rights, to govern and to manage the organisation, and to participate in the results of the collective work, i.e. to participate in profit-sharing. *Everyone* participates in the profits. Moreover, since the owners of an organisation (the ‘partners’) also determine everyone’s salaries, the differences in salary grades are relatively moderate – they are not too unequal. This would be the case in every private organisation, in every industry, in

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<sup>446</sup> One might call it the ‘30% principle’. However, all the percentages stated here in this section are pure estimates (or ‘guesstimates’). These made-up percentages are not accurate in an empirical sense but just give an idea of how much income inequality can be reduced by certain measures. They provide, so to speak, a quantitative image for a qualitative argument. Nonetheless, the *bottom-line number*, i.e. a Gini coefficient of household income of 0.07, is a realistic target that is factually achievable.

the whole economy. Hence, since in Pentoutopia two of the biggest sources of income and income inequality – salaries and profits – would be relatively equal for many people, the Gini coefficient of household income would be down another 30%, from 0.42 to 0.29.

3. In Pentoutopia not only private organisations are different (they are democratic organisations), and conduct business differently, but the whole economy would be different. It is a *democratic* market economy. Market participants in the main show *decent* business practices, i.e. not profit-*maximising* but profit-oriented behaviour, not cut-throat competition but cooperation and ‘non-combative’ competition. In every industry there would be more decent, moderate and cooperative business models prevailing. Moreover, broad market-conform self-regulation, co-regulation and government regulation would greatly reduce participants’ market-related misbehaviour (such as externalisation of internal costs, abuse of market power, or unethical, criminal and/or dodgy business practices, products or services). One of the consequences of decent business practices and market-conform regulation would be that differences in companies’ economic success (evidenced in revenues and profits) and in people’s salaries would be smaller *across* organisations, industries and markets. In this sense, a democratic market economy would contribute to a further reduction of the Gini coefficient of household income by another 30% to 0.21.
4. Already the first three steps (libertarian constitution, democratic organisation, and a democratic market economy) reduce income inequality *massively*. It is realistic to assume that in Pentoutopia the Gini coefficient of household income *before* tax could be in the low 20s. Income inequality can be reduced further via *distributive* policies, especially *tax policies*, in particular through equality-enhancing taxation of income and wealth in the form of income tax, corporate tax, capital gains tax, inheritance tax and wealth tax. In Pentoutopia, all these taxes are highly progressive, with generous tax-free thresholds that correspond to the lower range of income, high marginal tax rates, and with few loopholes and opportunities for (aggressive) tax avoidance. Because of such measures, the income inequality *after* taxes (so-called ‘post-tax inequality’ or ‘net inequality’) would be considerably lower, the Gini coefficient of household income down by another 30% to 0.14.
5. The next step would be an equality-enhancing *redistribution* or transfer of income and wealth. There are monetary and non-monetary measures whereby the former have a direct, the latter an indirect impact on the distribution of income. Targeted monetary social welfare policies and asset-building policies mean direct payments/cash transfers to lower-income households through social benefits (public welfare), tax benefits (fiscal welfare) and/or monetary employment-related benefits (occupational welfare). Non-monetary measures aim more at improving the situation of low-income households in general, for example by providing sufficient resources, supporting the (equal) participation in socio-cultural and political institutions, or personal development. Equality-enhancing redistribution of income brings down the Gini coefficient of household income by another 30% to 0.10.
6. Finally, there are dynamic interactions between all the principles and institutions, policies and measures mentioned above (Nos. 1–5) that reduce income inequality even further. Pentoutopia is an equality-oriented society *in principle*. The notions and concepts of *legitimate institutions*, *democratic organisations*, *democratic market economy*, *civil democracy* and *equality-*



*enhancing fiscal and social welfare policies* simply do not support any larger differences and inequalities in income. On the contrary; they reduce income inequalities – *massively*. In Pentoutopia, people still earn different salaries and have different incomes from other economic activities, in the form of capital gains or inheritance, but all institutions and policies work towards keeping these differences relatively small. Most people themselves keep income inequalities at bay through their (non-monetary) value orientations, moderate behaviour and decent conduct of business. These systemic and behavioural effects and their dynamic interactions contribute to a further reduction of the Gini coefficient of household income to 0.07.

Having started with a Gini coefficient of household income of 0.6 coming down to 0.07 in six steps, each bringing a 30% reduction, is quite remarkable.<sup>447</sup> Of course, the step model above is a stylised and (over-)simplified scheme. The steps do not follow neatly one after the other, and not every step brings exactly a 30% reduction. But the step model presents *the logic of being serious about tackling and reducing inequality* (here: income inequality) that can exist in a complex social system. In every society there can and will be inequalities. However, inequalities – whether legal, political, economic, social or other inequalities – are neither a necessity, nor a natural law. They are made and caused by human beings, like all social phenomena. They are created and maintained by institutions made by people, by people's actions, interactions or inactions. For example, Piketty (2014, p. 20) argued that 'the history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms. ... Similarly, the resurgence of inequality after 1980 is due largely to the political shifts of the past several decades, especially in regard to taxation and finance. The history of inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joint product of all relevant actors combined.' This means that inequalities *can* be changed – and they *must* be changed if a society is to be, or continues to be free and democratic and if people are to be treated fairly.

In a free and democratic social system it is not possible to get rid of all individual and social differences and inequalities as well as the systemic conditions and dynamics that can produce, maintain or increase inequalities – but it is possible, and highly desirable, to *reduce*, or even *minimise*, the scope and amount of inequalities. Pentoutopia is capable of doing so. Pentoutopia is designed to do so. In addition to being a truly free and fully fledged democratic society, Pentoutopia is also a more equal society, a *much more* equal society. Actually, it is an equal society as much and as far as possible while keeping the principles and notions of freedom and democracy intact. At the start of this chapter it was reasoned that 'a 'more equal society' beats the Nordic countries and other advanced welfare states concerning all major measures of equality (and related items) and gets the No. 1 spot in the relevant ranking(s)'. After having interrogated comprehensively and systematically how Pentoutopia can and does reduce economic and social inequalities it can be concluded that Pentoutopia surely tops the table and gets the gold medal for reducing economic and social inequalities to an absolute minimum. Pentoutopia is not only a more equal society, but the most equal, free and democratic society possible.

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<sup>447</sup> By the way, *wealth* inequality could be brought down in a similar fashion (i.e. in six steps from a Gini coefficient of household wealth of 0.9 to 0.11) like it is demonstrated here in respect to *income* inequality.

## Pentoutopia, a just society

It was argued above<sup>448</sup> that ‘justice’ is a pluralistic concept – or a collection of different concepts and understandings of what ‘is’ ‘justice’ and ‘just’ (and what is *not* just or even unjust) – and that justice needs to be understood as a *context-dependent* and *issue-specific* phenomenon. Hence, any society that wants to be – or claims to be – a *just* society needs to demonstrate that the most appropriate principles and concepts of justice are applied to any issues or cases. This chapter will outline that Pentoutopia is indeed a just society.

That Pentoutopia is a just society will be shown through those aspects that are most fundamental and essential for people and their existence in a social system – people’s *rights*, *power* and *money*. The first section demonstrates that Pentoutopia ensures the utmost *procedural justice* by granting and protecting people’s most fundamental *rights* (in particular human, democratic and civil rights, rights of and to ownership – self-ownership and private ownership – as well as citizenship rights), and by having legitimate institutions of democratic governance, management and regulation in place that ensure these rights are enacted. The following section focuses on how Pentoutopia provides *procedural* and *distributive justice* in regard to *power*, in particular by the way how individuals are empowered on their own and amongst others, and how power is institutionalised. The third section then discusses *distributive* and *substantive justice* and interrogates how *money*, i.e. income and wealth, is distributed and redistributed justly via various mechanisms. A final section provides some summary and concluding remarks.

### Procedural justice through people’s fundamental *rights*

As a libertarian, ‘rule of law’ abiding and fully fledged democratic society Pentoutopia inherently provides for *procedural* justice, i.e. formal policies, rules and regulations are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways.<sup>449</sup> But Pentoutopia arranges for procedural justice in principle and factually to an extent no other legitimate society does. It does so 1) through granting people the full range of their fundamental rights and 2) by having legitimate institutions (such as democratic governance, management and regulation) that promote, guarantee and enact these rights and make them work.

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<sup>448</sup> See section ‘Justice: To each, but in the appropriate form’ in the introductory part, ‘Status quo and (the search for) a better society’, in particular Table 1 Concepts and principles of justice.

<sup>449</sup> In section ‘Justice: To each, but in the appropriate form’ in the introductory part ‘Status quo and (the search for) a better society’ procedural justice was defined as ‘the unbiased, fair and equal application of legitimate formal rules and regulations to issues and people’.

*People having the full range of fundamental rights*

Pentoutopia grants all people equally the most fundamental *rights*.<sup>450</sup> Every individual enjoys the same whole range of universal human, democratic and civil rights, in particular:<sup>451</sup>

- a) *Rights of the person*: life, liberty and security of the person; privacy, freedom of movement; ownership of property; freedom of thought, conscience, religion.
- b) *Rights associated with the rule of law*: equal recognition before the law and equal protection of the law; equal legal and effective rights; impartial hearing and trial; presumption of innocence.
- c) *Political rights*: freedom of expression, assembly and association; the right to take part in government; periodic democratic elections.
- d) *Economic and social rights*: free choice of and to work; just remuneration; labour laws; education; adequate standard of living, social security and social welfare; personal well-being.

Moreover, in Pentoutopia every person enjoys the rights of and to ownership, in particular self-ownership and private ownership as well as related personal rights and property rights.<sup>452</sup> Freedom of contract, private ownership (of the means of production), property rights related to private ownership, management and control rights are *legal* and *statutory rights* of *every* member of an organisation as well as of *every* market participant.

In addition, every person is regarded as a ‘citizen’, i.e. it has the same formal, legal and official *status* of a citizen (‘citizenship’) that endows the person with a bundle of fundamental legal, human, civil, political and social citizen rights and entitlements.<sup>453</sup> And the status of the citizen also provides people with the (legal, political and administrative) *rights* and (institutionalised) *opportunities* to demonstrate the whole range of ‘citizenship behaviour’, i.e. to conduct activities in the public sphere that address matters of public interest or public concern and to contribute to the governance of society (e.g. via political activism, self-governance and/or participation in the various institutions of governance of the political, governmental and administrative system).

In Pentoutopia *every* individual is a legal person, an owner and citizen equipped with, empowered and protected by the most fundamental rights and entitlements (such as human, democratic and civil rights; rights of and to self-ownership and private ownership and related property rights as well as the status of the citizen and related legal, political and citizenship rights). To provide every person with the same range of fundamental, axiomatic, universal and inalienable rights creates the foundation for formal and procedural justice; it establishes that everyone is treated in the same fair and just ways not because of the benevolence of others but because of constitutional settings.

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<sup>450</sup> See chapter ‘Fitting free individuals and legitimate institutions’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>451</sup> This list is from section ‘People and their fundamental rights: *Human* rights’ in Part I, ‘Free individuals and legitimate institutions’.

<sup>452</sup> See section ‘Free individuals and the institution of ownership’ in Part I ‘Free individuals and legitimate institutions’.

<sup>453</sup> See sub-section ‘Status, identity and behaviour of ‘the citizen’’ in the section ‘Citizens and citizenship behaviour’ in Part IV, ‘Civil democracy’.

### *Legitimate institutions promote, guarantee and enact people's fundamental rights*

Pentoutopia not only provides everyone with all fundamental rights but it also has the necessary institutions that establish, protect and enact people's rights. As has been outlined in previous parts, in Pentoutopia *all* institutions are *legitimate* institutions, i.e. they adhere to, and provide, the most fundamental and general types – or standards – of legitimacy – *formal, procedural, substantive, perceived and rational* legitimacy.<sup>454</sup> And *legitimacy*, each type of legitimacy, means *justice*. Legitimate institutions treat people formally and procedurally fairly and justly simply because this is how legitimate institutions are and how they work.

And Pentoutopia has legitimate institutions aplenty – libertarian constitution, rules, laws, policies and regulations; democratic organisations; and institutions of democratic self-governance, representative and participative governance and management of organisations, 'the economy' (industries and markets) as well as of society (public spheres). All these legitimate institutions guarantee that *all* members of a social system are treated formally and procedurally fairly, i.e. that formal and procedural justice is observed and served. Especially *institutions of democratic governance and management* are crucial in that respect because they not only treat everyone fairly but give every member of the social system the same formal and procedural opportunities to govern and to manage, and to be governed and managed by the same principles, structures and processes and in the same way, democratically, fairly and justly. In Pentoutopia, *all* institutionalised social systems – like organisations, markets and the economy, or the political sphere – are governed and managed via *institutions of democratic governance and management* – which means that procedural justice is served in all important areas of society.

Altogether, procedural justice is made available by Pentoutopia in the form of people's *fundamental rights and entitlements* (such as human, democratic and civil rights, rights of and to self-ownership and private ownership and citizen rights) that turn every individual into a legal person, owner and citizen, i.e. into free individuals that have the *right* to be treated fairly and justly both formally and procedurally, and in the form of *legitimate institutions* that make sure that these rights are granted and enacted and that everyone is treated fairly and justly in the same way. The more a society appreciates, propagates, upholds, protects and pursues people's fundamental rights (in particular human, democratic and civil rights, rights of and to self-ownership and private ownership, and citizen rights) and provides for legitimate institutions (of democratic governance and management) the more procedural justice is served.<sup>455</sup>

### **Procedural and distributive justice regarding power**

That a system is just, that justice is done to people, not only requires that people have the *rights* to be, to do things, and to be treated fairly and justly, but that they also have the *power* to do so and to be treated justly.

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<sup>454</sup> See especially the chapter 'Institutions – *legitimate* institutions' in Part I, 'Free individuals and legitimate institutions'.

<sup>455</sup> Further on we will see that people's rights, legitimate institutions and procedural justice have profound implications also in respect to *distributive* justice (for example, ownership of oneself and the factors of production means property rights including the right to own the fruits of one's labour, to participate in profit-sharing and capital gains, i.e. to generate income and to create wealth. And if everyone had these rights, wealth and income would be distributed less unequally and (therefore) more fairly and justly).

Power is, and always has been, problematic for justice. The greatest injustices were done by powerful entities and powerful people. And injustices are usually done to those who are weaker, vulnerable and can't defend themselves. Now, power cannot simply be wished away. It is a constituent part of social relations between people and a structural component of any social relationship or social system (e.g. Zeitlin 1974, p. 1090, Jacques 1996, p. 174, Spierenburg 2004, p. 627, Turner 2005, p. 2). Thus, it *really* matters how power is understood and institutionalised, how it is used and how it works.

According to the so-called 'standard theory' of power (Turner 2005), 'power' is often understood and defined as a person's or group's ability to impose their will on others even against opposition.<sup>456</sup> Such a definition or understanding of power obviously is *not* just since it sees power allocated disproportionately and establishes – at least accepts, but often even propagates – highly unequal, hierarchical, oppressive and exploitative social relationships where some ('the one' or 'the few') are empowered, privileged and advantaged (to pursue their interests and to impose their will on others), and others ('the many') are disempowered and disadvantaged.<sup>457</sup>

Hence, it is crucial to understand, institutionalise and use power in *just* ways. According to the fundamental notions of procedural and distributive justice, a *just* concept of *power* would mean that:<sup>458</sup>

- 1) Each and every individual is a *free and powerful* individual. It has the freedom, skills, competences, resources and opportunities to manage itself and the affairs that are relevant to it, to reason, to decide and to do as it deems right.<sup>459</sup>
- 2) In a social context, individuals are *equally* empowered so that they can pursue their interests according to their own will, that they are protected and can protect themselves against possible injustices.
- 3) Power is *institutionalised* justly and executed in ways so that 1) and 2) are realised as much as possible.

Understanding, defining and applying power in such a just way is about *procedural* justice (i.e. how power 'works' for individuals) as well as about *distributive* justice (i.e. how power is allocated, who has it – and who doesn't). And in line with this just concept of power, Pentoutopia really delivers in both respects and in regard to all three elements of the just concept of power. The next three sub-sections show: 1) how individuals are free and powerful in Pentoutopia; 2) how equalising empowerment makes sure that everyone is equally empowered; and 3) how power is institutionalised and executed justly.

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<sup>456</sup> This definition obviously refers to the great German sociologist and social philosopher Max Weber's (1864-1920) famous definition of power as 'any ability to impose one's own will in a social relationship, even against opposition, regardless of what this ability is based on.' (Weber 1921/1980, p. 28, own translation).

<sup>457</sup> For example, Tocqueville (1835/1840/2003, pp. 17-18) argued that 'it is not the exercise of power nor the habit of obedience that degrade men but the exercise of a power which is regarded as unlawful, or obedience to a power seen as wrongly held and oppressive.'

<sup>458</sup> This concept or definition of 'power' goes beyond Lukes' three-dimensional concept of power (see Lukes 1974, pp. 11-25, Diefenbach 2009, pp. 34-35 and Diefenbach 2013, p. 40).

<sup>459</sup> This description is based on the definition of 'empowerment' as outlined in section '*A three-dimensional concept of empowerment and disempowerment*' in Part II '*Democratic organisations*'.

### *Free, powerful and empowered individuals*

As outlined in Part I, in Pentoutopia all individuals are *free* individuals – and free individuals are powerful. *As such*,<sup>460</sup> free individuals can think on their own, reason independently and formulate their own will according to their own capabilities, convictions and likings. They judge any issues of concern, pursue their own interests, make decisions, act and live their lives as *they* deem right and appropriate. And free individuals are *empowered*,<sup>461</sup> i.e. they feel confident about themselves and they have the freedom, skills, competences, resources and opportunities to manage themselves and the affairs that are relevant to them, to reason, to decide and to do as they deem right.

A society is only just if it allows its members – *all* of its members, each and every person – to be free individuals. Pentoutopia's libertarian constitution – and the constitutions of each and every organisational institution in Pentoutopia – reflects and underlines this idea. For instance, following the notion and inalienable rights of and to self-ownership and private ownership, *all* founders and members of an organisation have individual and joint legal ownership of the organisation. All founders and members are entitled and empowered to govern and manage the organisation they work for (according to democratic principles and standards) in the spirit of self-governance and self-management.<sup>462</sup> Moreover, people in Pentoutopia are entitled and empowered to conduct economic activities as free individuals.<sup>463</sup> They are seen as legitimate market participants free from external pressure, able to make their own decisions and to act accordingly. In such a democratic market economy, the free will and freedom of every individual are guaranteed, enabled and protected as much as possible. Finally, also in respect to the public and social sphere the notion of self-governance prevails;<sup>464</sup> free and empowered individuals ('citizens') govern themselves, their own affairs as well as the conditions of their existence (either by themselves or via voluntary, self-organised groups such as communities or associations, larger assemblies or popular measures).

All in all, in Pentoutopia all individuals are free, powerful and empowered individuals who govern and manage themselves, their own affairs, their work and the organisations they own and work for, economic activities, markets and industries as well as the public and the social sphere, public affairs and matters of public concern. To have individuals as free, powerful and empowered as possible does the greatest justice to them. It is *the* way to provide and maintain procedural justice with regard to power.

### *Equal power and equalising empowerment*

To have everyone not only powerful and empowered, but *equally* powerful and empowered is also significant for *distributive* justice. It is *the only* just distribution of power. The individual, each and every

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<sup>460</sup> See section 'Individual dimension: The individual as such' in Part I, 'Free individuals and legitimate institutions'.

<sup>461</sup> See section 'A three-dimensional concept of empowerment and disempowerment' in Part II, 'Democratic organisations'.

<sup>462</sup> See Part II, 'Democratic organisations'.

<sup>463</sup> See Part III, 'A democratic market economy'.

<sup>464</sup> See Part IV, 'Civil democracy'.

individual, ought to be as free, powerful and empowered as possible *among others*, i.e. to be able to communicate and to interact with others, to govern and to manage social interactions, social relationships and social systems according to their own will and interests. For this, all members of a social system must have *equal power* – and must be equally empowered. This is where the concept of ‘equalising empowerment’<sup>465</sup> comes into play and why it is so important; institutions and organisations must grant equal power and conditions to everyone and empower everyone formally, psychologically and socially *equally*, i.e. empowered people shall be disempowered, and disempowered people shall be empowered, until both have equal formal, psychological and social power:

- *Formal empowerment*: Within an institutionalised social system people have equal access to formal roles and positions. Official responsibilities and entitlements, rights and duties, privileges and prerogatives, signs and symbols (of power and status), and (access to) resources and opportunities that come with formal roles and positions are controlled democratically. All members of a social system have equal rights, responsibilities and formal opportunities to participate in making decisions, to govern, to manage and to control the social system, the issues relevant to them as well as matters of public concern.
- *Psychological empowerment*: People are seen (by themselves as well as by others) as free and autonomous, powerful and empowered individuals. They thus (can) have reasonable personal confidence in their own abilities (efficacy and self-esteem), perceived personal control of what happens to them and their life (locus of control), and the capabilities to achieve personal goals (goal attainment).
- *Social empowerment*: People have reasonably established positions, status, worth, self- and other-images amongst others (social identity); adequate and sufficient resources, opportunities, social skills and competencies to pursue their legitimate interests; the ability to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict freely; and the ability to behave accordingly, i.e. to demonstrate the whole range of confident and competent behaviour of free and independent individuals within a social context.

In a social system or social context – whether it is an organisation, an economy or a society – power is distributed justly only if people have equal power, if they are formally, psychologically and socially equally empowered. ‘Equal power’ and ‘equalising empowerment’ are just, provide and guarantee the greatest distributive justice in regard to power respectively, because they enable each and every individual equally to be and to do what it deems right, to be protected and to protect itself against possible injustices.

#### *Justly institutionalised and executed power*

Power is allocated justly only if each and every individual is as empowered as possible on its own as well as among others. For this, power has to be *institutionalised* justly. With respect to the institutionalisation of power, *procedural* justice means that power/‘governance’ is established and executed in line with democratic principles and standards. And *distributive* justice means that power is allocated equally.

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<sup>465</sup> See chapter ‘Equalising empowerment’ in Part II, ‘Democratic organisations’.

In any legitimate social system – be it a democratic organisation or a libertarian society – the institutions of power correspond with procedural and distributive justice only if they are designed in accordance with, and follow the notion of, *demos kratos* – i.e. power by the people. Justly institutionalised power requires and suggests *democratic* governance. Democratic governance is *the only* political and administrative system that provides and guarantees procedural and distributive justice in respect to institutionalised power. Institutions of governance, of institutionalised power, *must be democratic* institutions if power is to be legitimate and just. This means in particular:<sup>466</sup>

- Institutions of governance must be based on, and function according to, legitimate authoritative sources;
- Their principles and design, structures and processes, and the way(s) they function, must be in accordance with democratic principles and standards;
- There must be a separation of power and ‘checks and balances’ so that institutionalised power is balanced, confined and controlled properly. There must be institutional safeguards to limit the power and authority of those in office/with power;
- Institutions of democratic governance (i.e. of self-governance, representative governance and participative governance) must be arranged according to the principle of subsidiarity/subsidiarial authority so that power is ‘power by the people’.

Moreover, power not only needs to be *institutionalised*, but also *executed* justly. Institutionalised power is executed justly when governance happens in *democratic ways*. *Democratic governing* means that:<sup>467</sup>

- a) All members of a social system govern the system and its affairs collectively, either directly or via democratically elected representatives (direct, representative or participative democracy);
- b) All office holders have to report to those whom they represent, and they are controlled, are held accountable and can be removed from office by democratic means (accountability);
- c) All decisions that are about constitutional, strategic or operational issues are made democratically; and
- d) All members have free and equal access to all relevant, non-confidential information about the democratic organisation’s policies and organisational affairs (transparency).

Only if and when all of these criteria in respect to democratic institutions of governance and democratic governing are met fully is power institutionalised and executed legitimately and justly, only then is power processed and distributed justly. Only then is power legitimate and just.

### **Distributive and substantive justice in respect to *money***

A society that equips people with equal rights and equal power is already quite a just society. But the material means must also be distributed fairly and justly. The talk is about *money*, i.e. the (monetary)

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<sup>466</sup> See chapter ‘Libertarian constitution and democratic governance’ in Part II, ‘Democratic organisations’.

<sup>467</sup> See section ‘Democratic governing’ in Part II, ‘Democratic organisations’.



wealth people have or the incomes they earn. And it is not only the *absolute* amount of income and wealth people have that counts, but also the *relative* amount, i.e. how equally or unequally, justly or unjustly income and wealth are distributed among members of a particular social system or society. As outlined earlier,<sup>468</sup> (large) inequalities in income or wealth are bad for individuals as well as the whole. They are unfair and unjust and must be reduced as much as possible.

Pentoutopia is *very* good at reducing inequalities in income and wealth comprehensively and systematically via specific measures. Moreover, it reduces inequalities in income and wealth – or even prevents such inequalities emerging or growing in the first place – *in principle* and *systemically* already via its very design and the principles it is based on:<sup>469</sup>

- In its *constitution*, private and business *laws*, economic, fiscal and social *policies* Pentoutopia provides the *legal and regulatory foundations* for all people to own private property (such as land, real estate or companies), being remunerated appropriately, fairly and justly (e.g. in the form of equal pay, fairly agreed salaries and profit-sharing), earning other income (from capital) and having large amounts of income and wealth distributed and redistributed through fiscal and welfare policies according to the principles of desert and need and in accordance with people’s fundamental human, democratic and civil rights and ownership rights.<sup>470</sup> Such constitutional, legal and regulatory settings are first, and (therefore) crucial and decisive, steps for achieving and guaranteeing distributive and substantive justice.
- In Pentoutopia all organisations are *democratic organisations* that are owned by their members. As owners, all members have the same rights of and to private ownership and related property rights, i.e. to determine the salaries of each member and to participate in profit-sharing. Salaries and profits are distributed fairly and justly according to legal entitlements (to the ‘fruits of one’s own labour’) and the principles of desert (performance) and equal rights. As a consequence, salaries are not too unequal, i.e. the differences in salary grades are relatively moderate, and everyone earns a proportional share in profits.
- Pentoutopia’s *democratic market economy* also contributes to a fairer and more just distribution of income and wealth. In a democratic market economy there are only legitimate organisations (i.e. democratic organisations) that conduct their business differently; they follow *decent* and *moderate* business practices, i.e. profit-oriented behaviour, cooperation and ‘non-combative’ competition. As a consequence, companies’ economic success is steadier and more robust, with less deviation and volatility. Differences in organisations’ economic success (evidenced in revenues and profits) and in people’s salaries are smaller *across* organisations, industries and markets – and therefore more just and justified.

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<sup>468</sup> See section ‘Economic and social inequalities and the major problems they cause’ above.

<sup>469</sup> I follow here the line of argument put forward in section ‘Achieving a Gini coefficient of household income of 0.07’ above.

<sup>470</sup> Correspondingly, it outlaws any form of illegitimate, oppressive and exploitative contracts (like the employment contract or tenancy agreements), market-related misbehaviour (such as externalisation of internal costs, abuse of market power or dodgy business practices, products or services) or radical organisations (e.g. profit-maximising companies).

- Income and wealth inequality are further reduced via *fiscal policies* and *tax policies*, in particular through a fair and just, *equality-enhancing taxation of income and wealth* in the form of highly progressive income tax, corporate tax, capital gains tax, inheritance tax and wealth tax as well as rigorous fighting against aggressive tax avoidance and tax evasion. Because of such measures, income and wealth inequality after taxes and transfers are considerably lower and, hence, income and wealth are distributed much more justly.
- And there is quite some *equality-enhancing redistribution or transfer of income and wealth*. Via monetary *social welfare policies* and asset-building policies direct payments/cash transfers are made to needy and/or lower-income households (in the form of social benefits, tax benefits and/or monetary employment-related benefits) in order to achieve an even more just distribution of income and wealth.

Pentoutopia provides *distributive and substantive justice*<sup>471</sup> with respect to income and wealth in various ways. Moreover, these equality-enhancing – or inequality-reducing – mechanisms and policies are consistent with each other, complement and mutually reinforce each other. The bottom line is that in Pentoutopia people own, earn and get what they deserve and deserve what they own, earn and get. It can't get more just than that. This is true with regard to money, but also with respect to, and via, people's rights and power. Pentoutopia is a *systemically and principled* just society – the most just society one can imagine.

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<sup>471</sup> Whereas *distributive* justice is about a right (fair and just) general allocation, distribution and redistribution of resources, inputs and outputs, *substantive* justice means that people *actually* face the right (fair and just) consequences for their actions (or inactions) – for example they get the appropriate reward or punishment. For more on this see section 'Justice: To each, but in the appropriate form' in the introductory part 'Status quo and (the search for) a better society'.

## Pentoutopia: A society with built-in sustainability

Finally, it shall be looked at whether, why and how Pentoutopia is *sustainable*. In the introductory part I claimed that ‘if a system or an entity is not a singular event but exists – or shall exist – over a (longer) period of time without declining or diminishing considerably then it needs to be *sustainable*’.<sup>472</sup> For any longer-lasting system or entity, *sustainability* in the full meaning of the term is essential. ‘Sustainability’ has been defined as ‘a system’s and its elements’ capability and capacity to exist and to operate in a particular environment over a longer period of time without having their capability and capacity deteriorating irrecoverably and without destabilising the environment(s) they exist in irreversibly’.

This definition implies that a system needs to be sustainable in two respects; 1) in regard to its environment(s), and 2) as such, i.e. in its own design and workings. These two aspects might be called *external* and *internal* sustainability. Evidently, to be sustainable in both respects is of the utmost importance, of existential importance, for any society. This chapter argues and illustrates that sustainability is not only one of the essential principles of Pentoutopia but that it is a *systemic* feature of Pentoutopia, that sustainability is prevailing in Pentoutopia’s relationship to its environment(s) as well as in its fundamental institutions, structures and processes. The following four sections demonstrate in turn that Pentoutopia is *ecologically, organisationally, economically and socially* sustainable.

### Ecological sustainability: Pro-environmental behaviour and regulation

When one thinks about ‘sustainability’, the natural environment – or the deterioration and destruction of (parts of) the natural environment, ecosystems and species – comes to one’s mind first.<sup>473</sup> Most of this damage is anthropogenic, i.e. caused directly or indirectly by human activities, in particular economic activities (such as exploitation of resources, energy consumption, production, transportation, consumption and/or disposal of goods). Especially how modern corporations (the profit-maximising firm) and capitalist/neo-liberal market economies operate is (ecologically, but also socially and even economically) unsustainable in many respects.

Democratic organisations and legitimate market participants in a democratic market economy are different – and they operate differently. They conduct economic activities and their business *considerately*. Earlier,<sup>474</sup> ‘considerate conduct of business’ was defined as ‘an individual or organisation – within its purposes, strategies, policies, governance, management, structures, processes and control and performance measurement systems – takes explicitly and equally into account the legitimate interests, problems and needs of individuals, groups of people, other organisations, institutions, society in general and

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<sup>472</sup> This quote and the following definition of sustainability are from section ‘Sustainability: Balance, moderation, durability’ in the introductory part ‘Status quo and (the search for) a better society’.

<sup>473</sup> See the short list of severe and lasting environmental damage in sub-section ‘Economic activities and human-caused changes of the natural environment’ in the introductory part ‘Status quo and (the search for) a better society’.

<sup>474</sup> See section ‘Conduct of business – *considerate* conduct of business’ in Part II, ‘Democratic organisations’.

the natural environment; the intended and unintended outcomes and consequences of its activities, actions and inactions; and acts accordingly in balanced and sustainable ways that avoid or minimise negative, and create or increase positive, impacts on others, the wider system and/or the natural environment.’

With their triple bottom line approach (i.e. to pursue equally and at the same time social, environmental and economic goals) most democratic organisations have a *pro-environmental* orientation and demonstrate *pro-environmental* behaviour; they include the natural environment (or parts of it) consciously and explicitly in their business model and conduct of business, seek to use the natural environment and natural resources in balanced and sustainable ways, and try to minimise the negative impacts of human action on the natural environment.<sup>475</sup> In Pentoutopia, market participants conducting their economic and business activities in environmentally friendly and sustainable ways are not the exception but the rule. Moreover, in Pentoutopia industries and markets – and, thus, the economy – are based on, and function in accordance with, sustainable business models.<sup>476</sup> They are ecologically sustainable. ‘Ecological sustainability’ means that human activities and conduct of business have no or minimal negative impact on (parts of) the natural environment, ecosystems or species.

That economic actors and market participants demonstrate largely pro-environmental behaviour and that prevailing business models, industries and markets and the whole economy in Pentoutopia are (more) ecologically sustainable has systemic reasons. Most economic actors/market participants are legitimate organisations, democratic organisations – and it is their purpose(s), and in their fabric, to conduct business in decent, considerate and sustainable ways. They are sustainable, and their activities and operations are sustainable, *by design* – and this is how they then operate in markets and industries.

Besides the logic and workings of legitimate organisations, it is also concrete people and their orientations and behaviour that contribute to businesses’ ecological sustainability. As outlined in Part II,<sup>477</sup> in Pentoutopia people either own the organisations they work for or they are self-employed. They are not only the legal owners of the organisations they work for but they also have a sense of ownership. As owner-managers, members of democratic organisations care. Many democratic organisations are locally embedded, established by local people in order to address local issues, or at least conduct large parts of their economic activities locally. Hence, members of democratic organisations have strong(er) feelings of local embeddedness and community orientation, and are concerned about local people’s and communities’ well-being. They also have a greater awareness and knowledge of the natural environment. Most owners and members of democratic organisations have a greater sense of connectivity with nature and feel closer to their natural environment because it is where they live and do business, where they can see, and bear, the consequences of changes to the environment. They hence feel a strong(er) sense of

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<sup>475</sup> For a more detailed definition and description of pro-environmental orientation and behaviour see section ‘Planet: Pro-environmental orientation and behaviour’ and sub-section ‘Environmentally friendly goals and actions’ in Part II, ‘Democratic organisations’, as well as section ‘Individual market participants’ economic behaviour’ in Part III, ‘A democratic market economy’.

<sup>476</sup> See section ‘Whole industries transformed’ in Part III, ‘A democratic market economy’, where the retail and agricultural sectors were stated as examples.

<sup>477</sup> See sub-sections ‘Community orientation and local embeddedness’, ‘Owner-managers’ senses and values of nature’, and ‘Localism and local people’s (pro-)environmental orientation’ in Part II, ‘Democratic organisations’.

responsibility about environmental issues that motivates them to behave in more pro-environmental ways and to conduct their business accordingly, i.e. in more environmentally friendly and sustainable ways.

In addition to the market forces that achieve a higher ecological sustainability, in a democratic market economy like Pentoutopia there is also ample regulation of markets and market participants (in the form of self-regulation, co-regulation or government regulation).<sup>478</sup> Such regulation especially targets market failure and market participants' market-related misbehaviour (such as externalisation of internal costs, abuse of market power or dodgy business practices, products or services). If the activities of economic actors, market participants, markets or industries were ecologically unsustainable, legal frameworks and environmental policies would be introduced that could deal with such activities in order to regain ecological sustainability (for example, internalisation of externalised costs through Pigouvian or other taxes, penalties, limiting or banning activities or products that harm the environment and/or supporting or providing more environmentally friendly alternatives). Regulation – *comprehensive* and *robust democratic* regulation – helps economic actors, markets and industries to be, and to act, in ecologically sustainable ways.

All in all, Pentoutopia achieves high levels of ecological sustainability because economic actors and market participants have sustainable business models and demonstrate largely pro-environmental behaviour; industries, markets and the whole economy function in ecologically sustainable ways; and comprehensive regulation of markets and market participants targets market failure and market participants' market-related misbehaviour so that they conduct their activities in more environmentally friendly ways.

### **Organisational sustainability: Balanced organisations**

Beside its *external* sustainability in respect to the natural environment, Pentoutopia is also *internally* sustainable, i.e. its institutions, how they are designed and function, are moderate, balanced and durable as such. This can be demonstrated first through *organisations* that operate in Pentoutopia, in particular democratic organisations. As outlined in Part II, democratic organisations' main features are:<sup>479</sup>

1. A *libertarian constitution* that appreciates and protects all members' inalienable rights of self-ownership as well as private ownership and corresponding equal rights, responsibilities, and legal entitlements;
2. *Democratic governance* (based on democratic institutions of governance, legitimate authoritative sources, democratic governing and 'good governance') that allows all members of the organisation to participate in democratic decision-making and to decide its policies and direction;
3. *Democratic management* (in form of self-management, representative management and participative management) that enables all members of the organisation to manage their

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<sup>478</sup> See chapter 'Regulation of markets and market participants' in Part III, 'A democratic market economy'.

<sup>479</sup> This list is copied from Table 5 'Main features of the democratic organisation' in chapter 'The idea of and for an alternative organisation' in Part II, 'Democratic organisations'.

work and the conditions of their work themselves, and to manage organisational affairs and the organisation either individually or collectively;

4. *Equalising empowerment*, i.e. all members of the organisation are formally, psychologically and socially empowered to participate equally in decision-making, to pursue legitimate individual and collective interests, and to further their personal development;
5. *Considerate conduct of business*, i.e. the democratic organisation and its members conduct their activities (including providing goods and services) both within the organisation and towards others and the environment in ways that are moderate, balanced, decent, ethical and just, and that are consistent with a social orientation, pro-environmental behaviour and sustainable economic performance.

The first three aspects, i.e. the libertarian constitution, democratic governance and democratic management, are the democratic organisation's unique institutions – *legitimate* institutions that make democratic organisations much more moderate, balanced and durable than any other type of organisation. Of course, democratic organisations are private enterprises that operate in market economies, i.e. they can be established and terminated for as many various reasons as enterprises in a neo-liberal market economy. But usually they are established, designed and maintained for the long term. In addition, ownership and property rights of all members of a democratic organisation mean long-term commitments. With their equal legal and formal status, rights and responsibilities members have profound interests that the organisation will last – and they will make it work. Moreover, since the members of the democratic organisation own and control the organisation, its properties and assets, activities and results collectively and democratically, governance and management structures and processes are very balanced. As owner-managers, members of the democratic organisation govern and manage the organisation and organisational affairs on the basis of legitimate authoritative sources, according to democratic principles and standards in form of self-management, representative and participative management. This not only means a rather balanced, but also moderate governance and management of the organisation because democratic institutions and democratic decision-making usually converge towards the middle ground and rarely produce extreme decisions or radical solutions. The democratic organisation is sustainable by design and functions sustainably.

The democratic organisation is also very balanced and moderate for everyone working for it. Following the notion of *equalising empowerment*,<sup>480</sup> members of a democratic organisation are not only seen as equal, and have equal rights, but will be *equally* powerful and empowered. Those that are less empowered will be formally, psychologically and/or socially empowered and the more powerful equally disempowered. For this, governance and management, formal power, roles and positions of office holders are controlled and regulated democratically; weaker members are helped to develop a strong social identity and orientation, confidence and competences, and to develop into fully free and autonomous individuals that can manage their social relationships efficiently; while at the same time the social dominance of overtly (self-)empowered members (e.g. 'leaders', 'aggrandisers') is confined by social control and social actions. The notion of and measures for equalising empowerment have highly balancing and moderating effects on the structure and processes of the democratic organisation as well as on the people, their being and social relationships within the organisation.

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<sup>480</sup> See chapter 'Equalising empowerment' in Part II, 'Democratic organisations'.

Finally, democratic organisations also act, and do business, in sustainable ways. Since they pursue social, economic and/or environmental goals at the same time, they need to balance their activities, and need to be, and to operate, in balanced ways. Likewise, as a consequence of their more balanced goals and purposes, they also need to develop and demonstrate more balanced business strategies and practices – and they want to do this for long. They therefore (need to) show *decent* business practices and *considerate* conduct of business. Democratic organisations acting in accordance with their fundamental purposes and values are more conservative, long-term oriented and risk-averse in their decision-making, practice more prudent management, and demonstrate more ethical, responsible, decent, cooperative, balanced and sustainable business practices in their internal and external activities (see also next section).<sup>481</sup> It is part of their *raison d'être* to conduct business in durable, balanced and moderate ways.

### **Economic sustainability: A moderate – and moderated – market economy**

In the democratic market economy there are only legitimate market participants – like democratic organisations – conducting economic activities.<sup>482</sup> It is therefore reasonable to assume that the whole economy of Pentoutopia is sustainable – and rightly so.

Market participants' market-related behaviour corresponds with their considerate conduct of business, i.e. they have a social or even prosocial and pro-environmental orientation and conduct their business in the marketplace mostly in moderate and balanced ways.<sup>483</sup> For instance, democratic organisations largely cooperate with other market participants long-term and in mutually beneficial ways. And *if* they compete – which they do – they compete with a 'non-combative competitive mind'.<sup>484</sup> But also non-combative competition happens in relatively moderate forms and leaves most market participants the possibility to continue their business for a longer period of time.

Cooperation and non-combative competition are rather moderate forms of social engagement and economic behaviour, and behaviour in the marketplace, because they don't have a 'maximisation calculus'. In a democratic market economy they are the prevailing modes of economic behaviour among market participants and lead to lasting patterns, clusters or networks. They not only define how individual democratic organisations operate, function and interact with other market participants, but how *whole industries* work.<sup>485</sup> Viewed in this way, the behavioural and microeconomic workings of the democratic market economy are fairly balanced, moderate and (therefore) lasting.<sup>486</sup>

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<sup>481</sup> See sub-section 'Decent business practices, responsible and ethical behaviour' in Part II, 'Democratic organisations' and section 'Individual market participants' economic behaviour' in Part III, 'A democratic market economy'.

<sup>482</sup> See chapter 'Legitimate and illegitimate participants in the free market' in Part III, 'A democratic market economy'.

<sup>483</sup> See section 'Individual market participants' economic behaviour' in Part III, 'A democratic market economy'.

<sup>484</sup> See section 'Cooperative actions and interactions between market participants' in Part III, 'A democratic market economy'.

<sup>485</sup> See section 'Whole industries transformed' in Part III, 'A democratic market economy', where the agriculture, housing, retail, banking and social services industries were described as examples.

<sup>486</sup> And *if* there is market failure – and there *will be*, as in any economic system – in the form of market participants'

This also shows at the macro-level of the economy. As I argued in Part III,<sup>487</sup> contemporary economies are fairly unsustainable due to a very narrow and exclusive focus on quantitative growth of products and services (measured by the traditional GDP concept). Such growth orientation and performance and measurement systems like GDP are very narrow and insufficient, misleading and utterly unsustainable. In contrast, a democratic market economy is oriented (steered and governed) towards qualitative and quantitative social, environmental and economic development – and its performance would be measured accordingly via a multidimensional alternative concept of GDP in order to:

- 1) Account for all phenomena that either have a value or are deemed valuable (things; products and services; individual or collective issues; ecological, social or cultural commons; market-related and non-market economic activities and transactions);
- 2) Account for all phenomena that either have a negative value or reduce, damage or destroy value (things or issues that represent costs in the sense that they generate negative externalities or directly cause individual, social, environmental and/or economic costs);
- 3) Nurture and develop those phenomena that increase the welfare and well-being of individuals or the whole (whether it is economic, social or environmental systems); and
- 4) Reduce or terminate those phenomena that reduce, damage or destroy the welfare and well-being of individuals or the whole.

Clearly, such a market economy – and a corresponding *appropriate* orientation towards, and measurement of, its socio-environmental and economic growth and development – is not only far superior to any neo-classical or neo-liberal market economy or centrally planned economy but also much more balanced and (socially, ecologically and economically) sustainable. It is far superior *because* it is balanced and sustainable. Crucially, a democratic market economy is *genuinely* and *systemically* balanced and sustainable; market participants show long-term oriented, sustainable and stable conduct of business and development, industries and markets grow in qualitative and quantitative, balanced and sustainable ways. Market economies are much more sustainable and resilient, equal, fair and just if a majority of market participants are democratic organisations (Nadeau 2012, p. 19). There is still economic competitiveness, innovation and growth, but at a slower pace, with less hype, boom and bust, bubbles and crises.<sup>488</sup>

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market-related *misbehaviour* such as *externalisation of internal costs*, *abuse of market power* or *dodgy practices, products or services* (see section ‘Market failure’ and market participants’ market-related misbehaviour’ in Part III, ‘A democratic market economy’), then there are institutions of self-government, co-government and government regulation that can and will cope with such market failures.

<sup>487</sup> See section ‘From economic growth to social, environmental and economic development’ in Part III, ‘A democratic market economy’. The following quote is also from there.

<sup>488</sup> Already in the early 1970s Vanek (1971, p. 29) concluded in his investigation and comparison of capitalist and market socialist economic systems that ‘the participatory economy is far less likely to undergo cyclical depressions than are western market economies’. Four decades later, Kelly (2012, p. 96) argued in a similar vein that ‘an economy built on fairness, on designs aimed at a fairer distribution of wealth, is likely to be more resilient. If we are to avoid threshold effects (also called economic crises, which seem to be occurring every couple of years), it means managing not just for profits or growth but also for resilience. *Resilience* is the capacity of a system to bounce back from disturbances with its structures essentially intact. The opposite of resilient is brittle, prone to



### Societal sustainability: A balanced and sustainable society

Pentoutopia is also sustainable as a society – it *is* a sustainable society. One reason for this is that Pentoutopia is a fully fledged democracy. Of course, democracies are not perfect, nor do they generate entirely satisfactory decisions and policies. But by and large and in general, democratic institutions, democratic processes and decision-making in most instances produce *moderate* and *balanced* decisions, policies and solutions. They are *moderate* in the sense that they often represent compromises with a tendency towards the centre of the political spectrum. And they are *balanced* in the sense that they take the interests of various stakeholders into account.<sup>489</sup> Most people can live with such political institutions and the policies they produce. Consequently, democracy is a highly *durable* political system<sup>490</sup> and – on average and in the long run – produces quite sustainable solutions.

This was shown earlier in respect to equality, in particular economic and social equality. Among other things, Pentoutopia is about reducing economic and social inequalities as much as possible – for good reasons. By definition, inequality means imbalance – and (legal, political, economic and social) inequalities mean comprehensive and systemic imbalances for a social system; imbalances in power, income and wealth, and in (access to) institutions and opportunities. Inequality is bad for people and for social systems, for the existence and development of (most) people as well as the structure and continuation of a social system. A society is not sustainable when it has systemic and severe inequalities – or, to rephrase it; a highly unequal society is only sustainable when it has massive additional institutions and features that smooth over the inequalities (such as oppressive and coercive institutions of power and control, ideologies explaining and justifying the inequalities, or policies that calm people and that give them the impression that the system ‘cares’ about the disadvantaged, oppressed and exploited).

For a social system (and its people) it is much better, and much more efficient, to have genuine and systemic (legal, political, economic and social) equality, to be naturally in balance and sustainable. The idea is to have a more equal society. As I outlined earlier,<sup>491</sup> ‘as a minimum, a *more* equal society provides each and every individual with *constitutional and legal equality* (i.e. equal human, democratic and civil rights and equal formal and procedural treatment according to the rule of law); *political equality* (i.e. the same status, rights and responsibilities as citizens and opportunities to be politically active/to conduct citizenship behaviour); *economic equality* (i.e. equal economic conditions and opportunities as well as relatively equal/similar ranges of income and wealth); and *social equality* (i.e. equal basic

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breakdown’.

<sup>489</sup> Most (past and present) democracies, even the most advanced, fully fledged ones, are more or less insufficient in that respect. Power elites or certain professions or professional elites, ‘business’ (in particular large corporations and powerful industries) and/or ‘the rich’ manage to promote most of their interests and have them institutionalised, propagated, protected and supported by policies, rules and regulations (hence the term ‘establishment’). Nonetheless, *conceptionally, in principle* and *potentially* democratic decision-making *is* balanced – and it would be so especially in a civil democracy.

<sup>490</sup> Also totalitarian regimes are, or can be, sustainable in the sense that they, unfortunately, can last for decades or centuries (as many examples of autocracies, oligarchies, monarchies, religious orders, one-party states or other totalitarian regimes evidence). However, such regimes are neither balanced (on the contrary, in both their structures and processes they represent the most extreme allocations of power, resources and anything else), nor moderate (usually, many of their policies and practices are quite radical).

<sup>491</sup> The quote is from section ‘The notion and concepts of equality’ above.

conditions and institutions that enable people to conduct their lives in appropriate ways).’ With its equalising institutions and policies,<sup>492</sup> Pentoutopia offers exactly that – in multiple ways:

- *Constitutional and legal inequalities* hardly exist because Pentoutopia’s constitutional and legal institutions meet all criteria of *legitimacy*, i.e. formal, procedural, substantive, perceived and rational legitimacy. That Pentoutopia’s institutions meet formal and procedural legitimacy in the form of rule of law is a matter of course. But Pentoutopia is especially serious about *substantive* legitimacy. For instance, it outlaws radical or extremist institutions or organisations that do not offer and comply with the whole range of people’s human, democratic and civil rights; that put people into unequal relationships (such as superior/subordinate relationships, traditional employment contracts or hierarchical social systems); and/or that privilege particular types of people unfairly while they disadvantage and discriminate against certain other people. Instead, Pentoutopia provides, propagates and supports legitimate institutions that offer people equal rights, conditions and opportunities. Pentoutopia’s constitutional and legal settings only allow for moderate and balanced institutions that make society much more sustainable.
- *Political inequalities* are prevented at an institutional as well as organisational level. Pentoutopia does not permit or tolerate any non- or anti-democratic, anti-libertarian and/or anti-egalitarian political system or organisation (such as an autocratic, oligarchic or otherwise totalitarian system or organisation). In Pentoutopia there are only legitimate political institutions (i.e. the government, parliaments and other institutions of local, regional and national governance, political organisations and the electoral system, as well as the governance of and within organisations) that provide equal political power to everyone. Also the governance and management of, within and between organisations – *democratic* organisations – is democratic (in the form of democratic self-governance, representative democracy, participative governance and citizenship behaviour (‘civil democracy’), self-management, representative and participative management, respectively). All members of a social system have equal legal, formal and organisational status, rights and responsibilities as well as equal opportunities to participate in the democratic governance and management of the social system. As a consequence, political institutions as well as their policies and political actions of citizens are much more balanced, moderate and system-stabilising.
- *Economic inequalities* are reduced considerably via broad and systematic equality-enhancing taxation and redistribution of income and wealth – mainly through comprehensive and progressive taxation of all forms of income (in particular salaries and wages, profits, capital gains or financial gains) and wealth (in form of highly valuable tangible assets, intangible assets or financial assets) via income tax, corporate tax, capital gains tax and financial transaction tax, inheritance tax and wealth tax as well as equalising tax policies (such as scaling back tax expenditures, tax exemptions, tax breaks, tax loopholes and dealing thoroughly with aggressive tax avoidance).<sup>493</sup> Moreover, large-scale redistribution of income (in the form of direct payments/cash transfers through social benefits, tax benefits, and/or monetary employment-related benefits) and wealth (via following through on the notion and legal concept of private ownership for everyone, progressive taxation of income and

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<sup>492</sup> See also section ‘Features of Pentoutopia preventing inequalities and providing equalities’ above.

<sup>493</sup> See chapter ‘Increasing economic equality by reducing economic inequalities’ above.

wealth and tax-based policies supporting not so wealthy people to start their own businesses, to own the land and real estate where they live and work, and to develop their financial assets) has further equalising effects. The more economically equal a society is, the more stable and durable it is.

- *Social inequalities* and individual needs are tackled both at the individual level and the systems level. At the individual level via non-monetary social welfare policies and direct measures, such as social services provided by public sector organisations (public social services), by individuals or private organisations/civil society organisations (voluntary welfare) and/or by partners, family members, friends or neighbours (informal welfare).<sup>494</sup> Such social welfare measures have great equalising and moderating effects. At the systems level via scrutinising and adjusting the systemic causes, conditions and dynamics that produce, maintain or increase social inequalities (such as terminating privileging and discriminating against norms and values, perceptions and behaviour, social positions, hierarchy and stratification) so that people are portrayed, perceived and treated equally, and are equipped with sufficient resources, equal opportunities and life chances.<sup>495</sup> The more socially equal a society is, the more moderate and better off are its citizens.

### **The sustainability of Pentoutopia**

The sections above demonstrated that Pentoutopia is an ecologically, organisationally, economically and socially sustainable society *in principle*. Pentoutopia is sustainable externally as well as internally:

- 1) *Ecological sustainability*: Most members of Pentoutopia by and large demonstrate pro-environmental behaviour, especially (most) economic actors and market participants conduct their business and carry out their economic activities mostly in ecologically sustainable ways. Industries and markets as well as the whole economy are ecologically sustainable.
- 2) *Organisational sustainability*: Because of their libertarian constitution, democratic governance, democratic management, internal operational structures and processes, and the notion of equalising empowerment, democratic organisations are sustainable by design and conduct their business in considerate, balanced and sustainable ways in respect to social, economic and environmental aspects.
- 3) *Economic sustainability*: Pentoutopia's economy – a *democratic* market economy – is a genuinely and systemically moderate (and *moderated*), balanced and sustainable market economy because market participants show decent, stable and long-term-oriented conduct of business, industries and markets function in balanced and sustainable ways, and the whole economy is oriented towards socio-environmental and economic growth and development.
- 4) *Societal sustainability*: Pentoutopia is a very balanced, moderate and durable *society* due to its legitimate and robust institutions of democratic governance (civil democracy) that provide genuine and systemic legal, political, economic and social equality and its comprehensive system of equality-enhancing economic, fiscal and social welfare policies.

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<sup>494</sup> See chapter 'Increasing social equality by reducing social inequalities' above.

<sup>495</sup> See section 'Minimising systemic social inequalities' above.

Because of Pentoutopia's equal and equalising institutions, equality-enhancing policies (taxation and redistribution of income and wealth, social welfare policies), and continuing adjustments of (possible) systemic causes, conditions and dynamics of inequality, Pentoutopia is an extremely balanced, moderate and durable, i.e. sustainable society.<sup>496</sup> It is:

- a) *Balanced* because there are no constitutional and political inequalities; all people have the same human, democratic and civil rights and powers and are, in that respect, truly 'the same'. And economic and social aspects are only (justified) differences and not (unjustified and massive) inequalities.
- b) *Moderate* because legitimate institutions (of governance, i.e. political institutions, and of business and civil society, i.e. democratic organisations) act and conduct their business in considerate and moderate ways and produce moderate outcomes – be it policies or products.
- c) *Durable* in environmental, organisational, economic and social respects because its institutions are balanced and moderate and because its people exist and act within/on the basis of legitimate institutions as free individuals, owners and citizens in more balanced and moderate ways.

Many societies have existed for quite a long time – but all in rather unsustainable ways. They have exploited natural resources and the natural environment beyond their equilibriums, reproduction or regeneration capacities; their organisations are radical, hierarchical, exploitative and oppressive; their economies flawed in their fundamental principles, plagued with dysfunctional industries and markets, irrational market participants and systemic market failures; and their societies are highly stratified, exclusive and oppressive, unfair and unjust. These societies may last long – but they are completely and utterly unsustainable (and worse).

Pentoutopia would be the first society that is ecologically, organisationally, economically *and* socially sustainable as a whole as well as in its parts. And it is so not because it takes extreme measures or has unrealistic expectations about people and their behaviour, but it is sustainable fundamentally and in principle because it takes the actually rather simple notions of legitimacy and decency, balance and moderation seriously.

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<sup>496</sup> In the introductory part, 'Status quo and (the search for) a better society' (section 'Sustainability: Balance, moderation, durability'), it was stressed that 'sustainability' actually means or comprises three different aspects: 1) 'balance' (also 'homeostasis', 'equilibrium' or 'harmony'), i.e. that things are in a steady position or in the right proportions to each other, and forces equalise each other; 2) 'moderation' (also 'golden mean'), i.e. that people avoid extremes or excesses in their feelings, tastes, manners, attitudes, behaviour or worldviews; and 3) 'durability' (or 'permanence', 'endurance'), i.e. that something lasts over a longer period of time.

## Summary and conclusions

### The model society of Pentoutopia

The previous five parts outlined Pentoutopia, the model of a good society. The litmus test of any social system is how good it is for people and to people – *all* people, each and every individual. Such goodness of a social system can be assessed and judged by how much it is consistent with, grants and guarantees ‘the essential five’ principles of freedom, democracy, equality, justice and sustainability, i.e.: 1) how much it allows and enables people to be as free as possible; 2) how democratic its institutions (in particular organisations and institutions of governance, management, and regulation) are; 3) how much constitutional, legal, political, economic and social equality it offers and achieves; 4) how much procedural and distributive justice its structures and processes give; and 5) how sustainable, i.e. how balanced, moderate and durable its various systems and members’ activities are. The following five sub-sections show how well Pentoutopia does in regard to ‘the essential five’.

#### 1) *Free individuals and legitimate institutions*

In Pentoutopia *all* individuals are (presumed to be) *free* individuals, i.e. free from external, unreasonable or illegitimate interference, coercion or restraint (negative freedom) and internally free so that they (can) reason, decide, act and live their lives as they deem right (while leaving others the same right) (positive freedom). In Pentoutopia, people are free as such, among others and within/in respect to (their) various environments. That people in Pentoutopia are (more) free is not because they are (assumed to be) ‘better’ people or some kind of *Übermensch*. It is because of *institutions* (i.e. established norms and values, rules and regulations, organisations, structures and processes). Pentoutopia’s institutions enable and allow people to be free. This is because *all* institutions of and in Pentoutopia are *legitimate* institutions, i.e.:

- a) They are consistent with internal and external legitimate claims and requirements such as principles, norms and values, laws, policies, rules and regulations (*formal legitimacy*);
- b) They apply formal rules to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (*procedural legitimacy*);
- c) They are designed, managed and maintained, operate and produce outcomes and consequences for everyone equally in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability as well as people’s inalienable human, democratic and civil rights (*substantive legitimacy*);
- d) Their existence, purpose(s), design, the way they work and the outcomes and consequences they produce are perceived by people as legitimate (*perceived legitimacy*); and
- e) They resemble, and adhere to, in their entirety as well as in all their parts, to rationality and reason, are up for scrutiny and can be criticised, challenged and altered for good reasons (*rational legitimacy*).

Consequently, in Pentoutopia there are no totalitarian, hierarchical and/or otherwise oppressive and exploitative institutions (i.e. authoritarian religious or political regimes, hierarchical organisations, closed groups, asymmetrical relationships and so on). In Pentoutopia there are only *legitimate* institutions, i.e. institutions that correspond with, and adhere to, the fundamental and inalienable rights of individuals and the essential principles of a good society.

Moreover, free individuals and legitimate institutions are related to and reinforce each other. The relationship between free individuals and legitimate institutions is unique to Pentoutopia. This relationship shows itself in the institution of *ownership*, in particular self-ownership and private ownership. In Pentoutopia *every* person has fundamental rights of and to self-ownership and private ownership. The institution of self-ownership means that individuals own themselves (and no one else does) and are in charge ('No God, no monarch, no boss!'). Self-ownership implies the whole range of human, democratic and civil rights – equally for each and every individual – and the inalienability of those fundamental rights. Similarly, the institution of private ownership means that each and every individual has private property (as well as the relevant property rights related to or stemming from private ownership) – especially when it comes to joint work. As a consequence, in Pentoutopia there is no, and cannot be, 'rights-based' or contract-based oppression and exploitation.

The special relationship between free individuals and legitimate institutions also shows itself in and via the principle and concept of *subsidiarial authority*. Subsidiarial authority means that governance and management happen at the lowest possible level. In Pentoutopia everyone is entitled, empowered and enabled by institutions to (democratically) govern and to manage their work and life, as well as the conditions of their work and life (i.e. the public and social sphere), according to their interests and as they deem right.<sup>497</sup> The institution of subsidiarial authority means that there are no top-down command-and-control, superior–subordinate relationships, organisational hierarchy, autocratic or oligarchic systems in Pentoutopia. In Pentoutopia, people are *institutionally* entitled and empowered to govern, to manage and to rule. This specific 'people and institutions' relationship, as it is put into practice via the principles and concepts of ownership and subsidiarial authority, is characteristic of Pentoutopia – *only* of Pentoutopia – and is fundamental for the various spheres of the good society.

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<sup>497</sup> Part II, 'Democratic organisations', showed that democratic organisations are structured, governed and managed according to the principle of 'subsidiarity'/subsidiarial authority'; democratic governance and democratic management happen largely in the form of self-governance and self-management, i.e. organisational principles and policies, structures and processes that allow and enable all members of the organisation to make decisions and to participate in democratic decision-making. Part III, 'A democratic market economy', argued that a democratic market economy is largely based on decentralised decision-making and self-regulation, i.e. *all* market participants are equally free and able to make decisions, to demonstrate considerate economic behaviour, to regulate themselves and to participate in various forms of co-regulation. And Part IV, 'Civil democracy', outlined that Pentoutopia is a fully fledged civil democracy and civil society where people – *citizens* – can, and would, demonstrate the whole range of citizenship behaviour and would govern themselves via various institutions of democratic self-governance, participatory governance and representative democracy.

## 2) Democratic organisations

Pentoutopia is also a highly democratic society. For instance, in Pentoutopia *all* organisations are *democratic organisations*.<sup>498</sup> Pentoutopia only allows for democratic organisations that:

- a) Provide all their members with a partnership agreement that grants everyone partner status and that specifies and guarantees the equal rights and responsibilities of every partner to own, manage and control collectively and democratically the organisation and its properties, activities and results based on the principles and concepts of self-ownership, private ownership and related human and property rights (*libertarian constitution*);
- b) Are based on, and governed accordingly by, the principles of *democratic governance* (democratic institutions of governance, legitimate authoritative sources, democratic governing and ‘good governance’);
- c) Have *democratic management* in place, with heterarchical structures and processes of self-management, representative management and participative management, which gives all members full control over the democratic organisation and its operations.
- d) Are built on the notion of *equalising empowerment*, i.e. that empowered people are disempowered and disempowered people are empowered formally, psychologically and/or socially until all members of the organisation have *equal power*; and
- e) Have a *sustainable* business model, i.e. they pursue and achieve multidimensional social, environmental and economic purposes (‘people, planet, profit’) in balanced ways, demonstrate more decent and cooperative conduct of business, show more pro-environmental behaviour and more long-term oriented, efficient and sustainable business performance.

Democratic organisations are the legal, formal and organisational institutionalisation and realisation of regular joint work of free and equal individuals. The prevalence of democratic organisations is another fundamental characteristic of a good society because such organisations resemble universal ownership (self-ownership *and* private ownership of and for everyone) and subsidiarial authority par excellence. Democratic organisations are *the* form of organisation of and for free individuals.

## 3) Democratic market economy

Pentoutopia’s economy follows this notion. Pentoutopia has a *democratic* market economy that mainly connotes free, largely non-competitive and democratically regulated markets. A *democratic market economy* means that the market, market-related activities and behaviour are based on social norms and rules, legal rights and obligations that are equally relevant for *all* market participants (producers and consumers, buyers and sellers), and in particular that they:

- a) Enjoy their inalienable rights of and to self-ownership, private ownership and related property rights, are able and enabled to make their own economic decisions and act accordingly, i.e.

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<sup>498</sup> Ideally. Actually, they are either conservative, alternative or democratic organisations because even ‘less democratic’ organisations are, or can be, still legitimate (see chapter ‘Legitimate and illegitimate participants in the free market’ in Part III, ‘A democratic market economy’).

conduct market transactions and market-related activities as free as possible from illegitimate external influence and pressure (*freedom*);

- b) Make decentralised decisions about which goods and services are offered and demanded in which ways, organise themselves and conduct their market-related activities in accordance with the principles of democratic governance and democratic management (*democracy*);
- c) Have the same range of legal entitlements and duties, equal power and equal opportunities, rights and responsibilities to pursue their interests and to conduct (their) business and economic activities. Private ownership and related property rights, management and control rights are legal and statutory rights of *every* member of every market participant (*equality*);
- d) Are treated equally and fairly with regard to their market-related activities and related consequences, for instance receive the fruits of their labour (returns for their work, effort or performance) and a ‘fair share’ of any outcomes achieved through collaborative work according to the principles of desert and performativity (*justice*); and
- e) Demonstrate balanced and sustainable behaviour in order to be able to engage in market-related activities repeatedly/over a longer period of time (*sustainability*).

Only legitimate market participants (such as conservative, alternative or democratic organisations and autonomous/self-employed individuals) are designed and function in such ways and demonstrate economic behaviour that is consistent with the principles of a democratic market economy. Market participants’ goals and economic behaviour, actions and interactions are predominantly considerate, balanced, cooperative and sustainable.<sup>499</sup> Such business models and conduct of business shape how markets and how whole industries work. There are no unsustainable business practices or cut-throat competition, but largely cooperative and decent economic behaviour. Consequently, Pentoutopia’s economy not only provides quantitative economic growth but also socio-environmental and economic development.

#### 4) *Civil democracy*

The governance of Pentoutopia is different. Pentoutopia is governed in the form of a *civil democracy*. Civil democracy means the governance of the public sphere, public affairs or matters of public concern in the most democratic, participative, collaborative and inclusive ways possible. Civil democracy comprises *democratic self-governance*, *representative democracy*, *participatory governance* and *citizenship behaviour*. It connotes that all members of a social system are institutionally enabled and empowered as much and as far as possible to:

- a) Organise themselves in voluntary and democratic neighbourhood or online groups, to shape the conditions of their lives democratically, and to govern and manage (local) public affairs or matters of public concern via self-organised democratic institutions such as associations or assemblies (*democratic self-governance*);

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<sup>499</sup> And if market failures or market participants’ market-related misbehaviour (such as externalisation of internal costs, abuse of market power and/or dodgy business practices, products or services) were to occur then these would be dealt with via institutionalised forms of self-regulation, co-regulation or government regulation (see chapter ‘Regulation of markets and market participants’ in Part III, ‘A democratic market economy’).



- b) Be governed only by legitimate forms and institutions of democratic government (i.e. a democratic electoral system and free and fair elections, democratic political parties, a diverse parliament and a democratically elected government), to gain and to hold legitimate positions of political power (equal rights and actual possibilities to vote and to run for public office), to rule (via their democratically elected representatives and legitimate public institutions of governance) and to control power (to scrutinise their representatives' conduct of office, to hold them accountable and to vote them out of office) (*representative democracy*);
- c) Participate directly and regularly in public authorities' governance of public affairs and the governance and delivery of public services, policies, programmes or individual measures that address matters of public concern via citizen participation and direct collaboration between citizens and public administration (*participative governance*);
- d) Enjoy the formal and official status, rights and identity of a 'citizen' and 'citizenship', in particular being allowed and entitled to address any matter of general interest or of public concern, to express their own views, interests and opinions, and to demonstrate any type or form of 'citizenship behaviour' (i.e. proto-political, basic political, advanced and/or radical citizenship behaviour).

With its comprehensive, robust and intertwined institutions of democratic self-governance, representative democracy and participatory governance Pentoutopia is the most democratic society imaginable. It is a fully fledged *representative parliamentary democracy* with a democratic government that is based on justifiable explicit rules (democratic constitution, rule of law), legitimate institutions, the consent of free people, and that can be controlled, sanctioned and replaced regularly by formally institutionalised democratic means. Moreover, it is a social system of *democratic* governance that provides *all* of its members with the same fundamental and explicit, robust and transparent rules, rights and duties to govern themselves directly (self-governance), via participation (participative governance) and/or through representatives that are accountable to everyone (representative democracy). And it offers *all* of its members with opportunities to participate in all political decision-making processes and to govern society, its public spheres, public affairs and matters of public concern in democratic ways. In this sense, Pentoutopia is a *civil democracy* – a comprehensively institutionalised and fully functioning civil democracy.

Crucially, in Pentoutopia all institutionalised governance and management (whether in and of organisations, the economy or society) adheres to the principle of *subsidiarial authority*<sup>500</sup> and is designed and works according to the *concept of interlocking institutions of (self-, participative and representative) governance and management*. The concept of interlocking institutions of governance and management means that organisations, industries, markets, the economy, the public or social sphere are governed first and foremost by those actors and institutions (members of an organisation, market participants, citizens, civil society organisations, political institutions or government agencies) that are closest to (the sources of) the issues and affairs that need to be governed.<sup>501</sup> In this way it is ensured that the knowledge,

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<sup>500</sup> See section 'The principle of subsidiarity: Subsidiarial authority' in Part I, 'Free individuals and legitimate institutions'.

<sup>501</sup> How exactly the *concept of interlocking institutions of governance and management* works was addressed in the chapter 'Libertarian constitution and democratic governance' (especially sub-section 'Checks and balances':

competences and experience of those who are (presumably) more or most familiar with the issues flow into the decision-making and regulation. Hence, governance and management start ‘at the bottom’ and happen ‘bottom-up’; first comes self-governance and self-management, then co-governance and management, and only then representative governance and management. Actors and institutions regulate up to the point where they have the competences, means and resources to govern or to manage. Beyond that point, other regulatory bodies – ‘the next level’, so to speak – join in, with the lower level still involved and participating. Interlocking institutions means that the various forms of governance and management are at work at the same time, whereby each form regulates the same area and issues until it reaches the limits of its regulatory capacity. As a consequence, governance and management in Pentoutopia is: 1) more comprehensive and thorough; 2) more appropriate, proportional and efficient; and 3) formulated, implemented, monitored and enforced in more collaborative, inclusive and democratic ways.

#### 5) *A more equal, just and sustainable society*

Pentoutopia is also a more equal, just and sustainable society. It is a (much) more equal society because it equips each and every individual with:

- *Constitutional and legal equality* (i.e. constitutionally guaranteed equal human, democratic and civil rights, equal legal status and rights, and equal formal and procedural treatment according to the rule of law);
- *Political equality* (i.e. the same status, rights and responsibilities as citizens and opportunities to be politically active and to conduct the whole range of citizenship behaviour);
- *Economic equality* (i.e. equal economic conditions and opportunities, a fair and just system of taxation and redistribution of income and wealth, in particular a highly progressive equality-enhancing taxation of income and wealth and redistribution of income via monetary social welfare policies and redistribution of wealth through widespread private ownership); and
- *Social equality* (i.e. tackling social inequalities at the individual level via non-monetary social welfare policies provided by public social services, voluntary and/or informal actors and minimising systemic social inequalities via accommodation of individuals’ basic needs, equal opportunities and capabilities and providing everyone with adequate resources).

Pentoutopia provides and guarantees legal, political, economic and social equality for everyone as widely and as far as possible – and more than any other past or present society.

Moreover, Pentoutopia is also a (very) *just* society. It makes sure that:

- *Rights* are granted to everyone equally, in particular that individuals are equally free, powerful and formally, psychologically and socially equally empowered on their own as well as among

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Separation of powers and subsidiarity’) and chapter ‘Democratic management’ in Part II, ‘Democratic organisations’; chapters ‘Foundations of the free market’ and ‘Regulation of markets and market participants’ (especially section ‘The concept of interlocking regulation’) in Part III, ‘A democratic market economy’; and chapters ‘Democratic self-governance’ and ‘The concept, workings, and advantages of civil democracy’ (especially sub-section ‘Interlocking concepts of democratic governance’) in Part IV, ‘Civil democracy’.

others ('equalising empowerment'), i.e. that they have the freedom, skills, competences, resources and opportunities to govern and to manage themselves, their activities as well as social interactions, social relationships and social systems (e.g. the organisations they belong to, the economic, public and social sphere or public affairs and matters of concern) according to their own will and interests;

- *Power* is institutionalised justly, i.e. it is established and executed via legitimate forms and institutions of democratic governance (self-governance, representative democracy and participative governance) and democratic management (self-management, representative management and participative management).
- *Money (income and wealth)* is distributed justly, i.e. inequalities in income and wealth are reduced systematically as much as possible via people owning private property lawfully and legitimately; being remunerated appropriately and fairly; participating in profit-sharing; earning other income (from capital) legitimately; and income and wealth being distributed and redistributed through equality-enhancing fiscal, tax and welfare policies according to the principles of desert and need.

And Pentoutopia is *sustainable* – ecologically, organisationally, economically and socially sustainable:<sup>502</sup>

- 1) *Ecological sustainability*: Most members of Pentoutopia by and large demonstrate pro-environmental behaviour, especially (most) economic actors and market participants conduct their business and carry out their economic activities mostly in ecologically sustainable ways. Industries and markets as well as the whole economy are ecologically sustainable.
- 2) *Organisational sustainability*: Because of their libertarian constitution, democratic governance, democratic management, internal operational structures and processes, and the notion of equalising empowerment, democratic organisations are sustainable by design and conduct their business in considerate, balanced and sustainable ways in respect to social, economic and environmental aspects.
- 3) *Economic sustainability*: Pentoutopia's *economy* – a *democratic* market economy – is a genuinely and systemically moderate (and *moderated*), balanced and sustainable market economy because market participants show decent, stable and long-term oriented conduct of business, industries and markets function in balanced and sustainable ways, and the whole economy is oriented towards socio-environmental and economic growth and development.
- 4) *Social sustainability*: Pentoutopia is a very balanced, moderate, and durable *society* due to its robust institutions of democratic governance (civil democracy) that offer genuine and systemic legal, political, economic and social equality and its comprehensive system of equality-enhancing economic, fiscal and social policies.

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<sup>502</sup> The four bullet points are copied from section 'The sustainability of Pentoutopia' in Part V, 'A more equal, just and sustainable society'.

## Problems Pentoutopia has and doesn't solve

Pentoutopia provides a realistic model that solves some of the most fundamental problems of a society (e.g. how individuals can be as free as possible; how institutions can be as legitimate and democratic as possible; how legal, political, economic and social equality can be achieved; and how a social system can be just and sustainable). But Pentoutopia does not mean a blueprint for a 'perfect world', for a society where all problems are solved. Although Pentoutopia is a *good* society, a *much better* society than any we know of, it is *not* problem-free, of course not. There are – or can be – fundamental, principled and/or serious problems Pentoutopia faces and can't solve (once and for all).

One is regarding the relationship between free individuals and legitimate institutions. Among other things, in Pentoutopia legitimate institutions are meant to support, enable and empower individuals to be as free as possible. However, institutions also (have to) limit the freedom, or particular freedoms, of individuals and might be even (perceived as) oppressive. Even legitimate institutions that adhere to the essential principles of freedom, democracy, equality, justice and sustainability and grant individuals all fundamental rights, to some extent confine individuals and their freedom(s). Thus, in respect to the level of freedom of an individual there are, or can be, differing emphases and orientations between individuals and institutions, also and even between free individuals and legitimate institutions – and it is usually the latter that has the upper hand. This principled tension between institutions and the individual also exists in Pentoutopia and cannot be solved.

There are also very serious problems – or dangers – related to the fundamental and prevailing type of organisation that exists in Pentoutopia – the democratic organisation. As I explained elsewhere (Diefenbach 2020, pp. 207–208),

like any other organisation, the democratic organisation can come under serious threat: challenges can emerge and happen *within* the democratic organisation and threaten its very nature and existence. Such threats mainly emanate from individual behaviour, social processes, and dynamics that are detrimental to the spirit and nature of the democratic organisation and its fundamental principles, structures, and processes, such as *organisational misbehaviour* (i.e. behaviour that goes against fundamental human or civil rights, ethical norms, and values, and negatively impacts on other people), and also the emergence and institutionalisation of *social dominance* (i.e. some people have greater social power and influence and dominate others), *social inequalities* (i.e. some people have better access to resources, more material goods, more social privileges and advantages, and/or generally better opportunities to pursue their interests), *stratification* (i.e. people have qualitatively different social statuses and positions within a social system because of socially defined and valued characteristics), *hierarchisation* (i.e. positions and people are put into a horizontal order of command and control), and/or *autocratisation* or *oligarchisation* (i.e. the emergence of a single autocratic leader or a group of people – a power elite – that rules a social system without being sufficiently controlled).

Organisational misbehaviour of some members, striving for social dominance, the emergence of social inequalities, stratification, hierarchisation, autocratisation or oligarchisation can turn democratic organisations into fairly orthodox, hierarchical and politicised, oppressive and exploitative places.<sup>503</sup> And

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<sup>503</sup> See my book *The Democratic Organisation – Democracy and the Future of Work* (Diefenbach 2020), in

although democratic organisations – or their members – do possess various means and mechanisms to counter such threats,<sup>504</sup> they will never be immune to such dangers.

In addition, democratic organisations/market participants might also go against the spirit and notion of such legitimate institutions in their external behaviour and actions. They might conduct their business like profit-maximising corporations, i.e. demonstrate illegitimate and non-cooperative behaviour, externalise internal costs, abuse their market power and/or provide dodgy business practices, products or services.<sup>505</sup> Again, although such degenerate behaviour is not in the blueprint and business model of democratic organisations, it *can* happen. Moreover, organisations' misconduct and misbehaviour might emerge at a larger scale, changing how whole markets or industries work. Pentoutopia has a *democratic* market economy, i.e. a market economy that is meant to function in decent, moderate, balanced and sustainable ways. But it is also a *free* market economy, i.e. economic actors are free to conduct their business and economic activities as they deem fit. Illegitimate, exploitative and/or egoistically maximising (economic) behaviour of market participants, commodification, speculation and negative externalities as well as the direct or indirect negative consequences of such phenomena and behaviour (for instance, emergence of market power, economic inequalities or damage to the natural environment) cannot be prevented entirely. Such problems, as well as the 'usual' macroeconomic problems all (market) economies face (such as too little economic growth, too high inflation, unemployment and so on) will also exist in a democratic market economy.

The systems of governance in Pentoutopia are not perfect. When it comes to governance of the economic and public sphere, in Pentoutopia it is first and foremost democratic *self-governance*, i.e. that actors in a certain sphere (individuals, groups or organisations) govern themselves and matters of common concern and interest via self-organised democratic institutions of governance. However, (some) actors might govern in a way that goes against the spirit of democratic self-governance or against 'the essential five' (freedom, democracy, equality, justice and sustainability). Institutions of self-governance might be turned into fairly anti-democratic organisations, might empower (local) power elites and might strengthen already existing power imbalances between actors, patterns and structures of socio-economic stratification, dominance and oppression. Moreover, too few actors, market participants and/or citizens might participate in self-governance and, as a consequence, self-governance might not take place to the extent necessary or as hoped for. Institutions of self-governance as well as the process of self-governance are not automatically (fully) democratic, inclusive, participative and smoothly functioning.

Similar problems exist in respect to the second form of democratic governance, *representative* governance. Although Pentoutopia is a fully fledged representative democracy with a highly legitimate political and electoral system, it faces the same problems as contemporary fully representative democracies:

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particular chapter 'The iron threat(s) of disproportional empowerment' (pp. 207-241) which comprehensively and in detail discusses and analyses these various threats that can seriously alter and damage the democratic organisation.

<sup>504</sup> See chapter 'Equalising empowerment' in Part II, 'Democratic organisations', and my article 'Why Michels' iron law of oligarchy is not an iron law – and how democratic organisations can stay "oligarchy-free"' published 2019 in *Organization Studies*.

<sup>505</sup> On 'market failure', see section 'Market failure and market participants' market-related misbehaviour' in Part III, 'A democratic market economy'.

Political candidates and representatives might be incompetent and/or driven by self-interest and might abuse political power (Ostrom 1971/1987, p. 50); political parties, parliaments and the government might be dominated by aggrandisers or informal oligarchies; and the institutions of representative democracy and the political system might be relatively distant and meaningless for the majority of the population. Low levels of people's (voluntary) participation in the governance of the economic, social and public sphere – even if there are sufficient institutions of representative and participative governance in place and even if there are abundant opportunities for demonstrating citizenship behaviour – is a problem for any democracy and libertarian society.

And Pentoutopia might also face problems in respect to (guaranteeing and achieving) the other essential principles – equality, justice and sustainability.

As was outlined in Part V, 'A more equal, just and sustainable society', Pentoutopia has comprehensive constitutional, legal, fiscal and social rules and regulations, policies and measures in place in order to achieve and to guarantee constitutional, legal, economic and social equality for all of its citizens. Nonetheless, Pentoutopia is also a libertarian, open and dynamic society with a free market economy and free public and social spheres. People are not only free in what they do and how they do it, but there will also be individual differences and individual inequalities. Economic inequalities (in income or wealth) *will* emerge, and will be an issue, in *any* society and economy, i.e. also in Pentoutopia. Moreover, over time more systemic patterns of social inequalities and social dominance, such as stratification, hierarchical systems and/or asymmetrical relationships, might emerge because of social interactions and social dynamics, in particular because of certain groups or individuals seeking to gain privileges, status and positions of power and influence as well as material advantages (Ayer 1971, p. 5, Meurs 1996, pp. 112–113). The dynamics of free, open and decentralised social systems constantly increase (but sometimes also reduce) existing socio-economic inequalities and/or create new ones. Constitutional, legal, economic and social inequalities will also be an issue in Pentoutopia.

The same is true in respect to justice. The provision of formal and procedural justice through rights and democratic governance is not guaranteed automatically. People's fundamental rights and entitlements (human, democratic and civil rights, rights of and to self-ownership and private ownership, and citizen rights) need to be (re-)affirmed and realised constantly and in certain instances it can be that even Pentoutopia falls short in providing fundamental rights to particular people and that justice would not be done.

Also in respect to procedural and distributive justice regarding *power*, Pentoutopia might occasionally fall short. Certain individuals, or even certain groups of individuals, might not be (fully) free, powerful and empowered individuals, or might even be formally, psychologically or socially disadvantaged and disempowered (whereas others *are* empowered, i.e. there is 'disproportional empowerment'). Even worse, and then it would be systemic or institutionalised injustice, 'governance' or 'governing' (i.e. self-governance, representative democracy and participative governance) might not be fully democratic or might not follow fully democratic principles and standards and is (therefore) distributed and executed unjustly.

Moreover, some inequalities in income and wealth, that are not entirely due to performance or (other) legitimate claims, will also persist in Pentoutopia (and thus mean unjust distribution of income or wealth). Some people, or groups of people, might not be remunerated appropriately and fairly, (some)

organisations might not pay fair salaries or might not distribute profits justly among their staff (according to the principles of equal rights, desert and performance), whole industries and markets might be distorted and malfunction in regard to the just distribution of (monetary) outcomes, or fiscal, tax and welfare policies might not redistribute income and wealth justly enough.

Finally, Pentoutopia as a whole or in some of its spheres or elements might not be as sustainable as necessary or hoped for.

It might well be that (some) people and organisations, economic actors and market participants, might not have a (pro-)environmental orientation and motivation, and might not demonstrate (pro-)environmental behaviour, so that they do not conduct their business in ecologically sustainable ways. Even particular markets or industries might not operate (fully) in ecologically sustainable ways. Although in such cases Pentoutopia's institutions of non-governmental and governmental regulation (market participants' self-governance, co-governance or government regulation) would attempt to change such misbehaviour and dynamics.<sup>506</sup> Although Pentoutopia by and large might be a rather ecologically sustainable society, it does not *guarantee* ecological sustainability, that (all) members of the society act in ecologically sustainable ways. Also in Pentoutopia the natural environment is *not* an endogenous factor/systemic element of society but an *external* factor (*every* social system of humans is by definition seen and established on the basis of an anthropocentric view). Ecological unsustainability is a systemic possibility even of the most advanced societies and economies, like Pentoutopia.

Also (some) organisations might be, or become, organisationally relatively unbalanced and unsustainable. As mentioned above, even fully legitimate organisations – i.e. democratic organisations – might turn, or be turned, into fairly hierarchical, autocratic or oligarchic organisations (the problem of autocratisation, oligarchisation and/or disproportional empowerment). In such cases, although the organisation might still continue to exist legally and organisationally, and might operate 'successfully', it has actually ceased to exist in its original idea and design. Organisational sustainability can't be taken for granted.

The same holds true in respect to *economic sustainability*. As a *democratic* market economy, Pentoutopia is a genuinely and systemically moderate, balanced and durable market economy. Nevertheless, as in any market economy, microeconomic processes can emerge that are fairly unsustainable. For example, there can be market participants' market-related misbehaviour or 'market failure' (see above), such as profit-maximisation, (other) illegitimate and non-cooperative behaviour, externalisation of internal costs, abuse of market power, unethical and/or dodgy business practices, products or services, commodification or speculation. Such degenerate behaviour is highly inefficient, distorts the proper functioning of markets, increases the volatility of economic growth and development, causes huge misallocation of resources, produces highly imbalanced and unjust outcomes and can bring whole industries and markets down. It is unsustainable.

In addition, in Pentoutopia there might also be macroeconomic trends that could be unsustainable; negative economic growth or even recession, elevated inflation, high unemployment rate, declining and/or highly unequal household incomes, savings and consumption, or inefficient social welfare policies and

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<sup>506</sup> See chapter 'Regulation of markets and market participants' in Part III, 'A democratic market economy'.

measures that mean unsustainable social, environmental and economic developments.<sup>507</sup>

There even might be *social unsustainability*, i.e. socio-cultural phenomena and trends that do not only mean socio-cultural decline and regression but an end to society in its fundamental form. For example, Pentoutopia is a fully fledged democratic and libertarian society, an open and dynamic society. It has robust institutions of democratic governance (civil democracy) that provide genuine and systemic legal, political, economic and social equality and its comprehensive system of equality-enhancing economic, fiscal and social policies make it even more sustainable. But there might be radical, extremist notions and movements (on both sides of the political and societal spectrum, i.e. on the (far) left and on the (far) right, in ultra-orthodox or ultra-progressive groups or circles) that seek systems change. Although Pentoutopia's fundamental institutions (libertarian constitution, norms and values, principles like 'the essential five', legitimate institutions like democratic organisations or the democratic political system, just and equality-enhancing policies and programmes) probably would not change, there is always the danger that an open and democratic society is changed legitimately or illegitimately into an intolerant, closed or even totalitarian society. A free, democratic, equal, just and sustainable society like Pentoutopia does not automatically endure but can fall prey to extremists of all forms and colours.

All in all, Pentoutopia is definitely a much more sustainable society than any past or present one. But *ecological, organisational, economic and social sustainability* cannot be taken as a given – even if the systemic preconditions are there. Individual or collective actors' actions and behaviour as well as functional processes might be rather immoderate, unbalanced and/or short-lived. Reassuringly, Pentoutopia has the institutions in place to cope with such unsustainable phenomena – but it cannot avert them for good.

### **Pentoutopia: A 'realistic' utopia that works (very well)**

The previous section highlighted some of the fundamental, even principled and systemic problems Pentoutopia *does not*, and *cannot*, solve for good. These problems are general problems of any social system. *All* societies face them – and even more, and more fundamental and serious problems. Pentoutopia is not a *perfect* but a *realistic* utopia.<sup>508</sup> Pentoutopia does not provide a 'perfect' plan – and it does not require people who are 'larger than life' or 'perfect' institutions that only exist in the ideal-typical worlds of radical theorists.<sup>509</sup> Pentoutopia does not paint an unrealistically positive picture of a 'perfect society'

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<sup>507</sup> See section 'From economic growth to socio-environmental-economic development' in Part III, 'A democratic market economy'.

<sup>508</sup> Wright (2003, p. vii, 2010, p. 6) called it 'Real Utopia' or 'Real Utopia Project' in order to indicate that, although Utopias are ideals or fantasies, they need to be based on *realistic* assumptions and considerations about humans, human nature, the design and workings of institutions, and about the practical realities and feasibility of social phenomena. Malleson (2014, pp. xvii–xviii) called such a methodological approach 'radical realism'. He argued (2014, p. xxii): 'The essence of radical realism is the conviction that we should be radical with our goals, but realistic about our means. Radical realism is radical in the conviction that our political-economic institutions should foster freedom, equality, and solidarity as much as possible.'

<sup>509</sup> Such as neo-classical economists' 'perfect market', radical communists' 'altruistic central planning agency', Rawls' 'veil of ignorance' or Pareto's 'Pareto efficiency' or 'Pareto optimum'. Such concepts or assumptions are not only completely ludicrous but an insult to human intelligence, reasoning and decency.



nor does it require the impossible from people. On the contrary; Pentoutopia is *realistic and possible*; the fundamental principles it is based on and adheres to ('the essential five' principles of freedom, democracy, equality, justice and sustainability) are realistic and achievable, the institutions Pentoutopia is built on are realistic, and the (required or expected) behaviour of individual or collective actors (social behaviour, economic behaviour or citizenship behaviour) is also within the range of behaviour people (can) demonstrate regularly. What I have tried to show with this book is that we can have a different, (much) better society with the same ordinary people we have now and with tools (institutions, social systems, structures and processes, mechanisms and policies) we already know – and know that they work – and that are available and feasible. This book shows that it is theoretically and practically possible to establish and maintain a good society like Pentoutopia. In this sense, Pentoutopia is utopian, but *a realistic utopia*, a 'not so utopian utopia'.

At the same time, a realistic utopia like Pentoutopia is an open-ended endeavour, i.e. it does not have a static, once and for all design (Dahl 1970, p. 104, Bachrach & Botwinick 1992, p. 35).<sup>510</sup> Of course, the fundamental principles (such as 'the essential five' principles of freedom, democracy, equality, justice and sustainability), the notion and scheme of legitimate institutions and their principled working are critical and characteristic for Pentoutopia and will not change – or should not be changed – in their essence. But these principles, institutions and processes constitute, ensure and enable a highly dynamic system (whereby most of the dynamic stems from the direct and indirect consequences of the intended and unintended behaviour, actions and interactions of free individuals) which makes sure that Pentoutopia (can) develop(s) and evolve(s).

Hence, Pentoutopia is a good society that is open and dynamic and works *very* well. It is Pentoutopia's particular institutions (*legitimate* institutions) and people (*free* individuals) – and the special 'people and institutions' relationships in the form of *free individuals and legitimate institutions* – that provide individuals, organisations, the economy and society with the broadest possible range and greatest possible amount of freedom, democracy, equality, justice and sustainability. These features make Pentoutopia a unique and outstanding society. It is not only *a*, but *the most* libertarian, democratic, equal, just and sustainable society possible. Pentoutopia offers the best conditions for individuals – and is the best society imaginable. It is a society second to none – at least for those who appreciate and believe in an open, libertarian and democratic society.

The model of Pentoutopia describes a good, moderate and balanced society. It makes the case for the individual (a *free* individual) and strong individualism – without descending into the ideological catacombs of unscrupulous egoism and hedonism. And it makes the case for common values and robust

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<sup>510</sup> This is also because we cannot have perfect knowledge or future knowledge, i.e. we cannot design something completely so that it would be sufficient for all future (Hayek 1960/2006, Nozick 1974, p. 328). The Austrian philosopher F. A. Hayek (1899–1992) warned (1960/2006, p. 22) that 'it would be an error to believe that, to achieve a higher civilization, we have merely to put into effect the ideas now guiding us. If we are to advance, we must leave room for a continuous revision of our present conceptions and ideals which will be necessitated by further experience. We are as little able to conceive what civilization will be, or can be, five hundred or even fifty years hence as our medieval forefathers or even our grandparents were able to foresee our manner of life today'. And Dahl (1970, p. 104) argued that 'arrangements that seem optimal today will seem inferior later on, either because they have undergone change, though the outward shell of forms persists, or because perspectives have changed'.

institutions – without descending into an anti-libertarian and oppressive collectivism. Pentoutopia combines people and institutions – free individuals and legitimate institutions – like no other social system does. As a blueprint for a better society, Pentoutopia is – or could be – attractive for both the political left and the political right. There are enough features for the left: in Pentoutopia there are no capitalist firms (profit-maximising organisations), no exploited workers, oppressed people or privileged power elites. There are only legitimate institutions – such as democratic organisations or participative democratic institutions of governance – that provide freedom, democracy, equality, justice and sustainability for everyone. And there are enough features for conservatives and liberals; there is the strong institution of private property (private ownership and the whole range of related property rights), private organisations, free markets and a free market economy, individual freedom and democracy. Pentoutopia offers enough for moderates of any political colour (but not enough for radicals on both sides, whether they are radical socialists or orthodox conservatives). Pentoutopia offers a middle path (Hirst 1994, p. 51, Restakis 2010, p. 3) that combines the best features from political, economic and social systems and avoids the extremes of radical systems (like capitalism/neoliberalism or communism/state socialism).

I strongly believe that a society like Pentoutopia is: 1) *conceptionally* possible; 2) *practically* possible; and 3) *worth* attempting. With this book I: 1) have demonstrated the conceptual possibility of such a society via the development and application of concepts, theories and models about individuals and institutions, organisations, the economy and society; 2) have provided many empirical examples and evidence, references and argumentation that prove the practical possibility of such a society; and 3) truly hope that the ‘big rationale’ of Pentoutopia, the main ideas, models and theories I have put into this book capture the imagination of the reader, are engaging and inspire some readers to (try to) change the societies they live in. In this sense, Pentoutopia is not only a *model* but an *agenda*.

## Appendix 1 – The principles of Pentoutopia

Principle	Definition
<b>Status quo and (the search for) a better society</b>	
<i>The search for a better society and the founding principles of Pentoutopia</i>	
<p>1 Essential principles of a social system</p>	<p>A social system, its elements and their relationships must be based at least on the following essential principles:</p> <ol style="list-style-type: none"> <li>1) <i>Freedom</i>: Each and every individual is, and should be, <i>as free as possible</i> because this is what constitutes humans. <i>Every</i> single member of a social system <i>must</i> be as free as possible so that it can live according to its individuality that defines and characterises it and can use, and develop, its capabilities and potential.</li> <li>2) <i>Democracy</i>: Every member of the social system, i.e. every individual, must equally be able to make decisions and to participate in making decisions about themselves as well as about the system(s) they are part of. Thus, every individual must potentially be involved in governing and managing themselves and the system, i.e. there needs to be some form of <i>democracy</i>. In order to enable every member of a social system to participate in decision-making and to rule, the social system must be <i>as democratic as possible</i>. The social system must have comprehensive and robust democratic institutions, structures and processes in place that enable the participation of everyone in the governance and management of the whole as well as its parts as much as possible.</li> <li>3) <i>Equality</i>: A social system must provide and guarantee <i>equality</i>, i.e. it must equip every member with <i>equal</i> opportunities, possibilities and conditions so that it is able to be itself and to make decisions about itself and the whole as much as possible. There needs to be legal, political, economic and social equality of and for individuals as well as in their relationships so that each and every individual is existentially in the same position to be, to act and to develop as appropriate and/or as it deems right.</li> <li>4) <i>Justice</i>: There needs to be a moral evaluation of the system's institutions and their implications as well as of (the relationship between) human actions and the direct or indirect consequences of those actions, i.e. it needs to be established whether or not the system, its structures and processes, as well as the activities, actions and reactions within the system are <i>just</i>. <i>Justice</i> must prevail because only a just society provides the same degree of freedom, democracy and equality of and for everyone. For this, it needs to make sure that the right and most appropriate principles and concepts of justice are applied to any particular case or issue.</li> <li>5) <i>Sustainability</i>: If the social system is to exist for a longer period of time (i.e. is or shall be, 'permanent'), the system's institutions as well as individual and collective actors that are members of that social system must function and conduct their activities in decent and lasting ways, i.e. they must achieve a sufficient level of <i>sustainability</i>. Individual elements or systems can only last when they operate in <i>balanced, moderate</i> and <i>durable</i> ways as such, as well as relative to the environments they are in.</li> </ol>
<p>2 Main rationale of Pentoutopia</p>	<p>Pentoutopia is the concept of a society with legitimate institutions, democratic organisations, a democratic market economy and a vibrant and robust civil democracy where <i>all</i> people are as free as possible and enjoy the largest possible range of democratic, equal, just and sustainable conditions.</p>
<p>3 Freedom,</p>	<p>'Freedom' means that people are as free as possible from external, unreasonable or illegitimate interference, coercion or restraints (<i>negative freedom</i>) so that they can</p>

	definition	be, feel, reason, decide, act and live their lives as free as possible and according to their own will and liking (as long as they leave others the same right and don't harm others) ( <i>positive freedom</i> ).
4	Freedom, implications	Freedom is an <i>inalienable right</i> . Consequently, any social system and its institutions must factually respect and propagate, enable, support and protect the freedom of each and every individual as much as possible.
5	Democracy, definition	Democracy – in the sense of <i>demos kratos</i> , as power of the people or rule by the people – means <i>democratic</i> governance, i.e. formally institutionalised people's power.
6	Democracy, implications	In order to be legitimate, every formally established social system must have <i>institutions of democratic governance</i> in place that give <i>all</i> members of the social system ('the people') ample opportunities to: <ol style="list-style-type: none"> <li>1) Govern themselves and matters of public concern directly and through self-governed associations and assemblies (<i>democratic self-governance</i>);</li> <li>2) Be governed in fully democratic, transparent and legitimate ways by democratically elected and replaceable representatives (representative democracy);</li> <li>3) Voluntarily participate in the governance of public affairs and in formal decision-making processes of public authorities (<i>participatory governance</i>); and</li> <li>4) Demonstrate the whole range of political activism and engagement in public (<i>citizenship behaviour</i>).</li> </ol>
7	Equality, definition	'Equality' means that rights and duties, benefits and burdens, resources and opportunities, contributions and returns are distributed relatively equally among people.
8	Equality, implications	Equality means that people, that <i>all</i> members of a social system, (shall) have: <ol style="list-style-type: none"> <li>a) The same fundamental rights (in particular all human and civil rights), fall under the same general and specific laws, rules and regulations, and are treated formally in the same ways as everyone else (<i>formal/legal equality</i>);</li> <li>b) Equal political and democratic rights and means to participate in all institutions of governance and political processes, and to demonstrate all forms of political activism and engagement (<i>political equality</i>);</li> <li>c) Relatively equal and appropriate material and non-material means and resources, in particular income and wealth, to conduct their lives (<i>economic equality</i>); and</li> <li>d) Equal status, equal opportunities and equal conditions (<i>social equality</i>).</li> </ol>
9	Justice, definition	'Justice' means the moral evaluation of the relation between a human action and the (direct or indirect) consequences of that action.
10	Justice, implications	The basic idea is that that principle and concept of justice should be applied in a particular case or to a particular issue that is the most appropriate one for the issue in question.
11	Sustainability, definition	'Sustainability' means a system's and its elements' capability and capacity to exist and to operate in a particular environment over a longer period of time without having their capability and capacity deteriorating irrecoverably and without destabilising the environment(s) they exist in irreversibly.
12	Sustainability, implications	For a complex social system like a society, sustainability must be an issue in its formal/legal foundations (e.g. in its constitution, laws and regulations), in its economic sphere (organisations' purposes, design, functioning and conduct of business, economic activities of actors and market participants, business models of industries, functioning of markets, macroeconomic aspects of the economy and of sustainable

		development), its political sphere (the governance of public affairs and matters of public concern, political activism and engagement of citizens), and the social sphere (e.g. (pro)social and pro-environmental orientation and behaviour, lifestyles, individual and societal development).
13	The founding principles of Pentoutopia	<p><i>Pentoutopia</i> is any formally established complex social system (e.g. group, organisation, community, network, society, nation state, federation, union, or all nations) where:</p> <ol style="list-style-type: none"> <li>1. Every single member enjoys the greatest possible range of negative and positive freedoms (<i>freedom</i>);</li> <li>2. All organisations and institutions of governance are based on, designed, maintained and run according to democratic principles (<i>democracy</i>);</li> <li>3. All members are equal in the sense that they enjoy the same broad range of formal/legal, political, economic and social equalities (<i>equality</i>);</li> <li>4. Every person possesses the same human, ownership and citizenship rights, governance and management happen in legitimate forms, and power, income and wealth are (re)distributed fairly (<i>justice</i>);</li> <li>5. The social system as a whole, its institutions and operations, as well as the various spheres and activities of individual or collective members are balanced, moderate and durable (<i>sustainability</i>).</li> </ol>
<b>Part I: Free individuals and legitimate institutions</b>		
<i>People and institutions</i>		
14	Interrogating and conceptualising the world of humans	Social systems and social phenomena can and shall be seen, constructed and analysed from <i>individual and holistic</i> perspective(s) in the sense of methodological individualism <i>and</i> methodological holism.
Individuals – <i>free</i> individuals		
15	To be a free individual	In order to be a <i>free</i> individual, an individual must be free <i>as such</i> (individual dimension), <i>among others</i> (social dimension) <i>and</i> within <i>the environment</i> (environmental dimension).
16	Dimensions of an individual's freedom	<p>The individual can – ought to – be free in three respects or dimensions:</p> <ol style="list-style-type: none"> <li>1. <i>Individual dimension</i>: The individual should be as free as possible <i>as such</i>. The individual dimension is about an individual's cognitive and intellectual capabilities to reason on its own, its morality and competences to identify and distinguish between right and wrong, its developed personal identity and confidence about itself, and its abilities to be an autonomous individual that lives its life according to its own imagination.</li> <li>2. <i>Social dimension</i>: The individual should be as free as possible <i>among others</i>. The social dimension is about the free individual's social competences to communicate and to interact with others, its social, even prosocial orientation towards others, its robust and advanced social identity of a confident member of social systems, and its mastery to govern and to manage social interactions, social relationships and social systems.</li> <li>3. <i>Environmental dimension</i>: The individual should be as free as possible <i>within the environment</i>. The environmental dimension is about humans' (unreflective) relationship with the natural environment, their reflective views of humans and human activity as part of the natural environment, their possible pro-environmental orientation and behaviour, and humans' competences, skills and expertise to</li> </ol>

		actually manage and maintain, use and develop the environment in balanced and sustainable ways.
17	Categories of an individual's freedom	<p>In respect to the individual, social, and environmental dimension the individual must be free in various respect:</p> <p>a) It must be free in a <i>cognitive</i> sense, i.e. it needs to have the mental or intellectual competences to reason on its own, an independent intellect, social and environmental competences and knowledge to make sense of things in rational ways (<i>cognitive category</i>).</p> <p>b) An individual must have <i>moral</i> competences, i.e. high levels of comprehensive moral development, an enlightened morality, prosocial and pro-environmental orientations that enable the individual to assess and to judge things, to know about right and wrong (<i>moral category</i>).</p> <p>c) An individual needs to be <i>psychologically</i> free, i.e. it should have robust and developed identities and emotions about itself (developed personal identity), in the social realm (advanced social identity) and regarding its relationship with nature (environmental anthropocentrism) (<i>psychological category</i>).</p> <p>d) The individual ought to be free in an <i>existential</i> sense, i.e. it must be able to master its existence, its being and doing as such (self-mastery), in a social context/amongst others (social mastery) and in regard to nature (environmental mastery) (<i>existential category</i>).</p>
18	Individual dimension	<p>The free individual is entirely able – and entitled – to:</p> <p>a) Think on its own (<i>Sapere aude!</i>), i.e. to reason independently without guidance or interference from external authorities according to its own capabilities, convictions and likings. Every individual has the cognitive and intellectual capabilities, or can develop such capabilities, to reason on its own, to formulate its own will, and to reflect critically on everything and everyone as <i>it</i> deems right and appropriate (<i>intellectual sovereignty</i>).</p> <p>b) Develop a comprehensive and differentiated understanding of what is right and wrong, to see and to analyse on which claims such judgements are based (e.g. ethical concepts, institutions of faith, political ideologies), to critically interrogate such claims, to choose between different specific claims as well as between general concepts of right and wrong, to decide freely for principles of right and wrong that are based on universal truths, and to judge any issues of concern on the basis of and against universal, and universally justifiable, norms and values of right and wrong as <i>it</i> deems right and appropriate (<i>enlightened morality</i>);</p> <p>c) Formulate its own will, to pursue its own interests, to make decisions, to act, be, and live its life as <i>it</i> deems right and appropriate (<i>self-mastery</i>). The free individual is an <i>autonomous</i> individual; it neither has, nor does it need, any masters or leaders, orders or guidance; and</p> <p>d) Feel confident about itself (high self-esteem and self-efficacy), comfortable with its personality traits (psychological well-being), and is as free as possible from mental restraints (mental health) (<i>developed personal identity</i>).</p>
19	Social dimension	<p>Within a social context the free individual:</p> <p>a) Has, or can gain and develop, elaborated cognitive, emotional and cultural intelligence enabling it to communicate and to interact with others, to manage social relationships and to cope with different types of social situations appropriately and effectively (<i>social competences</i>);</p> <p>b) Is willing and able to engage with others and to <i>govern</i> and to <i>manage</i> social interactions, social relationships, organisations, institutions, public and social life according to the fundamental principles of free individuals and democratic standards (<i>social mastery</i>);</p>

		<p>c) Has a comprehensively developed, differentiated and robust social identity. It feels comfortable with its own social statuses and positions, the roles and functions it performs and the life it lives as a member of various social systems because it <i>chose</i> to be and live like that and is the master of its own destiny (<i>advanced social identity</i>); and</p> <p>d) Cares about itself among others, others and social systems also on the basis of, and following, prosocial principles (such as cooperation, equality, justice, trust, empathy, concern for the welfare of others), and strives for social relationships and social systems that correspond with such prosocial principles (<i>prosocial orientation</i>).</p>
20	Environmental dimension	<p>The free individual engages with the environment consciously and actively, i.e. it:</p> <p>a) Exists in, experiences, interacts with, in particular makes use of, influences and manages (protects, preserves, nurtures, shapes, modifies, grows, develops, reduces, exploits, damages, destroys) the natural environment according to its own essence, needs and interests (<i>environmental mastery</i>);</p> <p>b) Sees humans and human activity as a part of nature and is aware of nature's instrumental <i>and</i> intrinsic values (<i>environmental anthropocentrism</i>);</p> <p>c) Has a high degree of environmental awareness, i.e. is sensitive and compassionate about nature and environmental issues, has strong concerns about the (negative) impacts of human activities on nature, is convinced of the need to preserve, protect and nurture the natural environment, and demonstrates such convictions in its acting within and towards the natural environment and species (<i>pro-environmental orientation</i>); and</p> <p>d) Has, or can acquire, the education, knowledge, technical skills and expertise to align economic, social and environmental goals and performance, to develop and to apply appropriate technology and to manage, use and develop the environment in efficient, sufficient, balanced and sustainable ways (<i>environmental competences</i>).</p>
21	The free individual	<p>The free individual:</p> <ol style="list-style-type: none"> <li>1. Reasons independently without interference from external authorities and reflects critically on everything and everyone according to its own convictions and liking (<i>intellectual sovereignty</i>); has, or can acquire, the social skills and the cognitive, emotional and cultural intelligence necessary to communicate and to interact with others effectively (<i>social competences</i>); and it has, or can acquire, the education, knowledge, technical skills and expertise to align economic, social and environmental goals and performance, to develop and to apply appropriate technology, and to manage, use and develop the environment in efficient, balanced and sustainable ways (<i>environmental competences</i>) (overall: <i>competences</i>).</li> <li>2. Appreciates and judges everything and everyone on the basis of, and against universal, and universally justifiable, norms and values (<i>enlightened morality</i>); cares about itself <i>and</i> others also on the basis of, and following, prosocial principles and strives for social relationships, interaction and social systems that correspond with such prosocial principles and with the ideas of the free individual (<i>prosocial orientation</i>); has a high degree of environmental awareness, i.e. is sensitive and compassionate about nature and environmental issues, has relatively strong concerns about the (negative) impacts of human activities on nature, is convinced of the need to preserve, protect and nurture the natural environment, and demonstrates such convictions in its acting within and towards the natural environment and species (<i>pro-environmental orientation</i>) (overall: <i>moral development</i>).</li> <li>3. Formulates its own will, pursues its own interests, and conduct its life as it deems right and appropriate (<i>self-mastery</i>); is willing and able to manage and maintain social interactions, social relationships and institutions according to the</li> </ol>

		<p>notion of the free individual (<i>social mastery</i>); and exists in, makes use of, influences and manages the natural environment according to its own essence, needs and interests (<i>environmental mastery</i>) (overall: <i>mastery</i>).</p> <p>4. Feels confident about itself, is comfortable with its personality traits, and is as free as possible from mental restraints (<i>developed personal identity</i>); is keen and capable to see itself as an autonomous individual in respect to any social context and situation, others, institutions and social systems that are relevant for it, and is able to manage its social statuses and positions, the roles and functions it performs and the life it lives as a member of social systems as it deems right and appropriate (<i>advanced social identity</i>); and sees humans and human activity as a part of nature and is aware of nature's instrumental <i>and</i> intrinsic values (<i>anthropocentric environmentalism</i>) (overall: <i>identities</i>).</p>
<i>Institutions – legitimate institutions</i>		
22	Institution	<p>An <i>institution</i> is a prevailing and longer lasting standard of meaning with regulatory functions for a particular social system and its members that:</p> <ul style="list-style-type: none"> <li>– Can be explicit or implicit and come in any form, i.e. created, written or verbal (artefacts, signs or symbols, words, terms, stories, information, knowledge, culture, tradition, belief systems, ideologies, privileges and entitlements, norms and values, rights and duties, laws, rules and regulations, policies), behavioural (gestures, acts, rites, rituals, ceremonies, customs, attitudes, behaviour, actions and interactions), or organisational (formal or informal entities/'organisations', structures and processes);</li> <li>– Sets certain standards of and for people's reasoning, feeling, judging, behaving, acting and interacting that members of the social system are expected to demonstrate and to comply with;</li> <li>– Outlines, implies, proposes, demands or even orders 'approved', 'expected' and 'appropriate', as well as outlining and condemning 'disapproved of', 'unwelcome' and 'inappropriate' ways of reasoning, feeling, judging, behaving, acting and interacting;</li> <li>– Indicates how and what people ought to think and what people should/must – or should not/must not – do under specific circumstances;</li> <li>– Normalises and routinises, i.e. it encourages and enforces 'appropriate' behaviour, and discourages and weakens 'inappropriate' behaviour via positive and negative sanctions;</li> <li>– Handles conformity and deviance through ideological, political, legal, formal, administrative, social and/or psychological principles, mechanisms and control; and</li> <li>– Is commonly known, accepted as a matter of fact (though not necessarily approved), practised and, in so doing, reinforced by most members of the social system as customs and routine behaviour.</li> </ul>
23	Justification of human-made entities or phenomena	<p>Any entity or phenomenon created, maintained and/or caused by humans must be justified with good reasons why it exists, why it is designed and operates the way(s) it is designed and operates, and what it means for, and what it does to, whom.</p>
24	Legitimacy of institutions	<p>Any institution must be <i>legitimate</i> because of its relevance for a whole social system and/or parts of it, for members of that social system as well as for everything the institution, social system and/or its members cause.</p>
25	Legitimacy	<p><i>Legitimacy</i> means that an entity or phenomenon corresponds in key characteristics with a relevant point of reference that is seen as <i>a</i> – or even <i>the</i> – right standard(s)</p>



		and criteria.
26	Legitimate institution	<p>An institution is a <i>legitimate</i> institution if, and <i>only if</i>:</p> <ol style="list-style-type: none"> <li>1. The institution is consistent with its external and internal environment(s), i.e. that the meaning(s), purpose(s) and design of the institution, the way(s) it operates and the outcomes and impacts it causes: i) fit to the social system and society the institution is part of, i.e. are consistent, and comply with the relevant prevailing constitutional, legal, governmental and administrative laws, policies, rules and regulations as well as social and cultural norms and values; and ii) are consistent and correspond with its own claims, adhere to its own formal policies, rules and regulations (<i>formal legitimacy</i>).</li> <li>2. Formal rules are applied to issues and to everyone in the same, consistent, non-discriminatory and transparent ways (<i>procedural legitimacy</i>).</li> <li>3. The institution is designed, managed and maintained, operates and produces outcomes in accordance with universal rights and principles (such as the fundamental principles of freedom, democracy, equality, justice and sustainability, people's human, democratic and civil rights), and propagates, enables, protects and strengthens these universal rights and principles (<i>substantive legitimacy</i>).</li> <li>4. People perceive an institution as a whole or in its parts (i.e. its purposes and meanings, design, structures and processes, policies, rules and regulations, the ways it operates and functions, its performances and the outcomes and impacts it causes) as legitimate (<i>perceived legitimacy</i>).</li> <li>5. The institution resembles in its entirety, as well as in all its parts, rationality and reason, is up for scrutiny and can be criticised, challenged and altered for good reasons (<i>rational legitimacy</i>).</li> </ol>
27	What to do with (il)legitimate institutions	Legitimate institutions should be propagated, established and maintained as much as possible; illegitimate institutions should not only be declared illegitimate, but deemed illegal and terminated (or prevented from emerging in the first place).
28	Legitimate institutions and good society	The more legitimate – and the less illegitimate – institutions a society comprises, the more it is a good society.
<i>(The relationships between) free individuals and legitimate institutions</i>		
29	Good society	A society is a good society (or any social system is a good social system) if: 1) <i>all</i> of its members are <i>free</i> individuals and 2) <i>all</i> of its institutions are <i>legitimate</i> institutions.
30	Theorem of a good society	A good society is constituted and maintained by free individuals and legitimate institutions.
31	Free individuals and legitimate institutions	Free individuals and legitimate institutions are not only consistent with each other, but they necessitate each other. Legitimate institutions are established, designed, maintained and function in order to enable and support individuals to be as free as possible. Legitimate institutions protect and empower people and provide them with as much freedom and equality as possible – and free individuals are interested in establishing and maintaining legitimate institutions in principle and in practical terms.
32	Legitimate institutions set individuals free	<p>In Pentoutopia, individuals are free <i>because of</i> legitimate institutions in several ways, along various dimensions:</p> <ol style="list-style-type: none"> <li>1) <i>Individual dimension</i>: Individuals as such are in charge of, and managing, themselves and their own affairs thanks to the institutions of self-ownership (and the</li> </ol>

		<p>inalienable rights related to it), (self-)governance and (self-)management.</p> <p>2) <i>Social dimension</i>: Among others, within a social context, individuals are in charge of conducting their lives thanks to libertarian, egalitarian and democratic values, rules and regulations, constitutional rights, human, democratic and civil rights. Individuals are also in charge of (governing and managing) institutions they own (as owners, owner-managers) or belong to (as members) because of the institution of private ownership and related property rights. Individuals also participate in governing and managing common affairs/the whole thanks to the institutions of democratic governance (self-governance, co-governance and representative governance), management and regulations. They are free to demonstrate the whole range of citizenship behaviour.</p> <p>3) <i>Environmental dimension</i>: In (respect to) its physical, virtual and/or natural environment, the individual manages material or immaterial things it owns, has access or relates to, influences the natural environment it lives in, and copes with, or even manages, natural things and phenomena thanks to the notions and institutions of private (individual and collective) ownership, the commons, principle of sustainability and stakeholder concepts.</p>
33	Free individual institutionally empowered	In a social system with legitimate institutions, <i>every</i> individual is <i>institutionally entitled and empowered</i> to govern and to manage itself, its own affairs, its life amongst /with others, institutions it owns or belongs to, common affairs /the whole, things it owns, has access to, or relates to, the natural environment in general as well as natural things and phenomena in particular.
34	Legitimate limitations to individual freedom	<p>Legitimate institutions (shall) constrain individuals' freedom only insofar as such restriction:</p> <p>a) Is in accordance with humans' universal rights, the fundamental principles, and the formal <i>and</i> substantive rule of law;</p> <p>b) Supports and protects individuals and prevents (probable) harm to the individual and/or to others;</p> <p>c) Produces on balance more benefits than detriments for all people concerned and the public;</p> <p>d) Is appropriate and reasonable in scope, duration and intensity; and</p> <p>e) Is done in ways that respect and preserve people's (other) rights and dignity as much as possible.</p>
35	Legitimate institutions and individuals' negative freedom	Legitimate institutions protect and increase the negative freedom especially of weaker, less powerful and/or socially oriented individuals – and they reduce the freedoms and possibilities of the strong and powerful, the rich and famous, of those who have not developed or internalised prosocial values and who demonstrate anti-social behaviour.
36	Legitimate institutions and individuals' positive freedom	Legitimate institutions offer people opportunities, <i>endless</i> opportunities, to conduct their lives according to their own liking within and on the basis of the framework provided by the institutions.
37	Natural rights and the individual	Every individual has <i>rights, natural rights</i> qua being a human being.
38	Natural rights	<p>Natural rights are:</p> <p>1. <i>Axiomatic</i> – Natural rights <i>pre-exist independently</i> from, and are beyond any specific constitution, law, rules and regulations, customs or social practices of a</p>

		<p>particular culture, society, political, legal, administrative or social system;</p> <p>2. <i>Universal</i> – Natural rights are valid <i>everywhere</i>, under any circumstances and in every respect, and are equal, and equally valid, <i>for everyone</i>;</p> <p>3. <i>Obligatory</i> – Natural rights are <i>obligatory</i> and binding unconditionally. They are valid whether or not they are acknowledged, granted and/or implemented by the political, legal or administrative system, government or officials of a particular country, political or social system;</p> <p>4. <i>Inalienable</i> – Natural rights <i>cannot be taken away</i>, given away or transferred, either voluntarily, via consent or contract, or involuntarily.</p>
39	Human, democratic and civil rights – list	<p>Human, democratic and civil rights comprise:</p> <p>a) <i>Rights of the person</i>: life, liberty and security of the person; privacy, freedom of movement; ownership of property; freedom of thought, conscience, religion.</p> <p>b) <i>Rights associated with the rule of law</i>: equal recognition before the law and equal protection of the law; equal legal and effective rights; impartial hearing and trial; presumption of innocence.</p> <p>c) <i>Political rights</i>: freedom of expression, assembly and association; the right to take part in government; periodic democratic elections.</p> <p>d) <i>Economic and social rights</i>: free choice of and to work; just remuneration; labour laws; education; adequate standard of living, social security and social welfare; personal well-being.</p>
40	Human, democratic and civil rights – dictum	Every individual has the same range of axiomatic, universal, obligatory and inalienable <i>human, democratic and civil rights</i> (rights of the person; rights associated with the rule of law; political rights; economic and social rights) that protect and enable the individual as a person and human being, its freedom, life, well-being and dignity, and that define its individual, legal, political, economic, social and environmental rights and entitlements categorically and in principle.
41	Human rights, free individuals and good society	The more a society and its institutions appreciate, propagate, uphold, protect and pursue people's human, democratic and civil rights the freer are people and the better is that society.
42	Need of and to self-ownership	The individual is the owner of itself ( <i>self-ownership</i> ) – and no one else! Everyone owns themselves, i.e. the whole range of essentials of their own personal existence: their personality and individuality; their mind, body and soul; the mental (cognitive, psychological and emotional) and bodily competences and capabilities to feel and to think, to make decisions, to behave and to act purposefully and to bear responsibility for their actions or inactions.
43	Need for private ownership	In a situation or context where ownership and property rights matter, individuals <i>must</i> own (individually or collectively) what they use in order to conduct their life and work, since without such rights (the full range of property rights) individuals were not entitled to make decisions about those things and thus they were not (entirely) free and sovereign. For free individuals, <i>self-ownership</i> constitutes <i>private</i> ownership. Self-ownership <i>of</i> everyone constitutes private ownership <i>for</i> everyone.
44	Self-ownership as an inalienable right	The aspects covered by one's self-ownership, i.e. one's personality and individuality, mind, body and soul, competences and capabilities are <i>inalienable</i> rights.
45	Transfer of inalienable	Fully capacitated people <i>cannot</i> transfer, or having transferred, their inalienable rights for situations where they are legally and/or morally responsible.

	rights	
46	Subsidiarity/subsidiarial authority	In a social system, decisions shall be made <i>at the lowest possible level</i> . In a legitimate social system the authority (and responsibility) to make decisions, to govern and to manage, starts at the lowest possible level of the social system.
<b>Part II: Democratic organisations</b>		
47	Libertarian and democratic formal social system	Every formal social system that claims to enable and protect the freedom of individuals <i>must</i> be based on, and function according to, <i>democratic</i> principles and standards that provide <i>all</i> members of the social system: 1) with the same fundamental rights, responsibilities and opportunities; 2) to govern the social system and themselves either directly or through representatives accountable to everyone; 3) to organise and manage all work and issues individually or collectively in collaborative and democratic ways; 4) to be equally empowered; and 5) to conduct business in considerate and decent ways.
48	Main features of the democratic organisation	The democratic organisation's main features are: <ol style="list-style-type: none"> <li>1. <i>A libertarian constitution</i> that appreciates and protects all members' inalienable rights of self-ownership as well as private ownership and corresponding equal rights, responsibilities and legal entitlements;</li> <li>2. <i>Democratic governance</i> (based on democratic institutions of governance, legitimate authoritative sources, democratic governing and 'good governance') that allows all members of the organisation to participate in democratic decision-making and to decide the policies and direction of the organisation;</li> <li>3. <i>Democratic management</i> (in the form of self-management, representative management and participative management) that enables all members of the organisation to manage their work and working conditions themselves, and to manage organisational affairs and the organisation either individually or collectively;</li> <li>4. <i>Equalising empowerment</i>, i.e. all members of the organisation are formally, psychologically and socially empowered to participate equally in decision-making, to pursue legitimate individual and collective interests, and to further their personal development;</li> <li>5. <i>Considerate conduct of business</i>, i.e. the democratic organisation and its members conduct their activities (including providing goods and services) both within the organisation and towards others and the environment in ways that are moderate, balanced, decent, ethical, fair and just, and that are consistent with a social orientation, pro-environmental behaviour and sustainable economic performance.</li> </ol>
<i>Libertarian constitution and democratic governance</i>		
49	Free will	The creation and maintenance of legitimate social relations necessitate <i>free will</i> . Only if individuals are able to express and exercise their free will are agreements and social relationships voluntary and legitimate.
50	Individuals' equal status, rights and responsibilities	In order to be able to express and pursue their free will, <i>all</i> individuals involved in the establishment of a formally agreed social system (such as a social relationship, economic exchange, organisation or nation-state) <i>must</i> be of <i>equal</i> formal and legal status and <i>must</i> have <i>equal</i> rights and responsibilities.
51	Individual and joint legal ownership	<i>All</i> founders and members of an organisation that appreciates individuals' freedom and inalienable rights of and to self-ownership and private ownership <i>must</i> have <i>individual and joint legal ownership of the organisation</i> .

52	People as legal partners	Everyone who works individually or jointly with others in a formalised way owns, decides, manages and controls legally and collectively the properties, activities and results of this enterprise. People who own, manage and control an enterprise together are (legal) <i>partners</i> .
53	Legitimate formal establishment of an organisation	Any agreement to formally establish an organisation legitimately must meet the following criteria: <ol style="list-style-type: none"> <li>1. <i>All</i> individuals involved in establishing the formally agreed organisation and who become its members <i>must</i> have <i>equal</i> formal and legal status and <i>must</i> have <i>equal</i> rights and responsibilities.</li> <li>2. In order to have <i>equal</i> rights and responsibilities, <i>all</i> founders and members of the organisation <i>must</i> be its (individual and collective) <i>owners</i> since otherwise they could not have and enjoy the same whole range of their inalienable rights of and to self-ownership and private ownership.</li> <li>3. So that all owners of the organisation can make full use of and enact their rights and responsibilities, they also need to manage and work for it. Hence, <i>each</i> member of the organisation is simultaneously owner, manager and employee.</li> <li>4. Since all members of the organisation make use of their rights simultaneously, they own, manage and control the organisation they work for <i>together</i>, i.e. individually <i>and</i> collectively. They are <i>all partners</i> in a legal, formal and organisational sense.</li> </ol>
54	Partnership agreement	The most appropriate legal form to constitute the collaboration of free individuals and corresponding organisation is the <i>partnership agreement</i> . A <i>partnership agreement</i> is a formal or contractual agreement that is in line with, and simultaneously accommodates, the rights of and to self-ownership and private ownership of free individuals organising themselves and/or their activities voluntarily on a formal basis.
55	General definition of the democratic organisation	The <i>democratic organisation</i> is the legal, formal and organisational institutionalisation and realisation of regular joint work and cooperation of free individuals based on the principles of self-ownership, private ownership and a legally binding agreement (partnership agreement) that appreciates and protects the inalienable equal rights and responsibilities of all members of the organisation.
56	Constitutional argument for democratic organisations	Any organisation formally established and maintained by free individuals <i>must</i> be a democratic organisation since this is the <i>only</i> type of organisation that appreciates, enables, guarantees, accommodates, protects and promotes the status, inalienable rights and responsibilities of free individuals.
57	Governance	'Governance' means that <i>institutions</i> or <i>actors</i> (e.g. government, governmental agencies, public regulators, assemblies, councils, associations, civil society organisations, citizens, audit firms, owners, boards or committees) <i>govern</i> (i.e. steer, regulate and control) particular entities (i.e. an entire social system, parts of it, or phenomena within it) on the basis of and according to <i>authoritative sources</i> (i.e. a set of formal principles, norms, laws, rules, regulations, policies, guidelines, standards, codes of conduct, procedures and administrative practices along with a constitution) whereby the <i>conduct of governance</i> may be seen, assessed and judged against the criteria of 'good governance'.
58	Need for democratic governance	In order for its governance to be consistent with its main purposes and constitutional foundations, a democratic social system (e.g. society, nation-state, organisation) <i>must</i> have <i>democratic governance</i> in place, i.e. a comprehensive and robust set of formal institutions and practices that define how the system as a whole as well as in its parts is designed and functions according to democratic principles. If a social system is a democracy then it needs <i>democratic</i> governance. <i>Democratic</i> social systems necessitate <i>democratic</i> institutions of governance.

59	Democratic institutions of governance	A <i>democratic</i> organisation's institutions of governance <i>must</i> themselves be <i>democratic</i> institutions – i.e. their structures, their composition and the way(s) they function must be in accordance with the very same principles they are designed to realise and to protect.
60	Organisational institutions of democratic governance	In order to be democratic, organisational institutions of democratic governance must fulfil the following formal conditions: a) They are democratically established and controlled by all members of the social system on the basis of legitimate authoritative sources; b) All members of these organisational institutions of democratic governance are elected by the members of the social system; c) Diverse membership in these organisational institutions is achieved via <i>democratic competition</i> (also called 'competitive democracy'), i.e. different candidates or groups should openly compete to be elected or appointed to the formal positions; d) Elections or appointments to these institutions are free, transparent, competitive, democratic and regular; e) There are institutional safeguards in place to directly limit the power, responsibilities and authority of offices and office holders, such as regular turnovers in office, role rotation and limitations to the terms in office, and limitations on the number of board and committee memberships a person can hold; f) In the organisational institutions of democratic governance any issue can be, and is discussed and decided upon according to democratic rules, standards and procedures.
61	'Checks and balances'	All organisational institutions of governance are constitutionally authorised – even obliged and factually enabled – to control (check, balance, hold accountable and sanction) other organisational institutions of governance.
62	Separation of power	Within any formalised, complex, democratic social system powers must be separated so that no formal position of authority or organisational institution has a monopoly on power, no power is concentrated in the hands of individuals (autocracy) or groups of people (oligarchy) and the legitimate power and authority of those in office/with power is limited.
63	Subsidiarity in vertically organised entities	When institutions, agencies or formal positions are related vertically, any task that <i>can</i> be performed at a lower level <i>should</i> be performed at the lowest possible level.
64	Authoritative sources	<i>Authoritative sources</i> are compilations of text that offer fundamental and ample guidance and advice on how a system and its key parts should be designed, maintained and function; what is more and less preferable (or even 'good' and 'bad'); how issues will be handled; and how people should behave and act – what they should and should not do.
65	Legitimate authoritative sources	In order to be legitimate, authoritative sources must be: 1) Consistent with their own claims and the formal policies, rules and regulations they propagate, must fit to the spirit and the notion of a democratic organisation, its purposes, design and functioning, and must be consistent with the relevant legitimate constitutional, legal and judiciary laws, policies, rules and regulations ( <i>formal legitimacy</i> ); 2) Implemented and applied to issues and to every member of the organisation in the same, consistent, non-discriminatory, democratic, participative, fair and just ways ( <i>procedural legitimacy</i> );

		<p>3) Designed, managed and maintained, and must operate and produce outcomes in accordance with the fundamental principles of freedom, democracy, equality, justice and sustainability, as well as people’s inalienable human, democratic and civil rights, and they must reflect, propagate, uphold, protect and strengthen these rights and values (<i>substantive consistency</i>);</p> <p>4) Seen and accepted by all members of the organisation as legitimate in principle (<i>perceived legitimacy</i>); and</p> <p>5) Produced, deliberated and decided upon democratically in transparent and participative ways (i.e. by the relevant organisational institutions as well as all members of the democratic organisation), and can be scrutinised, contested and altered for good reasons (<i>rational legitimacy</i>).</p>
66	Democratic decision-making	All decisions that are about constitutional, strategic, or operational issues (and not purely about functional tasks conducted by individuals) should be made democratically and in accordance with democratic standards, i.e. by all members of the organisation or by its relevant parts (direct or participative democracy), by elected or appointed representatives, or by office holders who are controlled, are held accountable, and can be removed from office by democratic means (representative democracy).
67	Transparency	Within an organisational context, <i>transparency</i> means that all members of the organisation have free and equal access to, and are automatically provided with, all relevant non-confidential information about the formal organisational policies, rules and regulations of governance; the general procedures for making decisions; and specific information relevant to the particular decision-making they are involved in.
68	Accountability	<i>Accountability</i> is the obligation of an individual, group or institution to give account (i.e. to report, answer for, explain, justify and assume responsibility) for their actions (i.e. decisions, activities, behaviour, conduct and performance) to certain other individual(s), group(s) or institution(s) that have the right, duty and means to control the former, to hold them accountable, and to impose possible consequences (sanctions – i.e. rewards or punishment) on the former for what they have done assessed against predefined criteria (standards, expected behaviour, or outcomes). It means that every institution and office holder: a) can be called upon at any time by anyone to explain and justify the conduct of their office, in particular about decisions made (or not made) and consequences caused, b) has to assume responsibility for their actions or inactions, and c) may face positive or negative consequences for their actions or inactions.
69	Responsibilities of actors in regard to accountability	<p>The specific responsibilities of the actors involved in accountability may be defined as:</p> <ul style="list-style-type: none"> <li>– The <i>duty</i> and <i>obligation</i> of an agent</li> <li>– To give account, to answer for one’s actions and the conduct of one’s office (i.e. decisions made, activities performed, behaviour demonstrated, outcomes or performance achieved)</li> <li>– By providing (the required) information, explanations and justifications</li> <li>– To a principal who has the <i>right</i> and <i>duty</i></li> <li>– To oversee, check and control the actor, their actions and conduct of office,</li> <li>– To demand information, explanations and justifications from the actor,</li> <li>– To assess and judge the actor’s performance against predefined criteria (goals, standards, expected behaviour and/or outcomes),</li> <li>– To hold the actor accountable for their conduct of office, their decisions, actions or inactions, behaviour, outcomes and performance, and</li> <li>– To impose positive or negative consequences or sanctions on the actor for their</li> </ul>

		satisfactory or unsatisfactory conduct and performance (e.g. rewards or punishment such as blocking or amending decisions made by the agent, imposing penalties, constraining the authority and/or responsibilities of the agent, revoking the mandate or removing the agent from office).
70	Democratic governing	<i>Democratic governing</i> means that: 1) all members of the democratic organisation govern the organisation and its affairs collectively, either directly or via democratically elected representatives (direct, representative or participative democracy); 2) all office holders have to report to those whom they represent, and they are controlled, held accountable, and can be removed from office by democratic means (accountability); 3) all decisions that are about constitutional, strategic or operational issues are made democratically; and 4) (all) members have free and equal access to all relevant, non-confidential information about the democratic organisation's policies and organisational affairs (transparency).
71	'Good governance'	'Good governance' means that governance provides: a) the basic functions of governance according to democratic standards, b) the whole range of means to contain and control institutions and positions of power, and c) all the conditions and activities that constitute a civil society.
72	Governance is 'good governance' when it is legitimate	Governance is 'good governance' when it adheres to formal, procedural, substantive, perceived and rational legitimacy in its founding principles, design and mechanisms, the ways it operates, is managed and maintained, and the outcomes and impacts it causes.
73	Democratic governance	<i>Democratic governance</i> means that democratic institutions of governance govern a social system democratically on the basis of, and following, legitimate authoritative sources and realising the whole range of 'good governance' (i.e. providing the basic functions of governance according to democratic standards, all the conditions and activities that constitute a civil society and the means to contain and control institutions and positions of power).
<i>Democratic management</i>		
74	Heterarchical organisation	Since <i>every</i> member of the democratic organisation has equal rights and responsibilities because of their equal legal and formal status as owners and partners, the democratic organisation can only be a <i>heterarchical</i> organisation, i.e. a formalised structure of horizontally arranged social positions of equal power and authority.
75	Equal rights to manage	<i>Every</i> member of the democratic organisation is simultaneously an owner, a manager, and an employee or worker in legal as well as in practical terms. As a consequence, there is no distinction between people with and without managerial responsibilities. <i>Every</i> member of the democratic organisation has all the rights and responsibilities, and can conduct all the tasks and functions that are related or directly linked to the legal status of owners. Every member is an owner-manager. <i>All</i> members of the democratic organisation have equal rights and responsibilities to conduct the whole range of management functions and to make decisions.
76	Self-management	Self-management means that it is, or should be, the individuals themselves that first and foremost manage their work and make decisions about their work as far as possible (i.e. as long as it does not impact on others' work). <i>Those who do the work manage it and make decisions about it</i> and carry out all management functions at all levels, i.e.: <ol style="list-style-type: none"> <li>1. Each and every individual member of the democratic organisation manages their work (and themselves) as comprehensively and as far as possible.</li> <li>2. Self-managing groups of people (teams, projects, or organisational units) manage their work and themselves as well as the cooperation and decision-making processes among their members as much as possible according to democratic</li> </ol>



		<p>rules and standards.</p> <p>3. Individuals and groups of people manage their cooperation with other individuals and groups of people in and via network-like structures and processes.</p> <p>4. Via collective structures of authority – such as general assemblies or (online) forums – all members of the democratic organisation manage the organisation and organisational affairs in democratic ways.</p>
77	Representative management	In larger democratic organisations there are formally established organisational institutions of governance and management (boards, committees, councils or assemblies) as well as individual management positions with the task of managing organisational affairs and/or delivering management functions that go beyond individuals' or groups of people's wills and capacities to self-manage.
78	Legitimate representative management	Representative management is <i>legitimate only</i> when office holders, managers and/or representatives: 1) are democratically elected or appointed; 2) operate on the basis of and within a constitutional and legal framework of explicit and justifiable rules and a clear mandate; and 3) are accountable to, controlled and sanctioned by those who have elected or appointed them.
79	Institutions of representative management	<p>Institutions and positions of representative management are <i>democratic</i> institutions and positions, i.e. they are constituted and based on, operate, are staffed and managed according to democratic principles. This means in particular:</p> <p>1) <i>Election or appointment of representatives</i>: All managers/representatives serving in any kind of management position are elected or appointed democratically by those whom they represent. Managers may be elected or appointed either directly by the relevant members of the organisation (or a relevant part of it) or indirectly by members of an organisational institution, (e.g. a council or general assembly). Elections and appointments of representatives must be free, fair, competitive and transparent on the basis of one person, one vote.</p> <p>2) <i>Conduct of office</i>: All democratically elected or appointed representatives (are obliged to) execute the will of those whom they represent, carry out their responsibilities within clearly defined boundaries. There is no people-oriented authority ascribed to any managerial role, i.e. no manager is formally entitled and empowered to give orders, control or punish anyone. Representative managers do not <i>give</i> but <i>receive</i> instructions. They have no line management responsibilities but 'service responsibilities' in the sense that they (should) follow the instructions they were given by those whom they represent. As representatives, it is their main responsibility, even obligation, to conduct their office according to the will of the people, the organisational institutions of governance and the relevant authoritative sources.</p> <p>3) <i>Control of representatives</i>: All democratically elected or appointed representatives are supervised, held accountable, reconfirmed or replaced by those whom they represent and/or by institutions formally provided with the task to oversee the conduct of office of representatives. Any delegation of power or authority (from an electorate to its representative(s)) is accompanied by an equivalent accountability, i.e. the electorate (or the institution appointed to act on its behalf) has the right to oversee the representative and their conduct of office, to receive any relevant information from the representative, to steer and regulate the representative's conduct of office, and to sanction the representative as appropriate and in accordance with the stipulated rules and regulations.</p>
80	Participative management	<i>Participative management</i> means that <i>all</i> members of the (democratic) organisation have equal rights and opportunities to participate in, or collaborate with, self-managing groups or organisational institutions of representative management, in particular with regard to the management of the organisation and organisational affairs, formal decision-making processes at all levels of the organisation (constitutional, strategic or operational) and decisions that are either relevant for the whole organisation or

		that affect members directly.
<i>Equalising empowerment</i>		
81	Equal power	All members of a social system shall have <i>equal power</i> .
82	Equalising empowerment	Empowered people shall be disempowered, and disempowered people shall be empowered, until both have equal power.
83	Empowerment	<i>Empowerment</i> might be defined as people having the freedom, skills, competences, resources and opportunities to manage themselves and the affairs that are relevant to them, to reason, to decide and to do as they deem right.
84	Three-dimensional concept of empowerment	<p>People can be empowered formally, psychologically and socially:</p> <ol style="list-style-type: none"> <li>1) <i>Formal empowerment</i> can be understood as providing people with formal roles and positions within the official structures and processes of an institutionalised social system and the official responsibilities and entitlements, rights and duties, privileges and prerogatives, signs and symbols (of power and status), and (access to) resources and opportunities that come with such formal arrangements to act, make decisions, manage and control (others).</li> <li>2) <i>Psychological empowerment</i> might be described as a cognitive state of mind or feeling of being powerful or being empowered, particularly having reasonable personal confidence in one's own abilities (efficacy and self-esteem), perceived personal control of what happens to oneself and in one's own life (locus of control), and the cognitive and emotional capabilities to achieve personal goals (goal attainment).</li> <li>3) <i>Social empowerment</i> can be defined as people having reasonably established positions, status, worth, self-image and image of how they are perceived by others (social identity); adequate and sufficient resources, opportunities, social skills and competencies to pursue their legitimate interests and achieve their goals within a social context; the ability to initiate, maintain and manage social relationships, interpersonal communication, cooperation and conflict sovereignly; and the ability to behave accordingly, i.e. to demonstrate the whole range of confident and competent behaviour of a free and independent individual within a social context.</li> </ol>
85	Empowerment of the disempowered many	<p>Disempowered people can, and shall be empowered:</p> <ol style="list-style-type: none"> <li>a) <i>Formally</i> by making <i>all</i> formal roles and positions within the official structures and processes of an institutionalised social system consistent with the fundamental ideas and principles of <i>democratic governance</i> (i.e. 'good governance', in particular: authoritative sources, democratic institutions of governance, separation of power/checks and balances, subsidiarity, democratic decision-making, transparency and accountability) and <i>democratic management</i> (self-management, representative management and participative management);</li> <li>b) <i>Psychologically</i> by enabling <i>all</i> members of the social system to develop the mindset and identity of the <i>autonomous individual</i>, i.e. to be able and confident to formulate their own will and live accordingly (<i>self-mastery</i>), to feel confident about themselves and their personality traits (<i>developed personal identity</i>), to reason independently without interference from external authorities (<i>intellectual sovereignty</i>), and to judge all issues of concern on the basis of, and against, universal norms and values <i>they</i> deem right and appropriate (<i>enlightened morality</i>).</li> <li>c) <i>Socially</i> by helping <i>all</i> members of the social system to gain a <i>comprehensively developed social orientation</i>, i.e. to enhance their capabilities to manage and maintain social interactions, social relationships and their lives within social settings (<i>social mastery</i>), to feel confident and comfortable among others in their social status and positions, roles and functions (<i>advanced social identity</i>), to</li> </ol>

		have the education, knowledge, cognitive, emotional and cultural intelligence and social skills necessary to communicate and interact effectively with others, express themselves and realise their interests within a particular social context ( <i>social competences</i> ) and to care about oneself among others, others and social systems ( <i>prosocial orientation</i> ).
86	Disempowerment of the empowered few	Empowered people can and shall be disempowered: a) <i>Formally</i> by directly limiting office holders' formal responsibilities and authority of office via formal principles and regulations of democratic governance (especially via the principles of transparency, accountability and legitimate authority) and democratic management (via full participation), limiting the number of memberships, formal positions and functions, terms in office and conduct of office. However, questionable personal management styles (such as an autocratic/authoritarian management style) cannot be tackled by such formal measures; b) <i>Psychologically</i> by fostering the idea of people being 'in balance', moderate, 'not striving' and showing a strong prosocial orientation. However, this might counter the disproportional psychological empowerment of <i>some</i> of the empowered few to a certain degree – but not of most and not fundamentally; c) <i>Socially</i> by <i>challenging privileging knowledge and privileging positions</i> by demystification (e.g. everyone does, and is able to manage or to lead/contribute to distributed leadership), <i>social control</i> , especially upward control (in particular making sure that (self-) empowered members do not aggrandise themselves, gain illegitimate power or become leaders), and <i>social actions</i> to confine leaders (in particular to contain the social dominance of leaders and other aggrandisers by criticising and challenging them openly).
87	Powerless leaders	The power of (formal or informal) leaders shall be circumvented and contested, checked and balanced by organisational and social means to the extent that their factual or perceived power and influence have ceased to exist or, if residuals of their power and influence still prevail, are regarded as not binding, contestable and alterable.
88	Distributed leadership	<i>Distributed leadership</i> can be understood as a shared activity of co-creating social meaning, values and orientations conducted by all members of a social system alternately or collectively that is open to contestation, change and reinterpretation.
89	Social control	<i>Social control</i> means putting social and/or informal pressure on members of a social system to abide by its prevailing norms and values. Social control comprises 1) observing people existing and acting in the social realm (their appearance, feelings, reasoning, communication, attitudes and behaviour), 2) judging their existence and acting on the basis of and against prevailing social norms and values, and 3) approval or disapproval of their being and acting followed by 4) direct or indirect reactions and sanctions (rewards or punishment) appropriate to the judgement of members of the social system.
90	Appropriate social control and social action	In a democratic organisation all members are enabled and encouraged by formal institutions as well as the organisational culture to demonstrate <i>appropriate social control</i> , i.e. to: a) observe, critically examine and criticise everyone's conduct of their formal roles and office and their social behaviour, b) openly challenge, and hold accountable, formally empowered people and (powerful) leaders, and c) limit the unreasonable use of power, social dominance or demonstration of antisocial behaviour by aggrandisers or organisational psychopaths through social action (e.g. via public opinion, direct criticism and action, ridicule, disobedience or termination of leadership roles and functional positions).
<i>Considerate conduct of business</i>		

91	Conduct of business	<i>Conduct of business</i> can be understood as the way(s) an individual or organisation as an entity operates (internally as well as among and towards others and the environment) while pursuing its purpose(s).
92	Considerate conduct of business	<i>Considerate conduct of business</i> means that an individual or organisation – within its purposes, strategies, policies, governance, management, structures, processes, and control and performance measurement systems – takes explicitly and equally into account the legitimate interests, problems and needs of individuals, groups of people, other organisations, institutions, society in general and the natural environment; the intended and unintended outcomes and consequences of its activities, actions and inactions; and acts accordingly in balanced and sustainable ways that avoid or minimise negative, and create or increase positive, impacts on others, the wider system and/or the natural environment.
93	People: Social orientation and behaviour	Democratic organisations show a high(er) degree of <i>social orientation</i> and <i>social behaviour</i> because their owner-managers/members: <ul style="list-style-type: none"> <li>– Have a more collaborative mindset; employ more voluntary, mutually beneficial cooperation and reciprocal behaviour; are more willing to share resources, knowledge and power; are keener to distribute benefits, burdens, costs and profits fairly; and are more focused on developing and maintaining long-term relations;</li> <li>– Have a stronger community orientation, have a feeling of local embeddedness and belongingness, and are more concerned about individuals’ and community well-being;</li> <li>– Overall show more decent and honest, fair and just, and responsible and ethical behaviour.</li> </ul>
94	Planet: Pro-environmental orientation	Democratic organisations have a strong(er) pro-environmental orientation, and show corresponding pro-environmental behaviour, because: <ul style="list-style-type: none"> <li>– Local people and the local community – as key stakeholders of the democratic organisation – are likely to appreciate and be concerned about the (local) natural environment, and the democratic organisation has a strong degree of local embeddedness and is founded on paradigms of community orientation and member orientation;</li> <li>– The owner-members of the democratic organisation are likely to have feelings of connectedness or a sense of connectivity with nature and personal (biophilic) values, the relevant and necessary knowledge to act in pro-environmental ways, and a (strong) sense of responsibility to take action,</li> <li>– The democratic organisation may even have explicitly pro-environmental goals and purposes in its business model (as part of its triple-bottom-line approach), and it may use and offer ‘appropriate technology’ (i.e. local, small-scale, decentralised and more environmentally friendly technologies, products and services) as fundamental and integral parts of its conduct of business.</li> </ul>
95	Profit: Economic performance	Democratic organisations have higher efficiency and productivity, innovativeness and organisational performance, are economically more viable, successful and sustainable than orthodox organisations because: <ul style="list-style-type: none"> <li>– <i>Each and every person</i> who works for the democratic organisation is at the same time an owner and a manager – and owner-managers have an <i>inherent</i> sense of ownership and responsibility, are committed and put in effort, try to make things work (and work as well as possible), and try to preserve or even increase the value of the things (<i>their</i> property) they own, use and produce;</li> <li>– In the democratic organisation it is those who <i>do</i> the work – and <i>know</i> their work – who make decisions about their work and implement them (self-management); moreover, via full participation in decision-making (participative management), they ensure that the quality and appropriateness of solutions are better and that</li> </ul>

		<p>solutions are decided upon and implemented collectively and cooperatively;</p> <ul style="list-style-type: none"> <li>– People who participate are much more committed and engaged; are keener to contribute, to come up with ideas and solutions, and to implement them (<i>intrapersonal level</i>); show more commitment and engagement in social interactions; demonstrate more <i>collaborative</i> behaviour; and are more willing to share their knowledge and to cooperate (<i>interpersonal level</i>). This increases the quality and efficiency of internal organisational processes considerably;</li> <li>– Organisational performance and, as a consequence, economic performance – measured in multidimensional ways and seen in the long term – overall is higher, more robust and more sustainable than in profit-oriented organisations.</li> </ul>
96	Considerate conduct of business model	<p>Democratic organisations are created and maintained in order to pursue and to achieve multidimensional (social, environmental and economic) goals and purposes in balanced ways and act in accordance with their fundamental values. In particular, they:</p> <ol style="list-style-type: none"> <li>1. Demonstrate more socially oriented, community-based and community-oriented, cooperative and responsible conduct of business;</li> <li>2. Show more pro-environmental behaviour in their activities, products and services;</li> <li>3. Achieve higher efficiency, productivity and organisational performance and are economically more successful and sustainable.</li> </ol>
<i>The general model of the democratic organisation</i>		
97	The democratic organisation	<p><i>The democratic organisation:</i></p> <ol style="list-style-type: none"> <li>1. Has a <i>libertarian constitution</i>, i.e. its legal, formal and substantive foundations reflect libertarian values and concepts of self-ownership, individual and collective private ownership, and a partnership agreement that specifies and guarantees the equal legal and formal status, rights and responsibilities of all people who own, manage and control collectively and democratically the organisation, its properties and assets, activities and results.</li> <li>2. Is based on and governed by the principles of <i>democratic governance</i>, i.e.: a) <i>legitimate institutions</i> (boards, committees, councils or assemblies), that are designed according to the principles of separation of power/checks and balances and subsidiarity, and function according to democratic standards; b) <i>govern democratically</i> (i.e. on the basis of democratic decision-making, transparency and accountability) the organisation and organisational affairs; c) on the basis of <i>legitimate authoritative sources</i> (partnership agreement, mission and vision statements, strategy and operational plans, codes of conduct, ethics and compliance statements); while d) adhering to the principles of ‘good governance’ (organisational institutions of governance and management are democratic and function on the basis of democratic rules, the equal rights of all owners and members are protected and promoted, and the organisation and organisational affairs are governed and managed collectively and democratically).</li> <li>3. Has got <i>democratic management</i> in place that provides for heterarchical structures and processes and consists of: a) <i>self-management</i> (individuals and groups of people are entitled, encouraged and enabled to organise and manage their own work, work-related issues and organisational affairs as much and as far as possible); b) <i>representative management</i> (organisational affairs that go beyond individuals’ or groups of people’s wills and capacities to self-management are managed by formally established organisational institutions or individual management positions that are designed, staffed and function according to democratic principles); and c) <i>participative management</i> (all members of the democratic organisation have equal rights and opportunities to participate in all formal decision-making processes at all levels of the organisation).</li> </ol>

		<p>4. Is built on the notion of <i>equalising empowerment</i>, i.e. that all its members are not only seen as equal, and have equal rights, but (shall) have <i>equal power</i>, i.e. that they are <i>formally, psychologically and socially equally empowered</i>: a) <i>formally</i> by configuring all formal roles and positions and organisational institutions of governance and management according to the fundamental ideas and principles of democratic governance and democratic management (i.e. to confine the formal power of office holders and increase the power of those who are not formal office holders); b) <i>psychologically</i> by promoting ideas of balance and moderation, providing information, training and support for psychologically overtly empowered people and by enabling all members of the democratic organisation to grow into fully developed autonomous individuals; and c) <i>socially</i> by promoting the ideas of self-management, self-managed groups and full participation that help members to develop a strong social identity and orientation, confidence and competences to manage and maintain social relationships and interactions, and to pursue their interests within a social context and by challenging overtly (self-)empowered members (e.g. ‘leaders’, ‘aggrandisers’) and confining their social dominance by demystification, social control and social actions.</p> <p>5. Demonstrates <i>considerate conduct of business</i>, i.e. it is designed and maintained in order to pursue, and to achieve, multidimensional (social, environmental and economic) goals and purposes (‘people, planet, profit’) in balanced and sustainable ways, and to act accordingly, i.e. the democratic organisation: a) demonstrates more socially oriented, community-based and community-oriented, cooperative and responsible conduct of business and practises more decent and prudent management; b) shows more pro-environmental behaviour in its activities, products and services; and c) achieves higher efficiency, productivity and organisational performance and is economically more successful and sustainable than orthodox organisations.</p>
<b>Part III: A democratic market economy</b>		
<i>Foundations of the free market</i>		
98	Notion of the free market	In a free market, supply and demand of goods and services are decided by many market participants (socially embedded free individuals or organisations with diverse and multidimensional sets of values, orientations and interests enjoying equal formal and procedural rights and opportunities) in decentralised ways on the basis of flexible and transparent prices as well as other incomplete and inconsistent information.
99	Norm-based nature of markets	<i>Any market is always and by necessity</i> based on, embedded in, enabled, confined and shaped by social norms that define socially expected, acceptable and unacceptable customs and behaviour.
100	Institutional basis of the free market	The free market is an <i>institutionalised</i> market. <i>All</i> markets are <i>institutionalised</i> markets, i.e. based on, defined and maintained by norms and rules that became institutions – but not all institutionalised markets are <i>free</i> markets.
101	‘Free’ market because of specific norms, rules and regulations	The free market is <i>not</i> free because of an <i>absence</i> of norms, rules and regulations, but because of the <i>presence</i> of <i>specific</i> norms, rules and regulations (i.e. the institutions) the market is built on, defined and maintained by. Markets are free not in the sense of ‘free from’ but ‘free because of’ particular norms, rules and regulations.
102	Normative basis of the free market	<i>Any free market is by necessity</i> based on social norms of freedom, democracy, equality, justice and sustainability.

103	Specific social norms about market participants and market mechanisms of the free market	<p>The model of the free market comprises <i>specific</i> norms about market participants and the market mechanism, in particular that:</p> <ol style="list-style-type: none"> <li>1) All market participants shall be as free as possible from external pressure, shall be able to make their own decisions and to act accordingly (<i>freedom</i>);</li> <li>2) Decisions shall be made in decentralised ways; there shall be no central authority or powerful market participant to tell (other) market participants which decisions to make (<i>democracy</i> in the sense of ‘power of the people’);</li> <li>3) There shall be as many market participants (producers and consumers, buyers and sellers) as possible so that all market participants have equal power and equal opportunity (<i>equality</i>);</li> <li>4) For their economic activities market participants shall get what they rightfully deserve (<i>justice</i>); and</li> <li>5) Supply and demand shall be flexible and in a market clearing equilibrium (<i>sustainability</i>).</li> </ol>
104	Private ownership and property rights	In a free market economy private ownership (of the means of production), property rights related to private ownership, management and control rights are <i>legal and statutory rights</i> of every market participant as well as of <i>every</i> member of an organisation. <i>Everyone</i> is legally entitled to the ‘fruits of their own labour’ and to a ‘fair share’ of any outcomes achieved through collaborative work within organisations.
105	Freedom of contract	People are free to decide with whom to contract about what and on which terms without restrictions other than those set out by the legitimate law.
106	Need for formal and substantive rules, commercial and contract law	<p>Any free market needs explicit formal and substantive rules, commercial and contract law, that specify and make sure that the:</p> <ol style="list-style-type: none"> <li>a) Institutions of private ownership and related property rights;</li> <li>b) Negotiation, conclusion, execution and completion of contracts and contractually agreed obligations, form, objects, substance, terms and conditions of contracts;</li> <li>c) Rights and responsibilities, contractual relations and behaviour of market participants engaged in any kind of market activity; and</li> <li>d) Market activities and transactions (production, provision, supply, demand and exchange of goods and services, i.e. merchandise, trade, sales, purchases, conduct of business, work)</li> </ol> <p>are:</p> <ol style="list-style-type: none"> <li>1. Legal and legitimate (i.e. in compliance with all relevant laws and regulations);</li> <li>2. Consistent with the inalienable human, democratic and civil rights of individuals as well as the fundamental principles and norms of freedom, democracy, equality, justice and sustainability; and</li> <li>3. Appreciating the equal formal and legal status of market participants as free actors and as members of a free and democratic society.</li> </ol>
107	The free market	In order to be a <i>free</i> market a market <i>must</i> be based on implicit and explicit, comprehensive and robust institutions (norms and rules) equally relevant for everyone that provide <i>all</i> market participants with the greatest possible amount of freedom, democracy, equality, justice and sustainability so that <i>all</i> market participants (can) make their own decisions, act and interact as autonomous actors in decentralised ways in regard to the supply and demand of goods and services.
108	Features of the truly free market	<p>A truly <i>free</i> market that is characterised by the following features:</p> <ol style="list-style-type: none"> <li>1. <i>All</i> market participants are as free as possible, are able to make their own decisions and act accordingly. Especially in respect to everyone’s inalienable rights</li> </ol>

		<p>of self-ownership, the establishment and protection of private ownership and related property rights, the right to the fruits of one's labour, and the legality and legitimacy of economic behaviour and contractual agreements the free will and freedom of every individual are guaranteed, enabled and protected as much as possible (<i>freedom</i>).</p> <ol style="list-style-type: none"> <li>2. Decisions about what goods and services are offered and demanded by whom and in what ways are made by all market participants in decentralised ways according to their own considerations. There are no powerful actors (central authority or powerful market participants) telling market participants which decisions to make. Market participants organise themselves, and conduct their economic and market-related activities, in accordance with the principles of democratic governance and management (<i>democracy</i>).</li> <li>3. There are many market participants (producers and consumers, buyers and sellers) offering or demanding goods or services so that all market participants have equal power and equal opportunities. All market participants enjoy in principle the same range of legal entitlements and duties, rights and responsibilities to conduct business (<i>equality</i>).</li> <li>4. Private ownership, property rights, management and control rights <i>are legal and statutory rights of every member of every single market participant. Everyone is legally entitled to the 'fruits of their own labour' and to a 'fair share' of any outcomes achieved through collaborative work within organisations. Explicit formal rules and regulations specify, and ensure, that private ownership, property rights, contracts (their negotiation, conclusion and execution), economic activities and exchanges of goods and services (based on contractual agreements) are consistent, and in compliance, with the inalienable human, democratic and civil rights of individuals and the fundamental principles of freedom, democracy, equality, justice and sustainability (justice).</i></li> <li>5. The prices and quantities of goods and services offered or sought (supply and demand) depend on market participants' behaviour and decisions, as well as other factors and are flexible, transparent and tend towards a market-clearing equilibrium. Via legitimate and appropriate settings, incentives, control and sanctions, market participants' economic and market-related activities are balanced and sustainable (<i>sustainability</i>).</li> </ol>
<i>Legitimate and illegitimate participants in the free market</i>		
109	External formal legitimacy of institutions and actors	In order to be legitimate, institutions and actors (e.g. individuals or organisations) need to be consistent with the larger system they belong to (e.g. a society, economy or nation-state), i.e. their principles, norms and values, actions and behaviour <i>must</i> correspond to the fundamental principles, rules and regulations of the legitimate legal, political, economic and socio-cultural environments in which they exist and operate.
110	Substantive legitimacy in a free and democratic society	In order to be, and to remain, legitimate in a free and democratic society and free markets, <i>any</i> individual and organisation <i>must</i> appreciate, respect, comply with, protect, promote and support the freedom and the fundamental human, democratic and civil rights of each and every individual as well as the universal principles of freedom, democracy, equality, justice and sustainability in their constitution, governance, management, behaviour and conduct of business.
111	'Correspondence argument' for democratic organisations	In a free and democratic society any formally established organisation <i>must</i> be a democratic organisation since this is the <i>only</i> form that is consistent with the fundamental principles and values of a free and democratic society, democratic governance and management, and the <i>only</i> form that accommodates, protects and enables free individuals, their fundamental human, democratic and civil rights and provides them with equal rights and opportunities for their existence and personal development.



112	Libertarian-democratic proviso I	Within a free and democratic society, no individual or organisation can be anti-libertarian or anti-democratic.
113	Libertarian-democratic proviso II	Within a free and democratic society, any individual or organisation must adhere to libertarian and democratic principles, standards and practices.
114	Legitimacy of individuals and organisations	Within a free and democratic society (and free markets and a democratic market economy as sub-systems of that society) the decisive criteria for the legitimacy of an individual or organisation (as market participants) are that they adhere to the fundamental principles of freedom, democracy, equality, justice and sustainability, that they appreciate, meet, enable, protect, promote and put into practice people's fundamental and inalienable human, democratic and civil rights and democratic standards in their purpose(s), (formal and legal) constitution, governance and management as well as in their (economic) behaviour and conduct of business.
115	Substantive legitimacy of organisations (as market participants)	In order to be <i>fully</i> legitimate in a free and democratic society, organisations have to strive to meet the standards of the democratic organisation in their design, functioning and practices. In particular, organisations should: <ol style="list-style-type: none"> <li>1. Have a libertarian constitution (partnership agreements) and should be owned and controlled collectively by all of their members;</li> <li>2. Be based on the principles of democratic governance and be governed democratically;</li> <li>3. Have democratic management structures and processes in place that provide for non-hierarchical participation in decision-making and workplace democracy;</li> <li>4. Have an organisational culture of equal(ising) empowerment where all their members are equally empowered; and</li> <li>5. Demonstrate considerate conduct of business across all of their operations and activities.</li> </ol>
116	Organisations deemed legitimate	In free and democratic societies and a democratic market economy, only <i>legitimate</i> organisations can partake in the free market because only these types of organisation fulfil the conditions for adhering to the fundamental principles and values of freedom, democracy, equality, justice and sustainability, in particular for protecting and promoting people's inalienable fundamental human, democratic and civil rights (e.g. no unequal social relationships, no exploitation) and for upholding democratic standards (e.g. organisational structures and processes of democratic governance and democratic management). Consequently, in the democratic market economy only conservative (level 3), alternative (level 4) and democratic (level 5) private and public sector organisations are regarded as legitimate market participants.
117	Organisations deemed illegitimate	Organisations that do not grant their members fundamental rights and freedoms, and do not meet democratic standards, i.e. radical (level 1) and profit-maximising (level 2) organisations, are deemed illegitimate and are not permitted to exist and to conduct their dubious activities.
118	The self-employed as illegitimate market participants	If the self-employed show predominantly the characteristic traits of utility-maximising actors or antisocial perpetrators, i.e. if they largely pursue antisocial interests and demonstrate corresponding behaviour in their economic activities and interactions with other actors, then they harm others' legitimate rights and interests, even fundamental human, democratic and civil rights. In that case, the self-employed are illegitimate market participants. Actors <i>cannot</i> participate in the free market or democratic market economy if they severely hamper or threaten other actors' free will, legitimate rights and interests.

119	The self-employed as legitimate market participants	The self-employed who have internalised the notion of the free individual; demonstrate social, or even prosocial orientation and behaviour; care about themselves, others and the socio-economic relationships and interactions they have with others, are legitimate market participants.
<i>The workings of the democratic market economy</i>		
120	Legitimate market participants' market-related orientation and behaviour	Legitimate market participants like democratic organisations have a social or even prosocial and pro-environmental orientation and a decent business model. Their prime purpose is to serve key stakeholders and/or the natural environment. Democratic organisations pursue social, (socio-)economic, political and often environmental goals and objectives. In accordance with their purpose(s), goals and objectives, as market participants democratic organisations show <i>responsible and ethical</i> economic behaviour and conduct their business in <i>considerate, decent, balanced and sustainable</i> ways.
121	Cooperation/cooperative mind	Democratic organisations have a cooperative mind. They are keen to cooperate, because this is in their fabric, this is the way they work internally, the way they want to conduct business and the way they actually do business. Because of their internal design and functioning that largely follow the rationales of (democratic) collaboration and joint decision-making, their stakeholder orientation and predominantly (pro)social orientation and behaviour, democratic organisations have a strong sense of cooperation, solidarity and active citizenship, and are able and willing to understand, appreciate and accommodate others' positions, needs and interests. They find more common interests with others and (therefore) will act and collaborate more in mutually beneficial ways, conduct (their) business in more collaborative ways that are beneficial, balanced and sustainable for themselves <i>and</i> for others.
122	Patterns and networks of cooperation	Cooperation that becomes more established amongst multiple actors leads to patterns, clusters or networks, i.e. non-hierarchical structural relationships of various actors formed and maintained by their common goals, characteristics and repeated interactions.
123	Non-combative competitive mind	Besides their cooperative mind and behaviour, democratic organisations compete with a 'non-combative competitive mind', i.e. with an understanding that what they offer, and how they offer it, are <i>options</i> for others who also have legitimate interests. Democratic organisations do not try to maximise their returns at the expense of others and via questionable means but offer their products and services among others on equal terms in non-aggressive and non-invasive, fair and just, honest and transparent ways.
124	Industries	In a democratic market economy <i>every</i> industry consists mainly of <i>legitimate</i> market participants demonstrating <i>considerate</i> conduct of business and economic behaviour. Cooperation and 'non-combative' competition are the main modes and mechanisms of interaction between market participants.
125	Quantitative growth	A democratic market economy <i>might</i> generate <i>some</i> , fairly <i>moderate</i> quantitative economic growth in the traditional sense because of its functioning markets and market mechanisms. But because of its market participants' goals and orientations (legitimate market participants have primarily (pro)social, pro-environmental and balanced economic orientations), their economic activities and economic behaviour (legitimate market participants largely demonstrate considerate conduct of business), the democratic market economy's quantitative economic growth (measured by GDP in its traditional form) would be relatively low, not considered crucial and not pursued by relevant parties and stakeholders – especially not pursued in such uncompromising ways as in contemporary (neo-liberal) market economies.

126	Multidimensional, adjusted and supplemented GDP	In order to get (much) better data about, and a better understanding of, economic growth it is both sensible and necessary to adjust and supplement the traditional concept of GDP with multidimensional, sustainability- and development-oriented measurement frameworks.
127	Measuring social, environmental and economic growth, development and performance	The democratic market economy and its market participants are oriented (steered and governed) towards <i>social, environmental and economic development</i> , i.e. to: 1) account for all phenomena that either <i>have a value</i> or <i>are deemed valuable</i> (things; products and services; individual or collective issues; ecological, social or cultural commons; market-related and non-market economic activities and transactions); 2) account for all phenomena that either have a negative value or reduce, damage or destroy value (things or issues that represent costs; cause individual, social, environmental or economic costs; or generate negative externalities); 3) nurture and develop those phenomena that increase the welfare and well-being of individuals or the whole; and 4) reduce or terminate those phenomena that reduce, damage or destroy the welfare and well-being of individuals or the whole.
<i>Regulation of markets and market participants</i>		
128	Regulation	'Regulation' can be understood as the formulation, implementation and application of specific norms, rules, parameters, policies and measures as 'standards' that define a system, its elements (or members), processes and/or activities taking place within the system or caused by this system shall be, and shall be happening in order to control and to ensure the smooth functioning of the system, its elements (or members), processes or activities, and the intervention and taking of appropriate measures when certain issues are not as they are expected to be, do not function as they ought, or deviate from the standards set.
129	Market failure	'Market failure' can be defined as a situation where a market's price mechanism is severely distorted or market participants' economic activities and behaviour produce outcomes that are not consistent with the idea of a functioning market mechanism and that are 'inefficient', 'sub-optimal', cause costs or negative consequences for others, the environment or society in general.
130	Market-related misbehaviour	In a free market, there can be <i>market failure</i> due to market participants' market-related misbehaviour, in particular market participants: <ol style="list-style-type: none"> <li>1) Externalise internal costs that stem from their economic activities and economic behaviour and cause negative externalities that have damaging effects on other actors, society or the environment (<i>externalisation of internal costs</i>);</li> <li>2) Use/abuse their market power to either directly coerce other market participants to act and to demonstrate behaviour against their own will and/or to influence the conditions and institutions of the market or the market mechanism in order to gain unfair advantage and to secure rents they would otherwise not get (<i>abuse of market power</i>);</li> <li>3) Might conduct business in dishonest and unreliable ways, deceive or mislead others, and/or offer products or services that are of low quality, dubious or even (potentially) hazardous (<i>dodgy business practices, products or services</i>).</li> </ol>
131	Market failure despite considerate conduct of business	Even if all market participants were free individuals (self-employed) and (fully functioning) democratic organisations demonstrating considerate conduct of business there can still be: <ol style="list-style-type: none"> <li>1) (Unintentional) <i>negative externalities</i> and <i>externalisation of internal costs</i> due to how market participants produce or consume products and services;</li> <li>2) (Indirect) <i>abuse of market power</i> because of too close collaboration between (some) market participants (cooperatives, associations, federations or networks)</li> </ol>

		<p>that systematically excludes and disadvantages other market participants;</p> <p>3) Unethical and <i>dodgy business practices, products and services</i> provided by individual market participants that leave the market mechanism largely intact but hurt other actors (e.g. consumers), society in general or the natural environment.</p>
132	Market failure also in the democratic market economy	Market failure <i>can</i> , and <i>will</i> , happen also in the democratic market economy; there <i>definitely</i> will be externalities, there <i>possibly</i> can be abuse of power, and (individual) cases of <i>dodgy business practices, products or services might</i> happen and can't be ruled out.
133	Market failure is bad	Market failure/market participants' market-related misbehaviour produces a range of <i>negative consequences</i> for the free market itself (distorted market mechanism, false and misleading cost and price signals, sub-optimal supply and demand), individuals (especially in their roles as citizens, consumers, or employees), the society as a whole (because it has to bear all the direct and indirect costs related to these market failures), and the natural environment (damages of all sorts and kinds).
134	Consequentialist arguments for market regulation	<p>Consequentialist arguments for market regulation:</p> <ul style="list-style-type: none"> <li>– The market often sends wrong signals in respect to market failure and market-related misbehaviour. Only market regulation can identify and appropriately tackle market failures and/or market-related misbehaviour of market participants.</li> <li>– Market regulation tackles the underlying causes of market failure – i.e. market-related misbehaviour of market participants – indirectly (by providing the right conditions, legal, fiscal and administrative frameworks) or directly (positively in the form of setting and providing incentives or negatively in the form of punishment).</li> <li>– Regulation <i>creates</i>, defines and shapes <i>spaces</i> of allowed, appreciated or encouraged issues, activities and behaviour. It defines or clarifies what is <i>not</i> allowed, illegitimate or even illegal (i.e. it protects individuals, it provides them with <i>negative freedom</i>) <i>and</i> it defines and clarifies what is possible (i.e. it gives individuals opportunities; it provides them with <i>positive freedom</i>).</li> <li>– Market regulation and economic development go hand in hand; market regulation positively influences economic growth and development.</li> </ul>
135	Non-consequentialist argument for market regulation	Regulation <i>enables</i> markets in the first place. It makes sure that the market mechanism, that markets and industries exist and work – that they <i>can</i> and <i>do</i> work. Regulation is <i>a necessary component</i> of the market. Without regulation there would be no exchange, no transactions, no market. Consequently, market regulation is not an option but a necessity. <i>Every</i> system needs to be regulated – and so do social systems like markets. There is not one market imaginable that could function properly, or function <i>at all</i> , without regulation. A market without regulation would not only be <i>dysfunctional</i> , it would simply not function, or even <i>not exist</i> . Every market requires regulation <i>in principle</i> . Markets, market-related activities and economic behaviour are based on, embedded in, enabled, defined, shaped, confined and sanctioned by explicit norms and rules. A (functioning) market without regulation is simply <i>unthinkable</i> . Markets are <i>always</i> regulated – and always <i>need</i> to be regulated. There can be only <i>regulated</i> markets, even the "freest" of all markets is actually a <i>regulated</i> market.
136	Main aims of market regulation	<p>Market regulation:</p> <ul style="list-style-type: none"> <li>– Helps a market to continue to exist;</li> <li>– Makes sure that a market is legitimate and properly established;</li> <li>– Guarantees that the principles, norms and values, rules and customs on which a market is based and according to which a market functions are legitimate;</li> </ul>

		<ul style="list-style-type: none"> <li>– Enables and guarantees that a market and its market mechanisms function properly;</li> <li>– Makes sure that market participants and their economic activities are legitimate and that market participants conduct their business in legitimate and appropriate forms;</li> <li>– Provides guidance, support for and control of market participants so that they operate within the legal and regulatory framework and that their design, economic behaviour and economic activities are consistent with the notions of a functioning market and considerate conduct of business;</li> <li>– Helps ensure that market failure(s), market-related misbehaviour and other negative aspects of markets and market activities either do not emerge and happen in the first place or are kept to a minimum and perhaps are even extinguished;</li> <li>– Punishes illegitimate economic activities and market-related misbehaviour.</li> </ul>
137	Definition of self-regulation	Self-regulation can be understood as the establishment of statutory and regulatory standards of behaviour and the control of compliance with such regulation jointly by actors who belong to a same area or conduct a similar range of activities (e.g. who belong to a same geographical area, profession or trade and/or who operate in the same market or industry).
138	Calculated participation in self-regulation	Actors or market participants that act and operate primarily on the basis of a cost-benefit calculus (i.e. follow the calculus of the classical ‘rational’ utility-seeker) participate in self-regulation only if – and as long as – it offers benefits conditional to their participation that exceed the (opportunity) costs of participating.
139	Motivation to self-regulation	Market participants committed to the principles of the democratic organisation will initiate, participate in and strengthen self-regulation since such a concept of governance and regulation reflects, and corresponds with their internal values, democratic governance and democratic management as well as the way they operate and conduct business. It can therefore be expected that in the democratic market economy there will be (much) more voluntary institutions of democratic self-regulation (such as communities, networks or associations), and that (much) more self-regulation will take place.
140	The limits of self-regulation	<p>Market participants shall regulate themselves only if – and as long as – their self-regulation:</p> <ol style="list-style-type: none"> <li>a) Also increases the welfare of other market participants, society as a whole and the environment;</li> <li>b) Is consistent with the fundamental principles of the free market and a functioning market mechanism;</li> <li>c) Corresponds with the fundamental principles of democratic governance and democratic management; and</li> <li>d) Provides regulation that is effective, appropriate, substantial, efficient, and advantageous for individual actors, the market and society as a whole.</li> </ol>
141	Definition of co-regulation	In an economic context, co-regulation means the voluntary interaction and cooperation of actors concerning the regulation of a particular area (e.g. a market or an industry) or certain (political, legal, social, economic or environmental) issues (e.g. certain types of economic activities or conduct of business, or the outcomes or consequences of such economic behaviour), whereby at least one of the actors is the one whose behaviour causes, or contributes to, the emergence of the particular phenomenon in question and thus shall be regulated, and the other actor – ‘third party’ – is <i>not</i> involved in that particular area, activities or behaviour, but has a vested interest in that particular area, issue and/or the actors operating in that area and how they operate.

142	Motivation to co-regulation	In the democratic market economy market-related co-regulation would be relatively widespread, collaborative and intense because the notions of democratic governance, cooperation and participative decision-making are deeply embedded in actors' minds and conduct of business. Market participants will regulate themselves together with non-governmental third parties mainly because of their high(er) degree of social orientation, in particular their greater interest in voluntary, mutually beneficial cooperation, their stronger community orientation and greater concern about the common good and community well-being.
143	The limits of co-regulation	Market participants shall regulate themselves and their economic behaviour together with non-governmental third parties if – and as long as – this co-regulation corresponds with the fundamental principles of democratic governance and democratic decision-making (democratisation of regulation) and produces outcomes that take into account, and reflect, the willingness and diverse contributions of all actors involved in the co-regulation (quality of regulatory proposals).
144	Definition of government regulation	'Government regulation' means that 'the state' – i.e. national governments and government agencies – formulates, implements and monitors regulation (laws, policies, rules, norms, standards and the like) that governmental and non-governmental actors have to obey, apply and comply with.
145	Need for government regulation	Since markets, self- and co-regulation <i>can</i> malfunction and <i>can</i> have limited or even detrimental effects, in every market economy government regulation of markets, market participants and their economic behaviour is required in order to: <ol style="list-style-type: none"> <li>1) Establish a market, i.e. to specify the fundamental principles and rules that define a market and its market mechanism and that clarify what are – and what are not – legitimate and legal market activities and economic behaviour in that market;</li> <li>2) Enable the functioning of the market, i.e. to provide a policy framework and specific guidelines that outline market participants' formal, legal, procedural and factual rights and responsibilities;</li> <li>3) Support and reinforce market participants' economic behaviour so that it complies with all principles of a free market, functioning market mechanism, democratic governance and management as well as actors' rights and responsibilities;</li> <li>4) Monitor market participants and their economic behaviour and sanction complying and deviating economic behaviour.</li> </ol>
146	The limits of government regulation	Government regulation does <i>not</i> work – or does not work <i>sufficiently</i> – when government (or government agencies) does not have sufficient information, resources or competences to formulate, implement and/or monitor appropriate and effective regulation.
147	In case of limited or insufficient government regulation	If government does not have sufficient knowledge, competences or resources to provide appropriate and efficient direct regulation it needs to set up, or help to set up, institutions of self- or co-regulation that are able to offer this regulation.
148	Interlocking regulation	In the democratic market economy, market regulation is a combination of: <ol style="list-style-type: none"> <li>1. Emerging self-regulation (by market participants);</li> <li>2. Government regulation setting regulatory frameworks (rules, regulations, policies and standards);</li> <li>3. Systemic internal and associational self-regulation (by market participants);</li> <li>4. Intensive, largely collaborative co-regulation (between market participants and third parties);</li> </ol>

		5. Interventional government regulation (actual measures); and 6. Delegated, entrusted self- and co-regulation (by various actors).
<i>The democratic market economy in overview</i>		
149	Democratic market economy	<p>A <i>democratic market economy</i> can be defined as an economy:</p> <ol style="list-style-type: none"> <li>1) That is based on the notions of a <i>free market</i> and a (well) functioning <i>market mechanism</i> where all actors/market participants are as free as possible, free to make their own decisions, to conduct economic activities, and to enter into contractual agreements (such as partnership agreements or commercial contracts) that are consistent with the fundamental human, democratic and civil rights of individuals as well as the fundamental principles and norms of freedom, democracy, equality, justice and sustainability. All actors are entitled to the legal and statutory rights of private ownership, property rights, management and control rights, as well as to the ‘fruits of their own labour’ and to a ‘fair share’ of any outcomes achieved through organised work.</li> <li>2) Where only <i>legitimate</i> market participants (i.e. democratic organisations or autonomous individuals/self-employed) operate and perform economic activities; pursue social, environmental and (socio-)economic goals and objectives; and conduct their business in considerate, decent, responsible, balanced and sustainable ways.</li> <li>3) Where cooperation and ‘non-combative’ competition are the prevailing modes and mechanisms of microeconomic behaviour and interaction between market participants. Market participants have a <i>cooperative mind</i>, i.e. a strong sense of cooperation, solidarity and active citizenship, collaborate extensively with others in mutually beneficial ways (i.e. in the form of direct cooperation or through partnerships, associations, cooperatives, clusters or networks of cooperation), and compete with a ‘non-combative competitive mind’ and in non-combative ways. At a macroeconomic level, economic activities, outcomes and performance will be measured as <i>social, environmental and economic development</i>. The overall focus is on nurturing and developing the welfare and well-being of individuals, the environment or society and reducing or eliminating those phenomena that reduce, damage or destroy the welfare and well-being of individuals, the environment or society.</li> <li>4) Where regulation happens via <i>self-regulation</i> (voluntary regulation jointly by actors with similar and common interests), <i>co-regulation</i> (voluntary regulation jointly by actors with differing interests) and <i>government regulation</i> (compulsory regulation by government or government agencies). Self-, co- and government regulation complement each other and together constitute a system of <i>interlocking regulation</i> that: a) is consistent with the fundamental principles of the free market and a functioning market mechanism; b) corresponds with the fundamental principles of democratic governance and democratic management; c) takes into account, and reflects, the diverse contributions and interests of all actors involved in the regulation and relevant stakeholders; d) provides regulation that is effective, appropriate, substantial and efficient; and e) increases the welfare of the market participants, society as a whole and the environment.</li> </ol>
<b>Part IV: Civil democracy</b>		
<i>The public sphere and (the need for) its democratic governance</i>		
150	Dimensions of the public sphere	<p>The public sphere can be described along four dimensions, i.e. it is made of or comprises:</p> <ol style="list-style-type: none"> <li>1) <i>Spatial dimension</i> – The geographical and/or virtual <i>spaces</i> or <i>places</i> of a society that are (in principle) accessible by every member of the society;</li> <li>2) <i>Institutional dimension</i> – The <i>institutions</i> or <i>domains</i> of a society that constitute,</li> </ol>

		<p>define, govern, shape and maintain society as a whole or parts of it, i.e. principles, values, norms and rules; the constitution, laws and regulations; the political and electoral system; the legislature (especially parliaments); the executive and public authorities (i.e. the institutions of government, ministries, government agencies and public services); the judiciary/judicial system; non-governmental and civil society organisations; the media (especially news media and social media);</p> <p>3) <i>Thematic dimension – Ideas</i> (thoughts, interests, opinions, policies or ideologies) that are formed or communicated in public, <i>issues</i> that are ‘of public interest’ or a ‘matter of public concern’ and/or <i>public affairs</i>;</p> <p>4) <i>Behavioural dimension – People’s behaviour, actions and activities</i> in public, i.e. anything that is said or done in public by anyone, in particular that people express themselves, communicate their thoughts and opinions, behave and act in the (potential) presence of others, engage, assemble, unite and/or debate with others publicly, and decide upon institutions, ideas and matters of public concern.</p>
151	Definition of the public sphere	The <i>public sphere</i> is the totality of geographical, virtual, institutional and/or communicative spaces or places of a society shaped and maintained by institutions (principles, norms and values, public and private institutions of governance, administration, representation, information and communication) where people demonstrate any kind of behaviour publicly, express themselves, their thoughts and opinions, act and interact in the (potential) presence of other members of the public, and address, debate and make decisions about ideas (thoughts, interests, opinions, policies or ideologies) or issues that are ‘of public interest’ or a ‘matter of public concern’.
152	Governance must be legitimate	Governance of society, of its public sphere(s), public affairs and matters of public concern, <i>must be legitimate</i> so that in its design and functioning it is consistent with the larger social system(s) it belongs to. Governance – the organisational institutions and members of the public that establish and provide governance of the public sphere – must correspond to, and comply with, the specific fundamental principles, norms, values and regulations of the legal, political, economic and socio-cultural environments of the particular society it exists in.
153	Substantive legitimacy of governance I	In a free and democratic society with a libertarian and democratic constitution – or if a society should be free and democratic – the governance of the public sphere must be consistent with, comply with, accommodate, apply, enable and protect libertarian and democratic principles and values, standards, policies and procedures.
154	Substantive legitimacy of governance II	In order to be (substantively) legitimate, in a free and democratic society any governance – and all institutions and members of the public establishing and providing governance of the public sphere, public affairs and matters of public concern – <i>must</i> adhere to libertarian and democratic principles, standards and practices. In a free and democratic society governance <i>must</i> adhere to the fundamental principles of freedom, democracy, equality, justice and sustainability and it <i>must</i> appreciate, meet, enable, protect, promote and put into practice people’s fundamental and inalienable human, democratic and civil rights and democratic standards in the governance of the public sphere.
155	Need for democratic governance of the public sphere	In a free and democratic society governance (of the public sphere) <i>must be democratic</i> governance.
156	Democratic governance	<i>Democratic</i> governance means that a social system has legitimate institutions in place that equip <i>all</i> of its members with the same fundamental and explicit, robust and transparent rules, rights and duties to govern themselves directly (self-governance), via participation (participative governance) and/or through representatives



		that are accountable to everyone (representative democracy); to participate voluntarily in all formal decision-making processes that comply with democratic principles; and to organise and manage all affairs that are of public interest or common concern according to principles members have agreed to in democratic ways.
157	Democratic governance provided by democratic institutions	Autocratic, oligarchic and/or hierarchical institutions cannot provide democratic governance. They are neither ideologically nor practically willing or able to govern democratically and to contribute to a (further) democratisation of public affairs and society. Only democratic institutions can provide democratic governance.
<i>Democratic self-governance</i>		
158	The idea of self-governance	Free individuals should govern themselves, their own affairs as well as the conditions of their existence.
159	Localism	Local people know, local people care, local people should be (involved in) deciding things.
160	Associations' contributions to democratic self-governance	Associations provide a broad range of governance functions. They contribute to the democratic self-governance of public spheres by: <ul style="list-style-type: none"> <li>a) representing and promoting interests in public;</li> <li>b) providing information, expertise and knowledge;</li> <li>c) providing services and implementing policies;</li> <li>d) participating directly in decision-making and in the governance, regulation, creation and provision of public goods or services;</li> <li>e) empowering their members and checking political power and government; and</li> <li>f) fostering political skills and democratic virtues.</li> </ul>
161	The notion of people's self-governance of public spheres	People should be able to be actively involved in the governance and maintenance of their (local and virtual) public spheres, public affairs and matters of public concern as much and as far as possible either by themselves or via voluntary, self-organised groups (associations) because as free individuals people have every right to rule themselves as well as the conditions of their existence.
162	Democratic self-governance	<i>Free</i> individuals can govern themselves, and can be governed, <i>only</i> in <i>democratic</i> ways. Self-governance, therefore, <i>is, must</i> be and <i>can</i> only be <i>democratic</i> self-governance. <i>Democratic self-governance</i> means that people can address any issue or matter of public concern in public; that they can initiate, and be involved in, any legitimate method to govern public spheres, to manage public affairs or matters of public concern via self-organised democratic institutions (e.g. neighbourhood groups, forums, associations); and that, in so doing, people govern, shape and manage the public conditions of their lives – but they must do so according to democratic principles and standards and in democratic ways.
163	Necessary external and internal preconditions for democratic self-governance	If there is a fully fledged democracy, institutions of democratic self-governance have been institutionalised, a principled appreciation of the rule of law, a fully functioning civil society (external preconditions), <i>and</i> civil society organisations and citizens are legitimate, able and willing to conduct functions of self-governance (internal preconditions), then individual people and democratically self-governing associations will get increasingly involved in the democratic self-governance of (local and virtual) public spheres, public affairs and matters of public concern.
164	Associative democracy	<i>Associative democracy</i> means that countless voluntary, democratically self-governing associations gradually and progressively take over an increasing range of

		political, administrative, social and economic governance activities and functions in a society's public spheres until they become the primary means of democratic self-governance of (local) public spheres and public affairs and the handling of matters of public concern.
<i>Representative democracy</i>		
165	Systemic need for government	No complex social system could be maintained or function without governance functions provided by general institutions, i.e. no complex social system could exist without government.
166	Need for general institutions of governance	Any social system where actions and relationships of actors cannot be governed and managed directly needs <i>formally established general institutions of governance</i> that have the power and means to establish common rules (and to enforce compliance as well as to punish non-compliance with those rules) with regard to the governance and government of the social system and its public sphere(s), public affairs and matters of public concern as well as members' behaviour and activities in public.
167	Legitimacy of government	In order to be <i>legitimate</i> , a government as a whole as well as in all its parts and actions <i>must</i> correspond with, be based on and function according to the criteria and standards of the <i>legitimate institution</i> , i.e. it must adhere to formal, procedural, substantive, perceived and rational legitimacy.
168	'Correspondence argument' for government	A government must fit to the social system and society it governs.
169	'Correspondence argument' for democracy	The government of a social system that propagates free individuals and corresponding legitimate institutions of governance, that allows, encourages and enables people to act independently and to associate freely in order to pursue their own interests <i>must be a democracy</i> .
170	Legitimate government	<i>Democracy is the only</i> legitimate form of government. Only a <i>democratic</i> government is a legitimate government.
171	Representative democracy as the most democratic system	If (parts of) governance of the public sphere is not possible as <i>self-governance</i> or <i>participatory governance</i> (e.g. because of the size of the social system or because specialised institutions are required that can conduct general functions of governance) then <i>representative democracy</i> is the most democratic system.
172	The system of representative democracy	The system of a representative democracy must make sure that: 1) The delegation and representation of the will of the people happens as democratically as possible; 2) Individual and institutional representatives are held accountable sufficiently and thoroughly; and 3) All the institutions, structures and processes of governance together constitute a comprehensive and legitimate system of delegation, representation and accountability.
173	Libertarian and democratic representative democracy	If the idea of democracy is to be taken seriously, a representative democracy <i>must</i> provide people with equal opportunities to hold power and to rule, i.e. its institutions, structures and processes of governance have to be as libertarian and democratic as possible.

174	The will of the people	A representative democracy is designed and functions as democratically as possible – and as well as possible – when people can transfer their will and power freely to legitimate institutions that act on their behalf while they are still in control.
175	Delegation	‘Delegation’ means that an individual or collective actor or actors entrust a person or an institution with the task to act as specified by the delegation and assign corresponding authority and responsibility to that person or institution.
176	Status and responsibilities of representatives	Each and every representative actor and institution should be seen and understood much more as <i>delegates</i> (who represent or convey the views and wills of those they represent, and act strictly in accordance with their intended wishes) than <i>trustees</i> (who follow their own knowledge, experience and conscience for handling and deciding matters ‘in the best interest’ of others).
177	The chain of delegation, representation and accountability	Representative democracy does not only mean representation of the will of the people but a system and <i>chain of delegation, representation and accountability</i> via legitimate institutions of governance that makes the transfer and execution of the will of the people as democratic as possible.
178	Political parties as democratic organisations	In order to be legitimate, political parties must be democratic organisations. They must resemble, function internally and act like democratic organisations as far as possible.
179	Democratic electoral system	<p>In order to be consistent with, and enable, representative democracy an electoral system (i.e. electoral laws, rules, regulations, mechanisms and conduct of elections) <i>must</i> provide for and guarantee:</p> <ul style="list-style-type: none"> <li>a) <i>Freedom of speech</i>: Freedom of expression and open political debate are equally guaranteed and possible for everyone;</li> <li>b) <i>Freedom of information</i>: Access to, and use of publicly available information, news, news media, social media or other sources and resources relevant for conducting political activities are equally guaranteed and possible for everyone;</li> <li>c) <i>Freedom of peaceful assembly and association</i>: Legitimate political groups, organisations and parties can be established freely, are regarded and protected as a basic instrument for political engagement, activism and participation, can operate without illegitimate interference or intimidation, and can contribute freely to the formation and representation of the political will of the people;</li> <li>d) <i>Universal suffrage</i>: All adult members of a social system (i.e. all citizens and permanent residents in a particular country or jurisdiction above a certain minimum age) can partake in elections;</li> <li>e) <i>Free and fair elections</i>: Elections are free, fair and secret, held at regular intervals with election dates announced well in advance, and provide alternative candidates the electorate can choose from freely by majority vote. Election rules and laws are fair, transparent and applied to everyone equally;</li> <li>f) <i>Democratic pluralism</i>: Political parties and (their) candidates are nominated democratically at constituency level by individuals, members of their parties and/or in primaries, are independent, and represent and provide significant political alternatives and choice for the electorate;</li> <li>g) <i>Proportional representation</i>: Parties and individual candidates might be elected in single- or multi-member constituencies and from party lists in proportion to the number of votes they receive, i.e. every vote counts;</li> <li>h) <i>Electoral due process</i>: There is no interference in election campaigns or tampering with election mechanisms, ballots or the outcomes of the election. The results of elections are established, verified, announced and executed truthfully,</li> </ul>

		independently and in a timely fashion.
180	Legitimate delegation of power and authority	The delegation of power/transfer of authority from an electorate to (its) elected representatives is legitimate <i>only if</i> the electoral system and elections that enable this transfer are democratic, free and fair.
181	Parliament	Parliament is the epitome of a democratic representation of the will of the people and their power – and parliamentarians are the epitome of the political representative.
182	Filling senior positions democratically	In a fully fledged democracy any senior position of any public authority, especially public institutions of governance, can be filled only by democratic means (i.e. elections), never by autocratic or oligarchic means (e.g. single-handed appointments or horse-trading).
183	Accountability of government	In accordance with the notion of a fully fledged and fully functioning democracy, the government (head of government, cabinet and ministers) must be accountable – and must be held accountable – in principle, thoroughly and constantly.
184	Key characteristics of a truly democratic representative democracy	<p>Key characteristics of a truly democratic representative democracy:</p> <ol style="list-style-type: none"> <li>1) <i>Prevalence of the will of the people</i>: All people have the <i>inalienable right</i> (as well as the constitutional and legal rights and entitlements <i>and</i> manifold institutional opportunities) to express, pursue and transfer their interest in the governance of society ('the will of the people'), in particular the governance of public spheres, public affairs and matters of public concern. When people transfer (delegate) their will via and to legitimate institutions of governance and democratically elected, anytime replaceable representatives, people stay in control of the governance and policy process by holding the institutions and representatives comprehensively and thoroughly accountable along the 'chain of delegation, representation and accountability'.</li> <li>2) <i>All institutions of governance are legitimate institutions resembling democratic organisations</i>: A representative democracy has a range of <i>institutions of governance</i> (private organisations like political parties or public authorities, such as: legislative, executive or judicial institutions and organisations) that give voice to the will of the people and execute it. In order to be <i>legitimate</i>, institutions of governance <i>must</i> resemble <i>democratic organisations</i> in their design and orientation, their internal structures and processes as well as in their behaviour and conduct of office. <i>Only democratically</i> constituted and maintained institutions are <i>legitimate</i>, can form part of the system of governing institutions, are entitled to represent the will of the people, and to make and implement governance decisions.</li> <li>3) <i>Political parties as the archetype of civil political representation</i>: <i>Political parties</i> are the first, and most relevant, private institutions of governance for the formulation, representation and pursuit of people's political will. Political parties are seen as an indispensable element of and for a society, <i>any</i> society. People have a <i>fundamental right</i> to form and run independent political parties – and political parties have a <i>fundamental right</i> to contribute to the governance of the public sphere and public affairs, to elect candidates for political offices, to compete in local, regional and national elections, and to (try to) gain political power. But political parties must be <i>legitimate</i> political actors or organisations, i.e. they need to abide by, and comply with, the relevant legitimate laws and a legitimately established constitution; their agendas, programmes and activities must be within the range of the tolerable political spectrum of a free and democratic society; and their internal structures and processes, governance, management and operations must adhere to libertarian and democratic standards. Political parties <i>must</i> resemble, be structured and function internally, and act like democratic organisations.</li> </ol>

		<p>4) <i>The electoral system and elections are democratic, free and fair</i>: In order to <i>legitimately</i> enable the delegation/transfer of people’s political will and power from an electorate to elected representatives the electoral system and elections – i.e. the rules, structures and processes that regulate how members of a social system elect candidates to formal positions of authority in institutions of governance – must be democratic, free and fair. Crucially, <i>all</i> senior representatives of the legislative, executive and judicial branches of government and public authorities (in particular head of state, members of parliament, head of government, members of the cabinet, ministers, judges of the highest courts, senior managers of public services) are <i>elected democratically</i>.</p> <p>5) <i>Parliament as the epitome of public political representation</i>: Parliament is institutionally empowered to: a) address and to debate everything that is a matter of public concern; b) make laws; c) decide on public affairs and matters of public concerns that fall into its jurisdiction or areas of responsibilities; and d) scrutinise the work of the government and to hold it accountable comprehensively and thoroughly. Parliament is a comprehensive <i>system</i> of legislative institutions of governance – i.e. parliaments – at national (national parliament or assembly), regional (regional assemblies) and local level (municipal assemblies and local councils). Following the notions of ‘localism’ and the ‘principle of subsidiarity’, local assemblies shall be made as powerful and relevant as possible so that they can address and govern all issues that are directly relevant for people and people’s life.</p> <p>6) <i>Government as a democratic institution</i>: Since government (i.e. the head of state, head of government, the cabinet and (other) ministers) as the executive makes the decisions and implements policies for a democratic society it is very important that it is itself constituted and functions <i>according to democratic principles and standards</i>. In particular, this means that: a) the head of state, head of government, the cabinet and ministers are <i>elected democratically</i> in free and fair elections; b) the government works and functions in <i>democratic</i>, collective and cooperative ways; and c) ministers’ and especially the head of government’s powers are confined and checked in order to keep government democratic and to avoid a hierarchisation, autocratisation or oligarchisation of the ‘inner circle’ of government.</p>
<i>Participatory governance</i>		
185	Participatory governance: definition	‘Participatory governance’ can be defined as institutionalised potential participation of interested citizens and civil society organisations in public governance, i.e. that citizens and civil society organisations have formally established equal rights and opportunities to participate directly and regularly in public authorities’ governance of public affairs, matters of public concerns, and the governance and delivery of public services, as well as in related decision-making processes in respect to the preparation, formulation, implementation and control of relevant policies, programmes or individual measures.
186	Civil participants in participatory governance	Any natural or legal person (i.e. individual or organisation) that has a legitimate interest in a particular public affair or matter of public concern has the right, and shall be provided with appropriate opportunities, to participate in public authorities’ decision-making processes, in particular the formulation and implementation of policies or measures related to that matter of public concern.
187	Forms of participatory governance	Forms of participatory governance of the public sphere: <ul style="list-style-type: none"> <li>– Provision of general/anonymous feedback (via data gathering, surveys, opinion polls, focus groups, crowdsourcing, petitions, web-based open government initiatives and online platforms); individual interaction with legislators, administrators, representatives (informal encounters, office visits): suggestions, complaints, requests; elections;</li> <li>– Participatory public meetings, such as: town hall meetings, policy forums,</li> </ul>

		<p>stakeholder dialogue sessions, public hearings, public comment periods; advisory committees, panels;</p> <ul style="list-style-type: none"> <li>– People’s courts, citizen juries; referendums, ballots;</li> <li>– Collaborative approaches to the delivery of public services or maintenance of public resources, such as: direct collaboration or participatory governance networks (‘collaborative governance’).</li> </ul>
<i>Citizens and citizenship behaviour</i>		
188	‘The citizen’	<p>‘The citizen’ is a comprehensive, multidimensional construct providing people with:</p> <ul style="list-style-type: none"> <li>– The formal, legal and official <i>status</i> of a citizen – ‘citizenship’ – that endows every person of a particular institutionalised, political or administrative social system (for example, a sovereign nation-state or union) with a bundle of fundamental (and highly attractive) legal, human, civil, political and social rights and entitlements as well as responsibilities and obligations, and enables a person to be a full member of that social system and to participate in its public life;</li> <li>– A particular <i>identity</i> – a <i>personal</i> identity (whereby people who consciously see themselves as a citizen have greater self-esteem, self-efficacy and self-confidence), and a <i>social</i> identity that enables people to see themselves as citizens of a particular formal, legal, social and/or cultural entity amongst others (whereby a more libertarian, democratic, equal and just social context strengthens a person’s social identity);</li> <li>– Opportunities to show certain types of ‘citizenship behaviour’, i.e. to show actions (i.e. conduct, behaviour, statements or activities) in public that constitute, address or could be perceived as a matter of public interest or public concern and/or are relevant for the governance of matters of public concern, the public sphere, the social system or a part of it, such as: demonstrating prosocial behaviour in the public sphere in non-political ways, political participation in established and prevailing institutions, to showing democratically legitimate political activism or showing legitimate or illegitimate radical activism.</li> </ul>
189	The free individual and the citizen	‘The citizen’ is the logical – and necessary – extension of ‘the free individual’.
190	Being citizens	In a civil society individuals, groups of individuals or organisations are, are seen and act as (individual, collective or institutional) <i>citizens</i> when they publicly: a) execute their statutory rights of citizens; b) face or meet their obligations of citizenship; c) express or pursue their own interests, ideas or worldviews with regard to matters of general interest or of public concern; d) address such matters; e) become actively engaged with the governance and management of the public, political, economic and social spheres; or f) show any other type of citizenship behaviour.
191	Definition of citizenship behaviour	‘Citizenship behaviour’ could be defined as any person’s (individual or institutional actor) action in public (i.e. conduct, behaviour, statements or activities) that constitutes, addresses or could be perceived as a matter of public interest or public concern and/or is relevant for the governance of the public sphere, public affairs, the social system or a part of it.
192	Types of citizenship behaviour	<p>People can display <i>citizenship behaviour</i> by:</p> <ol style="list-style-type: none"> <li>1) Demonstrating prosocial behaviour in the public sphere in non-political ways, such as caring about the common good, performing activities in and for the community, working for, starting and/or running organisations that pursue uncontroversial and accepted social, cultural, political, economic or environmental goals and activities (<i>proto-political citizenship behaviour</i>);</li> <li>2) Performing officially permitted and accepted forms of political activities, such as</li> </ol>

		<p>participating in established political institutions, conducting officially permitted electoral or political activities, and stating/expressing one's political interests, opinions, concerns and preferences in the 'right' ways and within and through the existing formal, legal, political, ideological and administrative frameworks and institutions (<i>basic political citizenship behaviour</i>);</p> <p>3) Showing self-determined, democratically legitimate political activism and protest behaviour in the public sphere in order to: a) express publicly one's own politically or socially relevant views, convictions and interests; b) address, advocate, debate and attempt to solve any issue of public concern, especially and explicitly human, civil and political rights; freedom, democracy, equality, justice and sustainability; anti-war or peace, corruption, land disputes, anti-corporate campaigns, environment, animal rights; political, social, economic, environmental and/or other 'challenging' issues; c) challenge the status quo, power elites or members of the establishment, and aim for social and/or political change, democratic change of the government; d) practise self-governance and/or participatory governance; e) promote the (further) democratisation of governance and society; and e) pursue, develop and nurture an open society and civil society (<i>advanced citizenship behaviour</i>);</p> <p>4) Attempting to achieve fundamental systems change by lawful or unlawful means within or outside the political, legal, administrative or ideological institutions in place, showing radical protest behaviour, working for a banned/illegal political group or party, and demanding, supporting or initiating social unrest, revolt and/or revolution (<i>radical citizenship behaviour</i>).</p>
<p><i>The concept, workings and advantages of civil democracy</i></p>		
193	Civil democracy	<p>'Civil democracy' means the democratic governance of a society, its public spheres, public affairs or any matter of public concern by: 1) people either directly or via voluntary democratic associations (<i>democratic self-governance</i>); 2) legitimate private or public institutions of governance representing the will of the people (independent democratic political parties, local, regional and national parliaments, and/or a democratic government) (<i>representative democracy</i>); 3) citizens and civil society organisations collaborating with decentralised public authorities and other third parties (<i>participatory governance</i>); and 4) citizens demonstrating (proto-political, basic political, advanced or radical) <i>citizenship behaviour</i> in public.</p>
<p><b>Part V: A more equal, just and sustainable society</b></p>		
<p><i>The case for a more equal society</i></p>		
194	Generic definition of equality	<p><i>Equality</i> means that with regard to a particular issue everyone is in the same position as everyone else.</p>
195	The undesirability of an absolute equal society	<p>Conceptionally it might be possible to draft, and to reason about, a social system where all its members were <i>completely</i> equal (absolute equal or egalitarian society). But such a model or concept would theoretically be based on rather unrealistic assumptions and would practically run into massive difficulties, to say the least. It also would <i>not</i> be <i>desirable</i> because an absolutely equal society would in fact be against individual freedom, would be rather anti-democratic, and nothing other than a particular form of a <i>totalitarian</i> society.</p>
196	The desirability of a more equal society	<p>It is possible – and highly desirable – is to strive for a <i>more</i> equal society.</p>
197	The notion of a <i>more</i> equal	<p>'<i>More</i> equal' means that a given society is, and does better – <i>scores</i> better – in respect to constitutional, legal, political, economic or social aspects that are relevant</p>

	society	for equality than any other (past or present) society or country.
198	The concept of a <i>more</i> equal society	A <i>more</i> equal society provides each and every individual with <i>constitutional and legal equality</i> (i.e. equal human, democratic and civil rights and equal formal and procedural treatment according to the rule of law); <i>political equality</i> (i.e. the same status, rights and responsibilities as citizens and opportunities to be politically active/to conduct citizenship behaviour); <i>economic equality</i> (i.e. equal economic conditions and opportunities as well as relatively equal/similar ranges of income and wealth); and <i>social equality</i> (i.e. equal basic conditions and institutions that enable people to conduct their lives in appropriate ways). A ‘ <i>more</i> equal society’ attempts to achieve and to guarantee constitutional, legal, political, economic and social equality for everyone as comprehensively and as much as possible – and more than any other past or present society.
199	Multiple concepts of equality and their appropriate relevance and application	There is not one, single definition or concept of equality but multiple understandings and <i>all</i> (concepts of) equalities are, or can be, important and relevant for making a society more equal. Hence, it is not possible to have <i>one</i> specific concept of equality applied to everything and it wouldn’t make much sense to argue which concept is <i>the</i> right one (or the one and only) in an absolute sense. In contrast, which concept of equality is applied depends on the issue in question: <ol style="list-style-type: none"> <li>1) When it is about <i>formal</i> and/or <i>legal</i> issues and dimension then equality before the law and (the guarantee and application of) equal fundamental legal, human and civil rights are of particular relevance.</li> <li>2) In regard to <i>political</i> issues and the political dimension, equal power and equal political and democratic rights are essential.</li> <li>3) Regarding <i>economic</i> issues, and the economic dimension equal distribution of resources, equal exchange and equality in income and wealth are the most important and appropriate concepts.</li> <li>4) And when it is about <i>social</i> issues and the social dimension, egalitarian institutions, equal opportunities, equal conditions, and equal capabilities to conduct one’s life are key aspects.</li> </ol>
200	Generic definition of inequality	<i>Inequality</i> means that with regard to a particular entity or issue an individual, group of people or social class is systemically privileged and advantaged whereas others are systemically discriminated against and disadvantaged.
201	Economic inequality	<i>Economic</i> inequality shows itself mainly in the form of <i>income inequality</i> (income or revenues from employment, business activities, property, capital, gifts or inheritance, or social benefits) or <i>wealth inequality</i> (property in the form of tangible or intangible assets or capital in the form of financial assets).
202	Social inequality	<i>Social</i> inequality means persistent patterns of certain people being systematically and institutionally privileged, advantaged and empowered while others are systematically and institutionally discriminated against, disadvantaged and disempowered. Usually it is a few that are privileged and many that are disadvantaged. Social inequality comes either as <i>personal</i> problems at an <i>individual level</i> (lack of resources, economic and financial problems, unemployment, health and social problems, developmental problems) or as <i>systemic and institutional</i> problems at the <i>level of society</i> (constitutional, legal, political, socio-cultural, organisational or technological systems or institutions).
203	Negative consequences of (economic and social) inequalities	For economically and/or socially disadvantaged individuals or groups of people, economic and social inequalities have various negative consequences. They create or aggravate a whole range of problems and challenges, such as health and social problems, economic and financial problems, work-related problems, reduced social life, and lessened personal development and life chances. Economic and social inequalities are also not good for the economy and society as a whole. They harm economic growth and development considerably, lead to political inequality and



		threaten the political stability and social consensus of the system, are bad for the moral orientation of individuals (they provide a ‘wrong moral compass’) and for the moral fabric of a society (they provide the ‘wrong values’).
204	Need to prevent or reduce inequalities	Because of their serious negative consequences for individuals or groups of people as well as the whole economy and society, (the emergence of) inequalities need to be prevented or reduced as much as possible.
205	Fundamental inequalities Pentoutopia prevents routinely to emerge or to exist	In order to prevent fundamental inequalities emerging or existing, Pentoutopia does not: <ol style="list-style-type: none"> <li>1) Propagate a particular model of humans demonstrating a certain type of behaviour that (allegedly) is superior to all other human beings and behaviour (for instance, <i>homo oeconomicus</i> demonstrating only ‘rational’, utility-maximising behaviour);</li> <li>2) Accept any illegitimate institution that places people into unequal, superior–subordinate relationships, such as: hierarchical social systems like autocracy, monarchy or oligarchy; unfair contractual agreements like the traditional employment contract or tenancy agreement; or any other institution that privileges (a) particular type(s) of people unfairly and unjustly while it disadvantages and discriminates against certain others;</li> <li>3) Allow any organisation – whether private or public, for-profit or not-for-profit – to be established or to operate that does not meet democratic standards, does not resemble the form, design and functioning of legitimate, democratic organisations;</li> <li>4) Let individual market participants dominate markets or industries, establish oppressive market-related relationships, exploit other market participants, demonstrate hypercompetitive economic behaviour or conduct illegitimate transactions;</li> <li>5) Permit or tolerate any autocratic, oligarchic or otherwise non- or anti-democratic governance of the public sphere, public affairs, matters of public concern, policy-making or implementation of policies.</li> </ol>
206	Economic and social inequalities can and do exist or emerge	In any free and open society and market economy economic and social inequalities <i>can</i> exist or emerge – and <i>do</i> exist or emerge.
<i>Increasing economic equality by reducing economic inequalities</i>		
207	Absolute economic equality	(Absolute) ‘economic equality’ means that every member of a social system (individuals or households) has equal income and equal wealth.
208	Achieving an economically more equal society	In order to (attempt to) achieve an <i>economically</i> more equal society, one should not try to achieve (absolute) economic <i>equality</i> , but try to avoid or to reduce economic <i>inequality</i> . The more one reduces economic inequalities, the more economically equal a society will be.
209	Income	‘Income’ is earnings from/in the form of: 1) employment ( <i>salaries and wages</i> , bonuses, company shares and stock options, employer pension, other monetary incentives); 2) business activities ( <i>profits</i> ); 3) property ( <i>rent</i> ); 4) financial assets or financial products ( <i>capital gains</i> ); 5) private transfers ( <i>gifts, inheritance</i> ); or 6) social transfers ( <i>social benefits</i> , such as unemployment benefits, sickness, accident or disability benefits, maternity or paternity benefits, child and family allowances, pensions or other retirement benefits).

210	Wealth	‘Wealth’ is the combined value of assets in form of: 1) tangible assets (property, such as land, real estate or other tangible assets); 2) intangible assets (goodwill, patents, trademarks, copyrights, other intangible assets); or 3) financial assets (cash, gold, bank deposits, stocks, bonds, other financial assets, financial claims towards other persons); minus 4) debt.
211	Economic difference	‘Economic difference’ means that people have bundles of income and wealth that are different in types, composition and value.
212	Economic inequality	‘Economic inequality’ means <i>systematic patterns</i> of <i>considerable</i> disparities in income and/or wealth between individuals, households, groups of people, social classes, populations, countries or regions.
213	Taxation of income and wealth	<p><i>All</i> forms of income and wealth shall be taxed:</p> <ol style="list-style-type: none"> <li>1) In particular: a) <i>salaries and wages</i> from any form of dependent work or employment; b) <i>profits</i> from any form of business activity; c) <i>capital gains</i> from financial investments, financial transactions or any other financial product; d) <i>financial gains</i> in form of gifts or inheritance; or e) <i>wealth</i> in form of tangible assets (‘property’) such as land, real estate or other larger/highly valuable tangible assets, intangible assets such as goodwill, patents, trademarks, copyrights, other intangible assets), or financial assets such as cash, gold, bank deposits, stocks, bonds, derivatives or any other financial assets;</li> <li>2) Above a generous tax-free threshold that corresponds with the lower range of income (with the exceptions of inheritance tax and wealth tax that have even bigger thresholds that correspond with low and average wealth);</li> <li>3) With the same tax brackets and marginal tax rates ranging from 10% up to 80% (with the exception of inheritance tax that has lower top tax rates and the wealth tax that has tax brackets of less than 1% up to 2% maximum);</li> <li>4) Highly progressively (in particular the top marginal tax rates) reflecting diminishing marginal utility of income and wealth;</li> <li>5) With as few loopholes and opportunities for tax avoidance as possible;</li> <li>6) At the source reflecting the PAYE (Pay-As-You-Earn) principle.</li> </ol>
214	Redistribution of income and wealth	<p>An equality-enhancing <i>redistribution</i> of income and wealth means that:</p> <ol style="list-style-type: none"> <li>1. <i>Income</i> shall be redistributed via social welfare policies that provide benefits in the form of direct payments/cash transfers through social benefits (public welfare), tax benefits (fiscal welfare) and/or monetary employment-related benefits (occupational welfare).</li> <li>2. <i>Wealth</i> shall be redistributed via following through on the notion and legal concept of private ownership (for everyone), progressive taxation of the various forms of income and wealth, and tax-based policies supporting not so wealthy people to start their own businesses, to own the land and real estate where they live and work, and to develop their financial assets via various income streams, capital accumulation and capital growth.</li> </ol>
215	Advantages of greater economic equality	<p>Enhancing the economic equality via taxation and redistribution of income and wealth brings a range of advantages:</p> <ul style="list-style-type: none"> <li>– <i>Basic needs</i>: Taxation and redistribution of income and wealth make a difference – for those who have to pay more taxes but even more for those lacking (minimum) income or basic wealth. In general, it makes a <i>small</i> difference for the former but a <i>big</i> difference for the latter. Reducing or even eliminating (some of) the economic and financial problems of people with no or little income and wealth enables them to meet their basic (economic) needs.</li> <li>– <i>Individual well-being and development</i>: Private ownership – especially of the</li> </ul>

		<p>means of production and one's livelihood – and sufficient income and wealth to cover the necessities of an average lifestyle, evidently increase people's general health and well-being, self-image, (participation in) social and political life, educational and professional attainment and development.</p> <ul style="list-style-type: none"> <li>– <i>Enhanced welfare</i>: According to (the law of) diminishing marginal utility of income and wealth, taxing the income and wealth of actors with lower marginal utility (i.e. richer individuals and larger corporations) comparatively more (i.e. progressively), and redistributing it to actors with higher marginal utility (i.e. poorer individuals and households), increases the welfare of a very large majority of people as well as the overall welfare considerably.</li> <li>– <i>Economic growth and development</i>: The more widely economic resources, factors of production, and income and wealth are dispersed, the greater are the chances for an efficient functioning of markets and the market mechanism, innovation, economic growth and development. (More) economic equality is good for business.</li> <li>– <i>Distributive justice</i>: A reduction of income and wealth inequalities has a moral or ethical dimension and implications; neither do the poor deserve their persistent poverty, nor do the rich and super-rich deserve their sky-rocketing incomes and unfettered wealth. An equality-enhancing taxation and redistribution of income and wealth brings back some distributive fairness and justice into fiscal policy, taxes and taxation as well as into the actual distribution of income and wealth.</li> </ul>
<i>Increasing social equality by reducing social inequalities</i>		
216	Individual differences	<p><i>Individual differences</i> means that individuals:</p> <ul style="list-style-type: none"> <li>– Are genetically, physiologically, psychologically and socio-culturally different;</li> <li>– Have different personalities or character traits, personal and social identities;</li> <li>– Show all types and levels of emotional, cognitive and moral development;</li> <li>– Have different (cognitive and physical) talents, skills and capabilities;</li> <li>– Gain various different kinds of competences, expertise and knowledge;</li> <li>– Have different worldviews (personal, political, ethical or religious beliefs and convictions, perceptions, norms and values), interests and value preferences;</li> <li>– Demonstrate all kinds of attitudes, emotions, behaviour, activities and actions;</li> <li>– Find themselves in different personal and social situations; and</li> <li>– Live different ways of life.</li> </ul>
217	Social differences	<p><i>Social differences</i> means that individuals who have:</p> <ul style="list-style-type: none"> <li>– Certain factual, claimed or ascribed characteristic(s) in common (genetic, biological, physiological, psychological, personal, cultural, historic or social traits, appearances, interests, preferences, beliefs, norms, values, attitudes or behaviour);</li> <li>– The same or similar social status and positions, professional values and orientations, and conduct similar work or activities;</li> <li>– Access to, and use of, similar resources, including income and wealth; and</li> <li>– Similar interests and convictions, socio-cultural norms and value preferences,</li> </ul> <p>represent a social group (or social class) that is different to, and differentiates itself from, other social groups (or social classes).</p>
218	Social inequality, short	<p>'Social inequality' means that within a social system a certain individual, group of people or social class:</p>

	definition	<ol style="list-style-type: none"> <li>1) Has privileged access to exclusive and restricted entities or issues;</li> <li>2) (Because of that) is systematically advantaged and empowered;</li> <li>3) Is put into a privileged, superior and dominating position in regard to others;</li> <li>4) Whereas those others are excluded from these restricted entities or issues, are disadvantaged and disempowered, and put into inferior positions; and</li> <li>5) People's privileges and exclusions, advantages and disadvantages, superior and inferior positions are institutionalised systematically and comprehensively.</li> </ol>
219	Social inequality, extended definition	<p>'Social inequality' means that within a social system:</p> <ul style="list-style-type: none"> <li>– A certain individual, group of people or social class</li> <li>– Is systemically enabled to (is entitled to, in possession of, provided with, has access to, can make use of and/or can utilise)</li> <li>– Particular, exclusive and restricted entities or issues (conditions, situations, opportunities, treatment, consequences; physical or virtual spaces, artefacts, physical, immaterial or virtual resources; institutions, structures, processes, networks; privileges, prerogatives, rights, responsibilities, positions, functions, prestige, status; knowledge, power, income, wealth, social welfare)</li> <li>– Solely or mainly because of (a) certain factual or socially constructed (claimed, alleged, or ascribed) common characteristic(s) (features, traits, attributes, behaviour, actions)</li> <li>– That 'explain' and 'justify' their unequal position, privileges and preferential treatment,</li> <li>– Whereby this exclusive access to, and use of, those entities or issues makes them powerful and puts them into a privileged, superior and dominating position in regard to others.</li> <li>– Their privileged position and preferential treatment as well as their exclusive access to, and use of, those entities or issues are neither functionally justified, nor legitimate, but gained undeservedly, unfairly, unjustly, unjustified and unjustifiably,</li> <li>– Whereas other individuals, groups of people or social classes</li> <li>– Are systemically excluded from (are not entitled to, not in possession of, not, or not sufficiently, provided with, have no or limited access to, can't make (sufficient) use of and/or can't utilise (sufficiently))</li> <li>– Those particular, exclusive and restricted entities or issues</li> <li>– Solely or mainly because of (a) certain factual or socially constructed (claimed, alleged or ascribed) common characteristic(s) (features, traits, attributes, behaviour, actions)</li> <li>– That (shall) 'explain' and 'justify' their unequal position, discrimination and disadvantageous treatment,</li> <li>– Whereby this exclusion from those entities or issues disempowers them and puts them into a disadvantaged, inferior and subordinate position in regard to others.</li> </ul>
220	Social equality	<p>'Social equality' means that <i>all</i> members of a social system:</p> <ol style="list-style-type: none"> <li>a) Are constitutionally, legally, politically and socio-culturally equal;</li> <li>b) Have the same fundamental inalienable <i>rights</i>, in particular human, democratic and civil rights, rights of and to self-ownership, private ownership, governance and management;</li> <li>c) Shall have similar <i>social conditions</i> and <i>equal opportunities</i> in respect to their</li> </ol>

		<p>personal development and well-being; and</p> <p>d) There are no institutionalised privileges and exclusions, advantages and disadvantages, superior and inferior positions, i.e. there are no institutionalised <i>power differentials</i> between individuals, groups of people or social classes.</p>
221	Non-monetary social welfare policies targeting individual necessities	<p>Social welfare policies, such as:</p> <ul style="list-style-type: none"> <li>– <i>Public social services</i>: Social services provided by public sector organisations (e.g. childcare and education (nursery, kindergarten, pre-school, schools, colleges, higher and further education), active labour market programmes, publicly funded healthcare and health services (medical centres, hospitals), social housing, residential care/care services for the elderly, public transport, public utilities, public libraries, recreational programmes and activities, community services and other services provided by local authorities);</li> <li>– <i>Voluntary welfare</i>: Social services provided by individuals or private organisations/civil society organisations (e.g. childcare, education, active labour market programmes, healthcare and health services, housing, residential care/care services for the elderly, other social services);</li> <li>– <i>Informal welfare</i>: Social services provided by partners, family members, friends or neighbours free of charge (e.g. care for children, partners, parents, (other) family members or friends, housekeeping, common activities);</li> </ul> <p>are made available directly to (eligible) individuals and households so that they can cover their basic and/or immediate needs, make use of equal opportunities to address and solve a whole range of personal problems and/or to develop their personal skills and capabilities. Non-monetary social welfare policies are meant to ensure that all people in principle have equally appropriate and sufficient conditions and non-financial means available to conduct their lives in reasonable, adequate and decent form.</p>
222	Principles and methods to enhance social equality	<p>Social equality can be provided and enhanced in a:</p> <ul style="list-style-type: none"> <li>– <i>Constitutional/legal sense</i> that the constitution and the laws, rules and regulations as well as legal institutions of a society meet all criteria of <i>legitimacy</i> (i.e. formal, procedural, substantive, perceived and rational legitimacy), in particular that the law is applied to everyone equally, that everyone is treated equally by the institutions of law (procedural legitimacy) and that everyone has equal rights and entitlements, in particular human, democratic and civil rights (substantive legitimacy).</li> <li>– <i>Political sense</i> that all political institutions (i.e. the government, parliaments and other institutions of local, regional and national governance, political organisations and the electoral system) provide <i>equal political power</i> to everyone and that the (voluntary) <i>participation</i> of every member of society is guaranteed and happens at every level of governance in the form of democratic self-governance, representative democracy, participative governance, and citizens' citizenship behaviour ('civil democracy') so that everyone has equal factual opportunities to participate in the governance of public affairs, matters of public concern and society as a whole.</li> <li>– <i>Organisational sense</i> that organisations are <i>democratic organisations</i> with a libertarian constitution and partnership agreement that specify and guarantee the equal legal, formal and organisational status, rights and responsibilities of every member of the organisation as partners; democratic governance that enables all partners to govern the organisation and its affairs, properties and assets, activities and results collectively and democratically; democratic management that provides every member of the organisation with equal rights to manage and participate in all formal decision-making processes at all levels of the organisation (via self-management, representative management and/or participative management); and equalising empowerment so that the powerful are disempowered, and the powerless are empowered until both have equal power.</li> </ul>

		<ul style="list-style-type: none"> <li>– <i>Socio-cultural sense</i> that people dare to think on their own (<i>enlightenment</i>), that everything and every power holder is scrutinised, accepted only if found valid (either because of theoretical validity or empirical evidence) or rejected if there is no good reason for it, in particular that socio-cultural aspects and institutions (i.e. cultural elements, concepts, personal characteristics of people, or social background, status and positions) are interrogated and only accepted if all cultural elements are available to everyone, that there are no superiors and subordinates, hierarchy and stratification, that people are portrayed, perceived and treated equally and are provided with equal opportunities and life chances.</li> <li>– <i>Resource-oriented sense</i> that resources (natural environment and resources, built environment/physical infrastructure, virtual environment/information and communication technologies (ICT), institutions, technology, services, goods or property/economic resources) are <i>sufficiently</i> available to every person (<i>sufficiency</i> showing itself as ‘<i>factual</i> sufficient availability’, if not directly then via social welfare policies) <i>and</i> that resources as such, as well as their (demonstrated) generation, acquisition, possession and usage are seen in a relatively moderate, unassuming manner (<i>modesty</i> showing itself as ‘<i>perceived</i> sufficient availability’ in people’s orientations, value preferences, attitudes and behaviour).</li> </ul>
<i>Pentoutopia, a just society</i>		
223	Formal and procedural justice through rights	<p>Formal and procedural justice is provided by Pentoutopia’s institutions in the form of people’s <i>fundamental rights and entitlements</i> (such as human, democratic and civil rights, rights of and to self-ownership and private ownership, and citizen rights) that turn every individual into a legal person, owner and citizen, i.e. into free individuals that have the <i>right</i> to be treated formally and procedurally fairly and justly and in the form of <i>institutions of democratic governance and management</i> that provide every member of an institutionalised social system with the same formal and procedural opportunities to govern and manage and to be governed and managed.</p> <p>The more a society appreciates, propagates, upholds, protects and pursues people’s fundamental rights (in particular human, democratic and civil rights, rights of and to self-ownership and private ownership, and citizen rights) and provides for legitimate/democratic institutions (of governance and management) the more formal and procedural justice is served.</p>
224	Just concept of power	<p>According to the fundamental notions of procedural and distributive justice, a <i>just</i> concept of <i>power</i> would mean that:</p> <ol style="list-style-type: none"> <li>1) Each and every individual is a <i>free and powerful</i> individual. It has the freedom, skills, competences, resources, and opportunities to manage itself and the affairs that are relevant to it, to reason, to decide, and to do as it deems right.</li> <li>2) In a social context, individuals are <i>equally</i> empowered so that they can pursue their interests according to their own will, that they are protected and can protect themselves against possible injustices.</li> <li>3) Power is <i>institutionalised</i> justly and executed in ways so that 1) and 2) are realised as much as possible.</li> </ol>
225	Procedural and distributive justice regarding power	<p>In respect to procedural and distributive justice regarding <i>power</i>, Pentoutopia obviously has, and applies, a <i>just</i> concept of power that means:</p> <ol style="list-style-type: none"> <li>1) <i>Free and empowered individuals</i>: Each and every individual has the freedom, skills, competences, resources and opportunities to manage itself and the affairs that are relevant to it, to reason, to decide, and to do as it deems right. In Pentoutopia all individuals are free, powerful and empowered individuals who govern and manage themselves, public affairs and matters of concern, in particular their work and the organisations they own and work for, economic activities, markets and industries as well as the public and the social sphere.</li> <li>2) <i>Individuals with equal power</i>: In a social context, individuals can pursue their</li> </ol>

		<p>interests according to their own will. Each and every individual ought to be as free, powerful and empowered as possible <i>among others</i>, i.e. to be able to communicate and to interact with others, to govern and to manage social interactions, social relationships and social systems according to its own will and interests. For this, all members of the social system should have <i>equal</i> power – and should be equally empowered formally, psychologically and socially (‘equalising empowerment’).</p> <p>3) <i>Justly institutionalised power</i>: Power is institutionalised and executed in ways so that 1) and 2) are realised and maximised. Power is established and executed institutionally as ‘governance’ following democratic principles and standards (<i>procedural</i> justice) and allocated equally (<i>distributive</i> justice). Institutions of governance, of institutionalised power, <i>must</i> be <i>democratic</i> institutions. Justly institutionalised power requires and suggests <i>democratic</i> governance (self-governance, representative democracy and participative governance). Moreover, institutionalised power needs to be distributed and executed <i>justly</i>, i.e. also governing must be <i>democratic</i> (‘democratic governing’).</p>
226	Distributive justice in respect to money	<p>Pentoutopia is very good at reducing inequalities in income and wealth systematically and, therefore, at providing procedural and distributive justice in respect to income and wealth:</p> <ul style="list-style-type: none"> <li>– In its <i>constitution</i>, private and business laws, economic, fiscal and social policies Pentoutopia provides the <i>legal and regulatory foundations</i> for all people to own private property (such as land, real estate or companies), being remunerated appropriately, fairly and justly (e.g. in form of equal pay, fairly agreed salaries and profit-sharing), earning other incomes (from capital) and having large amounts of income and wealth distributed and redistributed through fiscal and welfare policies according to the principles of desert and need and in accordance with people’s fundamental human, democratic and civil rights and ownership rights. Such constitutional, legal and regulatory settings are first, and (therefore) crucial and decisive, steps for achieving and guaranteeing distributive and substantive justice.</li> <li>– Pentoutopia all organisations are <i>democratic organisations</i> that are owned by their members. As owners, all members have the same rights of and to private ownership and related property rights, i.e. to determine the salaries of each member and to participate in profit-sharing. Salaries and profits are distributed fairly and justly according to legal entitlements (to the ‘fruits of one’s own labour’) and the principles of desert (performance) and equal rights. As a consequence, salaries are not too unequal, i.e. the differences in salary grades are relatively moderate, and everyone earns a proportional share in profits.</li> <li>– Pentoutopia’s <i>democratic market economy</i> also contributes to a fairer and more just distribution of incomes and wealth. In a democratic market economy there are only legitimate organisations (i.e. democratic organisations) that conduct their business differently; they show <i>decent</i> and <i>moderate</i> business practices, i.e. profit-oriented behaviour, cooperation and ‘non-combative’ competition. As a consequence, companies’ economic success is more steady and robust, with less deviation and volatility. Differences in organisations’ economic success (evidenced in revenues and profits) and in people’s salaries are less, and smaller, <i>across</i> organisations, industries and markets – and, therefore, more just and justified.</li> <li>– Income and wealth inequality are further reduced via <i>fiscal policies</i> and <i>tax policies</i>, in particular through a fair and just, <i>equality-enhancing taxation of income and wealth</i> in the form of highly progressive income tax, corporate tax, capital gains tax, inheritance tax and wealth tax as well as rigorous fighting of aggressive tax avoidance and tax evasion. Because of such measures, income and wealth inequality after taxes and transfers are considerably lower and, hence, income and wealth are distributed much more justly.</li> <li>– And there is quite some <i>equality-enhancing redistribution or transfer of income</i></li> </ul>

		<i>and wealth.</i> Via monetary <i>social welfare policies</i> and asset-building policies direct payments/cash transfers are made to needy and/or lower-income households (in the form of social benefits, tax benefits and/or monetary employment-related benefits) in order to achieve an even more just distribution of income and wealth.
<i>Pentoutopia: A society with built-in sustainability</i>		
227	Ecological sustainability	'Ecological sustainability' means that human activities and conduct of business have no or minimal negative impact on (parts of) the natural environment, ecosystems or species.
228	Ecological sustainability of Pentoutopia	Pentoutopia achieves high levels of ecological sustainability because economic actors and market participants have sustainable business models and demonstrate largely pro-environmental behaviour; industries, markets and the whole economy function in ecologically sustainable ways; and comprehensive regulation of markets and market participants targets market failure and market participants' market-related misbehaviour so that they conduct their activities in more environmentally friendly ways.
229	Balanced organisations and considerate conduct of business	Democratic organisations acting in accordance with their fundamental purposes and values are more conservative, long-term oriented and risk-averse in their decision-making, practise more prudent management, and demonstrate more ethical, responsible, decent, cooperative, balanced and sustainable business practices in their internal and external activities. It is part of their <i>raison d'être</i> to conduct business in balanced, moderate and durable ways.
230	A moderate – and moderated – market economy	Market participants' market-related behaviour corresponds with their considerate conduct of business, i.e. they have a social or even prosocial and pro-environmental orientation and conduct their business in the marketplace mostly in moderate and balanced ways. A democratic market economy is oriented (steered and governed) towards qualitative and quantitative social, environmental and economic development.
231	A balanced, moderate and durable – i.e. sustainable – society	Pentoutopia is an extremely balanced, moderate and durable – i.e. sustainable – society. It is: <ol style="list-style-type: none"> <li>1) <i>Balanced</i> because there are no constitutional and political inequalities; all people have the same human, democratic and civil rights and powers and are, in that respect, truly 'the same'. And economic and social aspects are only (justified) differences and not (unjustified and massive) inequalities.</li> <li>2) <i>Moderate</i> because legitimate institutions (of governance, i.e. political institutions, and of business and civil society, i.e. democratic organisations) act and conduct their business in considerate and moderate ways and produce moderate outcomes – be it policies or products.</li> <li>3) <i>Durable</i> in social, environmental and economic respects because its institutions are balanced and moderate and because its people exist and act within/on the basis of legitimate institutions as free individuals, owners and citizens in more balanced and moderate ways.</li> </ol>



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