

# The Cooperative Economy: Toward a Stakeholder-led Democracy

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# **In Memoriam**

Dedicated to the memory of Prof. Tim Murphy  
1956-2013,  
who lit a fire in me.

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(Title Image: A wallpaper by British cooperative pioneer, William Morris)

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# Prologue

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# Preface

Du läufst voran? – Thust du das als Hirt? oder als Ausnahme?  
Ein dritter Fall wäre der Entlaufene... Erste Gewissensfrage.  
–Nietzsche, *Die Götzendämmerung*

You're running ahead?—Are you doing so as a shepherd? Or as  
an exception? A third case would be the escapee . . . First  
question of conscience.

–Nietzsche, *Twilight of the Idols*

Sören Kierkegaard, in his *Concluding Unscientific Postscript* writes that “When truth is asked about objectively, reflection is directed objectively at truth as an object to which the knower relates. Reflection is not on the relation but on it being the truth, the true that he is relating to. If only this, to which he relates, is the truth, the true, then the subject is in the truth. If the truth is asked about subjectively, reflection is directed subjectively on the individual’s relation; if only the how of this relation is in truth, then the individual is in truth, even if he related in this way to untruth.” [Kierkegaard, 2009, pp. 167f.] “Subjective knowledge”, for Kierkegaard, is thus more related to “the how” than to “the what”: it emphasizes the nature of relations rather than analyzing objects in themselves. In a similar vein, the work of Virginie Perotin, Gabriel Burdin, Greg Dow and others in recent decades has shown quite conclusively *that* cooperatives can succeed and are, in fact, frequently even more successful than comparable traditional (i.e., investor-owned) businesses. Thus, the *what* has, it appears, been conclusively answered. The analog to Kierkegaard’s *how* then becomes, *what is it that cooperatives do that increases their longevity over and against comparable traditional businesses?*

Both theoretically and empirically, there has been too little advancement on this front. On the theoretical front, theories like Williamson’s and Hansmann’s receive the lion’s share of attention. However, these are clearly flawed, as the work of Greg Dow, Sam Bowles, Herb Gintis and others has shown. On the other hand, on the empirical front, much of the research on “workplace democracy” and processes of democratization have overwhelmingly

taken place in traditional workplaces and not reflected the particularities of principle-driven enterprise. The question is then, what should extend, transform or replace these theories and this empirical research?

[Dow, 2018] concludes that one solution to remedying the asymmetry is to make cooperative shares tradeable. Thus, his argument is that if the distinctions between capital-managed firms (KMFs) and labor-managed firms (LMFs) is removed, the latter would cease to be disadvantaged. The perspective addressed in this dissertation takes another path. It is argued that labor is fundamentally distinct from capital and any attempt to render them more coterminous will necessarily come at the cost of quality of life and work. Thus, it seeks to outline a framework of relational contracts as an effective path towards rendering a robust and resilient cooperative economy.

It is my view that a purely mechanistic economic theory, consisting of “real competition” and phenomena like turbulent macrodynamics (e.g., [Shaikh, 2016]), while an improvement, is an unsatisfying replacement of the neoclassical dead horse and its various offshoots. While “real competition” and turbulent macrodynamics, and Dow’s observation that, if markets for membership shares in cooperatives existed, they could be as successful as traditional businesses tell, half the story (analogous to the notion of “capacity” that we derive in Chapter 8)<sup>1</sup>, these notions and approaches largely disregard a closer examination of the qualitative organization of the economy according to types. They thus largely lack a means of translating the external dynamics of inter-firm networks and *relationships* into firm-internal processes and events.

Thus, the perspective that the present work takes is that if more emphasis in economic – and social – analysis is placed on systems either *out of* or *near equilibrium* (a state that complex systems never reach), then we would know much more about the nature of work and ordering activity. Furthermore, we argue that cooperation is an example of an ordering activity. In fact, we refer throughout the present work to cooperation as a *logic*, on par with profit-maximization or novelty-production (innovation). In fact, cooperation displays the characteristic of *complementarity* with a wide range of other logics, meaning one can combine cooperation with, e.g., patrimonial or patriarchal regimes, but also with democratic regimes.

This volume takes as its fundamental starting point – in recognition especially of the horrors of 20th century totalitarianism [Horkheimer and Adorno, 1972] – that a durable economic, organizational and social science should be centered on issues of democratic accountability. [Feyerabend, 1980, p. 77] writes of this in lamenting that “an increasing number of individuals and groups

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<sup>1</sup>In particular, these notions emphasize the external dynamics that all firms face and that can indeed delimit cooperation due to market forces.

[have become] critical of the gifts offered [by science].” Similarly, it is my belief that a fundamental attribute of any cooperative logic is the appeal to democratic accountability. Thus, cooperation and democracy are natural compatriots. Hegel’s Master-Slave logic is merely one elegant representation of this observation in a dynamic, historical setting.

Indeed, in order to win back civil society, as well as increasing number of private citizens, to an open debate within the domain of social science, a logic of cooperation, based as it is on accountability, equity and inclusion, can serve not only to suitably describe democratic or cooperative forms of enterprise, but can also extend beyond the domain of organizational science to become a logic for pursuing science more generally.

All of these aspirations and several more, the current work attempts to synthesize into a coherent *science of cooperation*, by means of which it hopes to advocate for a stakeholder-led democracy.

# Chapter 1

## Introduction

It is well known that Alfred Nobel did not intend to create a Nobel Prize in economics.<sup>1</sup> In his short will, he stipulated 5 prizes. Moreover, the prizes have been concentrated in few institutions and even fewer countries<sup>2</sup> One of the problems with this approach is a constrained view of the role of particular questions in the economic sciences and a “bandwagon effect”<sup>3</sup>.

The present work takes as its starting point the idea that the fundamental

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<sup>1</sup>In part, his hesitancy related to the fact that “it usually takes a longer time in economics (and social sciences in general) than in the natural sciences to find out if a new contribution is solid or if it is just a fad. In other words, it is important to wait for scrutiny, criticism and repeated tests of the quality and relevance of a contribution. The reason is not only that economic behavior, like human behavior in general, is complex but also that it varies over time and place. This is partly because individuals learn from previous experience, which may make empirically estimated behavior patterns unstable. Thus, new results may turn out to be relevant only to a transient conjuncture of circumstances, having much less generality than was supposed at first.” [Levinovitz and Ringertz, 2001, p. 212]

<sup>2</sup>Cf. [Levinovitz and Ringertz, 2001, p. 215], who write that

the awards clearly reflect the dominant role of the United States in economic research during this period. Out of 46 laureates, 30 have been United States citizens. [...] The only other countries that have received prizes (as defined by citizenship) are the United Kingdom (6 awards), Sweden and Norway (2 awards each), France, Canada, India, the Netherlands and the Soviet Union (one each). The only universities where faculty members have received more than a single award are Chicago (9 awards), Harvard (4 awards), Cambridge (4 awards), MIT (3 awards), Berkeley (3 awards), and Columbia, Oslo, Princeton, Stanford and Yale (2 awards each).

<sup>3</sup>To re-interpret [Veblen, 2007, p. 22], “The motive that lies at the root of [economic analysis] is emulation; and the same motive of emulation continues active in the further development of the institution to which it has given rise and in the development of all those features of the social structure which this institution of [economic analysis] touches. The possession of [a Nobel Prize] confers honour; it is an invidious distinction.”



questions of economics today are not concerned with issues such as “how is the wealth of nations generated?” or “what is the cause of economic crisis?” as we now understand very well what these issues entail. Much more so, the economic questions of the present concern relations of cooperation and conflict and the ability to harness these towards the task of solving the fundamental problems of the present, in particular the questions of ecological and social stability. Thus, whereas past questions resulted in the centrality of the issue of competition as a motor for innovation and governmental regulation as a stabilizer of the volatility this motor entails, the questions of the present must concern increasingly the ability for actors, institutions, states and networks to coordinate human activity for the task of stabilizing the system as a whole.

Moreover, concerning the *quality* of this coordination: there is a need to return to the questions of political democracy and of asking to what extent coordination can occur in a way that harnesses the ability to self-organize and cooperate via horizontal linkages. The study of the place, purpose and potential for cooperation is central to this endeavor.

Therefore, it is time for the study of cooperation to leave the margins where it has landed in the last 50 years, especially within the domains of economics and organizational science. This fate is perhaps in part due to the complacency of the respective practitioners, but it is also, as the present work argues, a result of the failure of mainstream theory to integrate suitable cooperative behavioral models. In fact, while much has changed since the 2008 financial crisis, much has remained unchanged. *Plus ça change, plus ça parait.* [Mirowski, 2013] In any case, the neoclassical core of contemporary social theory is as vulnerable as it has ever been. In addition to this, an increasing number of questions are being raised that are of great social relevance, which however lie beyond contemporary methods of social analysis to answer. Just to illustrate the point, economists Samuel Bowles and Wendy Carlin asked first-year economics students to describe the most pressing questions economics must answer. The answers are reproduced in a density graphic in Figure 1.1.

The study of cooperation, which will hereafter be referred to as *cooperative economics*, is however in a position to respond to these questions. This field isn't new. Thus, when contemporary behavioral economists like Richard Thaler and Ernst Fehr discuss issues of cooperation, they are returning to topics of concern of an older school of theorists, such as the American (“old”) institutional economists like Commons and Veblen, as well as “national economists” and members of the German Historical School like Schmoller [Elster, 2015, p. 454]. Particularly issues like justice, the common good, and context that have been given such prominence by behaviorists are orthogonal to discussions of the purposes and role of profit, social and collective aspects of property, notions of distributive justice, “harmony”, etc., discussed by this

older tradition. [Peukert, 1998]

Moreover, the notion of a cooperative economy is even older. One must only read Aristotle to find allusions to cooperation as a fundamental trait of society. After all, Aristotle referred to people not only as *zoon politicon*, but also as *zoon koinonikon*. It is fascinating to return to the discussion around *civic friendship* in his today lesser-read and remarked *Eudomorian Ethics*. Such linguistic distinctions point to the need for a communications orientation, one that acknowledges different logics, rationalities, imaginaries, operating in a complex social world plagued by radical uncertainty. The various logics (among them, social norms) orient individuals and the societies they compose and enable cooperation to co-evolve and feedback upon those doing the cooperation in a variety of ways.



Figure 1.1: Scatter plot of first-year economics students' responses to a survey as to the most pressing issues economics should deal with, from [Bowles and Carlin, 2020, p. 178].

## 1.1 Problem Statement

The foundational problem which this dissertation wishes to address is that much of economics ignores *co-determination*. Co-determination means merely a reciprocal determinism of numerous logics on preferences, behavior and beliefs. This goes beyond the mere critique of a *homo economicus* model. There are in fact numerous models emending the selfish, atomistic rationality of utility-maximization. Much more than this, the criticism extends to the logic of economic analysis. For instance, Amitai Etzioni has pointed out the danger in merely extending the traditional constrained rational-actor model. The result, what Etzioni refers to as “the Great X”, a notion of *utility* that can be filled in any way, loses any claim to meaning or descriptive power.

Whether in the extended “Great X” form or otherwise, the assumption of strategic interaction underlies the discipline and is nearly universal, in forms

like game theory [Hargreaves-Heap and Varoufakis, 2004], [Davis, 2003a]. The basic framework of game theory is non-cooperation and non-communication and it was only in the course of the 1970s that individuals like [Harsanyi, 1967] and [Aumann, 1974] began querying as to developments beyond this constrained epistemology, which is not only “ideal typical” and performative [MacKenzie et al., 2007], but does not comport with the vast majority of social interactions, as we shall see below.

Therefore, as we will learn from the proceeding discussion, much of the neoclassical orthodoxy is entirely ill-equipped to deal with democratic deliberation or cooperation. As an example, even a non-mainstream economist like Amartya Sen does not embrace emergent properties in his notion of democratic deliberation, equating democracy with the *Method of Majority Decision*, i.e., voting. And, while Sen alludes to the importance of preference formation, he does not integrate this element into his analysis of collective choice. This is the case for most of the economics literature, save, perhaps for behavioral economics. Its weakness, on the other hand, is that it has no real paradigm or curriculum. Thus, beside an eclectic hodgepodge, no program exists for dealing with important issues of cooperation, including in domains like the knowledge economy, which is growing in importance and relevance every day. [Srnicsek, 2017]

At the same time, due to the dearth of a sovereign program, those interested in either transitioning their organization (e.g., firms, NGOs, Universities, churches, etc.) to democratic governance forms or of simply governing their formally democratic organization often resort to “borrowing” MBA tools to engage in investment activity or modernization. The dangers of this approach can be seen in the literature on “demutualization”<sup>4</sup>. Ultimately, much of these tactics are mistaken, due to the fact that such perspectives are developed in an ontologically distinct environment. Thus, many organizations, policymakers and stakeholders would today benefit from a more active research program for embedding democracy and democratization in an economic sense. Simultaneously, the fields of economics and organizational science would benefit from a more granular approach to dealing with the diversity of organizational types present in today’s pluralistic, global economy.

A new cooperative science with its own branch of “cooperative economics” would thus contribute to closing the gap between economics, organizational science and various really existing forms of cooperation. Surely each domain would benefit from the dialogue, which should not be seen as zero sum.

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<sup>4</sup>E.g., [Pencavel, 2002].

## 1.2 Crisis or Opportunity in the Social Sciences?

In many disciplines, “the end of theory” is being heralded, e.g., [Bookstaber, 2017]. Such works often advocate a reduction of social science to agent-based modeling (ABM). The author of the present volume does not follow this assessment. In agreement with Immanuel Kant, we agree that theory and practice (including scientific practice) mutually influence each other. That is to say that, while agent-based modeling is useful and is, in fact, advocated for in this current dissertation, we agree rather with [Biggiero, 2019] that a plurality of methodologies actually offers complementary opportunities at constructing and testing theories. Moreover, without respective epistemic *frameworks*, methodological approaches are impotent in their ability to explain or account for events. As such, theories form an essential component of our epistemic outlook and should not be abandoned. As Judea Pearl remarks in *The Book of Why*:

[...] our present-day scientific world presents a new challenge to sound reasoning about causes and effects. While awareness of the need for a causal model has grown by leaps and bounds among the sciences, many researchers in artificial intelligence would like to skip the hard step of constructing or acquiring a causal model and rely solely on data for all cognitive tasks. The hope—and at present, it is usually a silent one—is that the data themselves will guide us to the right answers whenever causal questions come up.

I am an outspoken skeptic of this trend because I know how profoundly dumb data are about causes and effects. For example, information about the effects of actions or interventions is simply not available in raw data, unless it is collected by controlled experimental manipulation. By contrast, if we are in possession of a causal model, we can often predict the result of an intervention from hands-off, intervention-free data. [Pearl and Mackenzie, 2019, p. 13]

We also agree with an older school of writers, summarized by Robert Heilbroner’s aversion to prediction and preference instead for analysis [Heilbroner and Milberg, 2012]. Lastly, we agree with Weber’s idea that both historical and theoretical lenses are essential for advancing social knowledge. [Mommsen and Osterhammel, 2013, pp. 59ff.]. In particular, we advocate for a dualistic view of science, embracing both the historical or hermeneutical approach that contextualizes the genealogy of the shifting semantical and syntactical content of particular

concepts over time<sup>5</sup>, as well as foregrounding the impact of the social communication that scientific discourse entails. [Leydesdorff, 2021] This latter aspect is inadequately dealt with in much of the economics literature, which has taken up an abridged agent-based view, one not suitably considering the communicative dimensions of scientific discourse or relations between agents. That is to say, reflecting the network turn in much of social science: economics has been concerned with the nodes, to the exclusion of the edges connecting those nodes. The centrality of the communicative dimension of scientific discourse compels an explicit discussion of the social aspects of science. We introduce this topic briefly below.

### 1.2.1 Science as Collective Discourse

As will be discussed later in the present work, scientific discourse, and particularly social science, has a decidedly *social* character. This vision has been embraced multifariously, by Ludwik Fleck, Karl Popper, Imre Lakatos, Thomas Kuhn, Paul Feyerabend and others. In particular, this social dimension of science, to which we return throughout the present work, implies that one of the primary goals of science is rhetorical: convincing others to join one’s group or circle. We might also refer to “programs”. In any case, one of the main functions of science is communicative. In this regard, systematization facilitates the effective transmission of ideas and their organization into pedagogical curricula, as well as research programs.

What do I mean by “program”? [Kuhn, 1962] speaks of “paradigms” and “normal science” in this regard. However, more useful in this regard is Ludwik Fleck’s 1934 work *Entstehung und Entwicklung einer Wissenschaftlichen Tatsache*. That work contains numerous useful categories, including *thought collective* (*Gedankenkollektiv*) and *thought style* (*Gedankenstil*), as well as the concepts *Handbuchwissenschaft* vs. *Zeitschriftenwissenschaft*. Each of these categories emphasizes the *social* aspect of science. We return to these concepts again below.

The primary point of interest at the present is that while “cooperative economics” and related fields have *Zeitschriftenwissenschaft*, they lack *Handbuchwissenschaft*. This means, in a nutshell, that while there are e.g., many interesting cutting-edge research articles and even popular books (e.g., “self-help”) that extol the virtues of cooperation, no overarching program and no curriculum currently exist.

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<sup>5</sup>On this, see, e.g., [Nietzsche, 1985, Vol. 4, pp. 283ff.], [Foucault, 1978], or more recently and specifically, [Bäuerle, 2021].

## 1.2.2 Weber: Bureaucratization

This need for systematization is made all the more critical by the centrality of *Wertfreiheit* in contemporary scientific discourse. [Leydesdorff, 2021, p. 7-8] asserts that this perspective “finds its origin in Max Weber’s work and relates directly to Weber’s Marx-critique or, more generally, his critique of *historicism*. According to Weber, values are ideal-typical constructs: they operate in history as coordination mechanisms.” Thus, “The *Sinn der Wertfreiheit*—the commitment to value-freeness—in the social sciences serves our ability to study these values without an *a priori* commitment to them. Value-freeness is an epistemic condition for the objectivation of “*verstehende Soziologie*”. Because human agency involves “both understanding and explanation”, an analysis lacking such *Verstehen* is “substantively empty.” (Id.) This also involves an understanding of the evolution of meanings (Id., p. 9), an issue to which we return again later.

The point for the present appeal to a systematization of a general theory of cooperation is the need for policy proposals, whether of a constructive or transformative nature, to recognize the contemporary fact that governments and other public agencies have become increasingly “bureaucratized” in the language of [Weber, 1972]. This results also in the need for interoperability, translation and in particular “objective” criteria. Developing a clearer understanding of the role and purpose of cooperation in the economic, but also other, spheres would greatly aid in the process of crafting suitable policies and act prophylactically to prevent erosion of trust and legitimacy in public authorities.

## 1.3 What is to Be Done?

The next step is understanding historically how economics has come to disregard cooperation within its purview and to suggest a path towards (re)integrating a cooperative logic into its general framework. We will later conclude that the brand new framework of *relational economics* can serve as such a suitable paradigm. First, we introduce the intentions of the proceeding dissertation in more detail, focusing on the ontology and epistemology, followed by a brief overview of the research methodology<sup>6</sup> and the expected contribution of the project. Finally, we close this chapter with an overview of the remainder of the dissertation and a few suggested ways to read this work for different purposes.

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<sup>6</sup>Each Part and most chapters contain their own methodology sections.

## 1.4 Ontology & Epistemology

As the dissertation contains both theory-building and theory-testing components, it will contain an abductive structure, taking both inductive and deductive standpoints at different moments. Part I, for instance, is written mainly from an inductive perspective, seeking to develop a suitable “archive” and “arsenal” of concepts for describing democratic theory and practice and connecting this with economic categories. Meanwhile, Part II contains both inductive and deductive approaches to these questions, being concerned primarily with the development of a suitable theoretical framework for analyzing cooperation. Therefore, its intention is to discover or infer conclusions from a shift in the assumptions in the model of a rational actor towards network theory, deontology and emergence, recognizing the *coercive* power and authority of the existing paradigm<sup>7</sup>. In Part III, we carry out two tasks: firstly, developing a research agenda for testing the theories developed throughout the dissertation and secondly, providing initial confirming or disconfirming evidence for the pursued theses. As such, the case study chapters center on deductive standpoints, juxtaposing our theoretical apparatus with that of some alternative points of view. Chapter 11 will again return to an abductive standpoint, mixing both deductive and inductive viewpoints, as well as bringing in some elements of ethics and history in an attempt to conclusively argue for the benefit of a cooperative approach to economy.

Moreover, we state at this juncture that we are convinced of the argument that *small-n* case studies can reveal considerable information relating to causal mechanisms and can improve knowledge in a broad range of contexts. Moreover, as [Levy, 2008, p. 10] states,

While random sampling is central to most statistical analysis, there is a consensus that random selection will often generate serious biases in small-N research, and that the analysis of a small number of cases requires the careful, theory-guided selection of nonrandom cases.

Thus, we have selected the cases for their theory-derivative relevance to revealing (critical) information related to the research questions.

Speaking epistemically, we intend to emphasize the social components of scientific discourse and so subscribe to the thesis proposed by Ludwik Fleck and Thomas Kuhn. Particularly, [Fleck, 1994] deals with the notion of “thought collectives” and therefore situates scientific facts within a particular standpoint. Particularly, following this, he suggests that it is not

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<sup>7</sup>Cf. [Fleck, 1994].

the “rightness” or “wrongness” of a particular theory that is of the essence for interpreting scientific facts, but the usefulness which particular theories have in accounting for certain phenomenon. More generally, for Fleck, scientific discovery occurs when “thought styles” are either updated or replaced. This correlates with what [Kuhn, 1962] has to say about “paradigms”. In particular, one of Fleck’s most provocative statements is that “[w]hen two thoughts are in disagreement, no amount of demagoguery is spared. And in almost all instances, a third thought succeeds: one derived from an exoteric disparate collective, but which has managed to merge with the two competing thoughts.”<sup>8</sup>

Thus, we hold a belief that science, especially social science, possesses a certain *historicity* and that this embedding renders the notion of science as “mere” description false. Thus, there is a collective element to science and the presently dominant thought style is in the process of viewing interchangeable, self-interested and pre-formed individuals or “agents”, whether “representative” or abstract, is being supplanted by a thought style embracing complexity and emergent phenomenon<sup>9</sup>. The present dissertation intends to place itself within the context of this evolutionary shift and openly embraces a Progressive, Deweyan vision for the role of science<sup>10</sup>. It is hoped that this lens will enable such a “third thought” (or “third window” in the language of [Ulanowicz, 2009]) to emerge between the maximalist position of, e.g., Marxian political economy and the present mainstream, in many ways developed to counter that thought style. [Ellerman, 2021b] In place of either of these two camps, we advocate for a view embracing a progressive sense of citizenship within the context of organizational stakeholderhood as a tool for achieving both social and environmental sustainability.

### 1.4.1 Relational Epistemology

Much of Western philosophy is based on paradigm that views the opposition of subject and object, or of subject and subject [Leydesdorff and Hoegl, 2020].

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<sup>8</sup>My own translation.

<sup>9</sup>In many ways, developments in the social sciences are enabling the present generation of behavioral scientists – whether economists, psychologists or biologists – to disqualify Thorstein Veblen’s 1898 claim that “economics is not an evolutionary science”. [Veblen, 1898]

<sup>10</sup>Dewey often spoke of the social role of what he called “philosophy”. For instance, [Dewey, 1954, p. 6] writes “The different theories which mark political philosophy do not grow up externally to the facts which they aim to interpret; they are amplifications of selected factors among those facts. . . . It is mere pretense, then, to suppose that we can stick by the *de facto*, and not raise at some points the question of *de jure*: the question of by what right, the question of legitimacy.”



Thus, Hegel discusses the opposition of “two self-reflecting consciousnesses”, who in their act of cognition render subjects into objects of contemplation, control and reflection [Hegel, 2017]. For Hegel and the Romantic movement he inspired – which included a range of thinkers as broad as Kierkegaard, Nietzsche, Marx and even Freud – this opposition was unresolvable, or led necessarily to contradictions like that of the Master-Slave dialectic, which were dealt with in differing ways by these authors [Bloch et al., 1959]. However, we wish to posit an alternative framework that begins from a standpoint of communicating groups, that places the social quality of knowledge in the foreground and later reflects on how individuals may perceive or interpret this or that message or signal.

Investing the notion of agency and communication in this way within the domain of epistemology is important, because it loosens the grip which semantic theories of knowledge have on our notions of science (and, by extension, of progress)<sup>11</sup>. This means, by adopting a dynamic, relational approach to knowledge, we free ourselves of many of the strictures that, for instance, went into the debates of the Logical Positivists<sup>12</sup>.

Thus, such a *relational epistemology* stresses the interrelated nature of meaning, relates meaning to context and connotation, and while not advocating for an extreme relativist vision of ethics and epistemology, does ascribe a great deal of validity to contextual notions of truth, and attempts to deal with the problem of truth and validity in a heterarchic and multipolar world, a world of *manifolds* and multiple dimensions of meaning and *syntax*.

We thus suggest an interdisciplinary program, similar in spirit to *classical political economy* or the *German Historical School*. These approaches, which continued to be practiced into the twentieth century, often on the European continent under titles like *socioeconomy* and in the United States as *Institutionalist economics*, were largely displaced by neoclassical economics, influenced by Marshall and Walras, after the Second World War. Therefore, our inspiration for carrying out this alternative genealogy can be found in [Polanyi, 1944]’s tracing out an alternative genealogy of political economy. While Polanyi’s attempt was to trace out the development of the *market system* by retracing an alternative path back to Adam Smith [Rogan, 2017b], our focus will be on retracing both political and economic practice and theory with the aim of discovering the role of cooperation in shaping notions like democracy.

The effort will involve integrating and “borrowing” from multiple disci-

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<sup>11</sup>[Noth, 2009], [Colapietro, 2007], [Peirce, 1892].

<sup>12</sup>We do not have to prove beyond a reasonable doubt that we “know” what a particular phenomenon is if we can collectively agree on parameters for deliberating. Cf. also [Habermas, 1990] or [Kant, 1983, Vol. IV, pp. 237ff].

plinary toolkits, including *behavioral science* (economics, political science, anthropology, sociology, psychology and human biology & geography), law, history and ethics, as well as aesthetics (design). Additionally, we investigate the potential for incorporating elements of ecology, complexity science and cybernetics. These approaches are integrated under the rubric of studying the history, evolution, realities and potentials for cooperation in human society.

Our conclusion is that there is indeed a need for a new epistemic and methodological synthesis. We introduce the basic elements below.

**Epistemic** Firstly, we recognize the vitality of what [Etzioni, 2010] refers to as *co-determination*, the fact that individuals are not just selfish utility-maximizers, but also have their personality determined by environmental factors and socialization, as well as having their behavior influenced by ethical and moral concerns, as well as context.

Secondly, we recognize the centrality of *relational* perspectives. Not contracts, but relationships guide human social behavior, as scores of scholars have confirmed in thousands of experiments. This facticity of the centrality of relationships over contracts renders the advent of *relational economics* a timely event.

Thirdly, we recognize the importance of the results of the developing paradigm of *ergodicity economics*. This paradigm finds that much of mainstream economics' micro-foundations are based on incorrect mathematics. Namely, the assumption of a symmetry between time and ensemble averages in expectations. The mainstream approach is based on the assumption that these two values are symmetrical and identical. The fact that they are not is a huge analytical blow to the mathematical foundations of economics and mean that more focus must be placed on the above perspectives. In other words, if individuals do not discount geometrically, then history and context matters and a search for new microeconomic foundations is necessary. [Kirstein, 2019]

**Methodological** We thus advocate for three methodological approaches primarily. Firstly, a (pan)rational actor model that embraces the above-outlined co-determination. This would include things like social and esteem preferences<sup>13</sup>, as well as *context-dependent* and *non-separable preferences*. A relational approach appears a promising approach to integrating these multiple logics.

Secondly, we advocate for network analysis, which, as opposed to the actor model, looks not at *nodes* (i.e., the actors), but rather at *edges* (i.e.,

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<sup>13</sup>On this, see my own [Warren, 2015].

the relationships). This approach facilitates a perspective focusing on aspects like communication, resource-dependencies or ecology.

Thirdly, we embrace the “causal revolution” spearheaded by people like Judea Pearl. This approach offers useful advances over and against the traditional associational statistics used by most mainstream economists. As Pearl argues, and as we learn more below, this form of reasoning is at a very primitive level (Pearl speaks of associational statistical reasoning as belonging on the “first rung of causality”). More advanced and sophisticated methods and approaches to unpacking causal relationships can help validate any theories or theory elements within a general theory of cooperation.

We return to and develop these approaches more throughout the proceeding discussions.

## 1.5 Expected Contributions and Implications

The expected contributions of this dissertation are, firstly, to provide a foundational attempt, whether successful or not, at a general theory of cooperation. This would serve as a milestone for future scholars interested in engaging in the necessarily multi-disciplinary discourse around cooperation and reciprocity.

Secondly, it seeks to outline a future research agenda for supplementing the foundations we seek to outline here. Toward this end, it seeks to provide a context of justification [Popper, 1984] for cooperation, by means of which new theories of the firm (political theory, Needs-based, public, democratic, etc.) can be evaluated and compared according to typologies. Moreover, it seeks to adapt up-to-date methods of causal inference (like matching) to questions of the cooperative economy and to cooperation generally. It seeks to contribute to understanding to what extent approaches like game theory are useful towards describing, analyzing and understanding cooperation and to restrict game theory & similar tools to appropriate contexts. We also wish to be able to contribute by the end of our journey towards the ability of seeing positive benefits (both social & environmental) to constraints on individual behavior.

An additional contribution this project hopes to offer is both in seeking to transcend the *New Institutional Economics* (NIE) paradigm in favor of *empirical microeconomics*, as well as showing how an ecology-based macroeconomics can be a useful component of a *general theory* of economy. In fact, if the present era of Covid-19 pandemic, ecological catastrophe and social crisis shows anything, it is that a purely equilibrium-based theory of economic behavior is severely limited in its ability to offer pragmatic policy recommenda-

tions to ameliorate the above-mentioned crises and their off-shoots. More so, a theory embracing *disequilibrium* dynamics in the spirit of modern cybernetics and Polanyian notions of “double movements” can hope to offer positive prescriptions. Thus, the present work hopes to contribute to discussions arising in a number of related interdisciplinary discussions, ranging from quality of work literature, to critical legal scholarship and psychological notions of control and ownership, notions of social entrepreneurship, issues of demographic shifts and shifts in the role of technology in facilitating labor-saving versus enabling surveillance (“technological ambivalence theory”<sup>14</sup>).

The present work hopes to contribute to current debates by adding evidence, theoretically and empirically, that competition is not the only motivators of economic behavior. As such, it hopes to contribute to a discussion of the extent and limits of economic behavior going back to the founding of political economy in William Petty, James Steuart and Adam Smith, which found its continuation in the German Historical School and in the writings of individuals like Karl Polanyi. Indeed, we hope to show that the goals of social and ecological sustainability can best be achieved by placing a central emphasis on the notion of *moral economy* and that such a concept naturally generates practices resembling the “social and solidarity economy”<sup>15</sup>. Moreover, we hope to add evidence that the most suitable frame for describing the social and solidarity economy is one embracing a *substantive* notion of economy.

We are furthermore convinced, with [Brown, 2010], that a shift away from an economy of property toward an economy of provision, which follows logically from such a substantive definition of economy, is the best means to ensure the survival of the species and the planet. Particularly, *The Cooperative Economy* hopes to contribute to the debate on the institutional prerequisites for such a *moral economy*, by opening up the black box of preference formation. It hopes lastly to show that cooperatively-owned enterprise can serve as a tool for shifting notions of ownership to more social models and also proposes cooperatives as mediators to a transition to a democratic, open society, accountable to its members and following long-term aims and not beholden to short-term financial gain.

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<sup>14</sup>See, e.g., [Vieta, 2019, Chapter 4].

<sup>15</sup>Cf. [Ridley-Duff and Bull, 2021]

## 1.6 Research Gap and Research Question Re-stated

As we have seen above, there is an eclectic literature on the topic of democratization which often ignores economic components of democratization<sup>16</sup>. At the same time, economic theory, driven overwhelmingly by a formalist Utilitarian framework for describing behavior, lacks the appropriate tools for dealing particularly with dynamic, complex and emergent issues of the ownership of enterprise and frequently uncritically reproduces unscientific or “pre-theoretical” heuristics with questionable empirical validity when dealing with issues of entrepreneurship, management or ownership<sup>17</sup>. Lastly, actually existing democratically and cooperatively managed and structured enterprise lacks a coherent program for analyzing the particularities of strategic and operational management, personnel development and related fields of activity in an explicitly *cooperative* environment, and is often forced to rely on an approach of applying and imitating theories and practices developed with principal-agent frameworks in mind.

The findings of the authors like Elinor Ostrom, Sam Bowles, Gregory Dow, Virginie Perotin, Gabriel Burdin, John Pencavel and others cited below in the literature review furthermore call into question the efficacy of theories with 1) no recourse to socio-psychological bases for norms, 2) no interest in communities’ ability to self-organize resources outside of market exchange successfully over long periods of time, 3) arbitrary and possibly even metaphysical arguments for empirical differences among types of enterprise and 4) poor arguments to account for empirical outcomes. At the same time, theoretical efforts in game theory by individuals like Harsanyi, Aumann and others have shown the clear limitations of game theory as a tool for

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<sup>16</sup>Generally, “democracy” is viewed as a political system, and not in a Progressive sense as a *process* towards achieving emancipation. See, e.g., [Acemoglu and Robinson, 2006] and for a criticism, [Ferreras, 2017]. Moreover, [Weber et al., 2020] discover in a large meta-analysis that the vast majority of research into economic democracy is conducted in traditional, non-democratic firms.

<sup>17</sup>e.g., Williamson’s “transaction cost economics”; see [Dow, 2021].

explaining actual social behavior.<sup>18</sup> These findings and others<sup>19</sup> underline the deep importance of including cultural values, norms and heuristics into economic theory and policy analysis and development.

All the while, most empirical or theoretical research into organizational participation and democracy largely ignores alternative structural (e.g., ownership) relations, such as exist in the cooperative sector, thus often contributing (indirectly) to the maintenance of the above “pre-theoretical” heuristics.<sup>20</sup> Thus, a research gap exists precisely in the disconnect between dominant microeconomic theories, especially the theory of the firm on the one hand and an increasingly incommensurable body of empirical and theoretical literature contradicting these dominant theories on the other, with currently dominant views on democracy and democratization, whether theoretical or empirical, largely unable to close the gap.<sup>21</sup>

Thus, this project intends to move beyond the current paradigm by contributing to the construction of an alternate set of theories that has been described by different names, which it also hopes to offer preliminary confirming or disconfirming evidence for. This paradigm or thought collective is represented, e.g. by Isabelle Ferreras’ 2017 book *Firms as Political Entities*. Here, [Ferreras, 2017, p. 95] suggests that any study of the numerous dimensions of really existing organizations, including firms,

must be informed by numerous existing works, which have yet

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<sup>18</sup>Particularly, [Aumann, 1974] has shown that coordinated equilibria (which exist “outside” of game theory) are generally better able to achieve higher welfare outcomes than the Nash equilibria most economic theorists work with. [Harsanyi, 1967], meanwhile, “has been perhaps the most eloquent proponent of [Mises’ frequency theory of probability and Popper’s notion of propensity]... which interpret probability as the long-run frequency of an event or its propensity to occur at a certain rate.” [Gintis, 2014, p. 149]. Harsanyi, moreover, “distinguishes between “subjective” and “ethical” preferences, but sees the ethical ones as rare”, [Etzioni, 2010, p. 38] an assumption which Gintis (supra) finds “applies only under a highly restricted set of circumstances”.

<sup>19</sup>For instance, the work of Samuel Bowles, Herbert Gintis and Joe Henrich on *gene-cultural evolution* and *multi-level selection* see, e.g., [Bowles and Gintis, 2013], [Bowles, 2016] or [Henrich et al., 2004].

<sup>20</sup>An exception exists on the part of some systems scientists and cyberneticians, but how is their research responded to by economists? An outdated survey (cf. [Cochrane and Graham, 1976]) of cross-influences revealed inconclusive results and, although a few attempts (e.g., [Hoffman, 2010]) have been made since the 2008 financial crisis to reintroduce cybernetic ideas into economic thinking, a cursory review of “economic cybernetics” on Google Trends reveals spikes of interest both after 2008 and at present during the Covid-19 pandemic, most interest is restricted to former Soviet countries like Ukraine and Russia, so it is not certain how general this renewed interest is. Interestingly, a study found that a feedback-loop method of teaching macroeconomics was more successful in facilitating an understanding of GDP than a method using static graphs. [Wheat Jr, 2007].

<sup>21</sup>Cf. [Krahe, 2019].

to be organized into the field of *the political theory of the firm*. The goal of the paragraphs that follow is merely to demonstrate that these sources exist, and to establish that founding such an interdisciplinary academic field is now possible. Many more works remain to be explored and integrated, drawn together, and developed by relevant specialists in order to foster scientific debate fertile enough to sustain the field. This cannot be an individual endeavor and will require the work and expertise of scholars grounded in a wide variety of disciplines.

It is hoped that this present dissertation offers an illuminating perspective on the growing debate around such a *political theory of the firm*, by responding to Ferreras' plea with an appeal not only to a *political* theory of the firm, but also a *cooperative* and *relational* theory of the firm, which is rooted, as we will discover below, in the tradition of the *moral economy*.

Thus, the primary research question guiding this research project is whether a sustainable theory of the firm can be erected on alternative foundations viz. “pre-theoretical” assumptions and *a priori*s of cooperation and discursive rationality? In particular, these include a foundation in the notion of a *moral economy* that looks at behavior as ethical and norm-based *in addition to* being influenced by cost-benefit calculation<sup>22</sup>, adopts the logic of *fictitious commodities* in the language of Karl Polanyi<sup>23</sup> and that places an emphasis on the creative intelligence of the human division of labor that demands a similar autonomy in the economic realm, loosely defined, as “citizenship” bestows in the political one<sup>24</sup>. It is particularly interested in questions of democratic (organizational, i.e., economic) governance, including its antecedents, scalability, limits and forms, as well as seeing governance dynamically as a *relation of relations*. [Wieland, 2018, p. 47]. Lastly, *The Cooperative Economy* is interested in the connection with a Progressive view of democracy as a process of emancipation, towards an *open society* as [Popper, 2020] envisioned and as outlined, e.g., by [Landemore, 2020].

It is therefore our argument in the present work for the adoption of a moral economy perspective stipulating on the part of individuals a search for balance between a norm-based and an act-based rationality perspective combined with tools like network theory. we would be in a better position to understand and analyze certain empirical facts in the contemporary economy,

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<sup>22</sup>So-called “co-determination”, cf. [Etzioni, 2010].

<sup>23</sup>See, e.g., [Polanyi, 1944].

<sup>24</sup>This last value going back to a deontological tradition accompanying, among others, the Enlightenment (e.g., [Kant, 1798]) and the Abolitionist movement (cf., e.g., [Ellerman, 2021b]).

as driven as it is by network effects, information and inertial forces<sup>25</sup>. These facts relate particularly to the apparently paradoxical fact that non-investor-owned enterprise (e.g., labor-managed firms and other cooperatives) often display more robust outcomes in terms of life expectancy of the firm and long-term strategic orientation while at the same time they account for a marginal share of total firms and firm entries in most economies.[Dow, 2018, Chapters 6 and 7] We will study the usefulness of the concept of *membership* (a conjugate of *citizenship*) for dealing with these issues.

As argued in the prior chapter, constructing new theories requires moving beyond the dominant “thought style” of the present and this can best be achieved by embracing an interdisciplinary lens. We therefore intend to organize the project in ways that standard economists will understand, using concepts such as microeconomics and macroeconomics, but the case studies and theoretical expositions developed within this project will reveal the limitations of the current paradigm and outline at which junctures reference to other “thought styles” are helpful or necessary. In particular, it should be clear that psychology is of central importance to analyzing economic behavior, particularly when moving to a *substantive* reading of economy[Polanyi, 1992].

## 1.7 Outline

The rest of this work is organized as follows: in Chapter 2, we engage in an expansive literature review that begins by first outlining the particular theory of science and epistemology we envision. This is followed by a critical overview of numerous strands of microeconomic literature, beginning with post-Walrasianism, public choice and then a number of historical and current theories of the firm, pointing out the shortcomings in approaches based on neoclassical models, like *New Institutional Economics*. Following this, we provide an overview of some main tenets of historical studies of the place and purpose of cooperation. Following this, we review the relevance of communications theory, archaeology and ergodicity economics for the study of cooperation. We finish the literature review by reviewing other calls for a new paradigm, settling on notions of moral and relational economy, where cooperation is interpreted as a logic, as the most promising.

Part I consists in three foundational chapters discussing the relationship between cooperation, democracy and economy.

Chapter 3 consists of a *genealogy of cooperation*. Beginning with a reflection

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<sup>25</sup>E.g., so-called “first-mover advantages”, as well as unfamiliarity with new firm types, where it has been shown that cooperatives generally have a more difficult time finding access to capital.



on the place and purpose of historical events in a theory of cooperation, we see the logic of cooperation best applied in the historical tradition of democracy. After a brief review of the archaeological record, we turn to the Greek genesis of the term, tracing out its political history and the connections between democracy and slavery, settling ultimately on the idea that the membership status of *citizenship* is the key to understanding the relationship. We then trace out further developments, both progressive and retrograde, of these concepts in cases like ancient Rome, the Medieval era and Renaissance, as well as the impact of Absolutism on political notions of participation. After a brief excursion to non-European sources of democracy, we recount the shifts that occurred during the Enlightenment and subsequent period, in particular the simultaneous rise of ideas like *human rights* and wage labor.

After brief discussions of the impact of industrialization and events of the 19th century on these dynamics, we move on to events of the 20th century, recounting events like Gandhi's struggles against the Caste system in India, movements towards extending universal rights into the economic domain after World War II, the legacy of the New Left movements of the 1960s and 70s and the end of Apartheid.

We close Chapter 3 with an attempt to crystallize the preceding discussion, using Otto von Guericke's contrast of *Herrschaft* vs. *Genossenschaft*, Castoriadis' contrast between *autonomy* and *heteronomy*, as well as Pearl's notion of *counterfactuals*.

Chapter 4 begins the process of refining the events and concepts reviewed in Chapter 3 into a coherent theoretical structure in the guise of a *moral economy*. We begin by tracing out the philosophical tradition from which the concept, coined by E.P. Thompson, derived. Starting again in ancient Greece, we review Aristotle's static social ontology, tracing out further developments in subsequent thinkers, including Kant. We discover the static ontology remaining intact, even in Kant's thinking, until Hegel's *Phänomenologie des Geistes*, with its Master-Slave dialectic reintroducing a dynamic social ontology with roots in Heraclitus, where relations of domination have higher-order *developmental* effects. We argue that this and related concepts strongly influenced Marx, in particular in his notion of cooperation.

After outlining Marx's social notion of cooperation, we review Schumpeter's dynamic view of socioeconomics, rooted in a combination of a static social and a dynamic economic sphere. We compare this view on socioeconomics with Polanyi's view on the matter, and conclude that they both grappled the problem from opposing ends and that a synthesis of their views is desirable. In order to locate such a synthesis, we review E.P. Thompson's notion of moral economy, as well as Amitai Etzioni's concept of *co-determination*. Following this, we review a number of authors who have contributed to the

discourse around moral economy subsequently. These findings and the review of ergodicity economics give us a suitable theory of *why* people cooperate. But as to the question of *how*, we still lack a suitable foundation for a synthesis of the views of Schumpeter and Polanyi.

We discover this in the guise of *relational economics*. We derive some basic analytical categories of the new and pioneering field of relational economics. We argue that its notions of polylingualism, polycontextuality and polycontexturality serve as a suitable framework for analyzing the moral economy and for achieving a synthesis between the world views of Schumpeter and Polanyi. We close the chapter with the question of what, then, a moral economy is.

Chapter 5 attempts to connect the discussions of the preceding two chapters with the domain of neoclassical economics, by first viewing democracy as a progressive ideal and then dissecting the failure of mainstream economics to integrate a relational logic. In particular, following David Ellerman, and in keeping with a relational view, we establish that the domain of property rights can never be considered separately from that of economic contracts. We again return to the discussion of the master-servant framework, by insisting that the traditional labor contract cannot be reconciled with a progressive notion of democracy. We underline this point by reflecting on critical contributions of Otto von Gierke on the public function of private law. After this, we attempt to derive outlines of a *general theory of cooperation*.

Part II also contains three chapters, which each focus on a different aspect of relational transactions. Chapter 6 focuses on basic issues of relational governance, first developing a relational view of labor, then introducing central categories to the development of preferences, including the notion of macroculture. In order to answer the question of how individual discount rates translate into collective discount rates, we next introduce elements of *constraint theory*, which we relate to Kantian deontology. Following this discussion, we compare these notions with Aumann's notion of *correlated equilibrium*. Next, we attempt to move away from such abstract reasoning and introduce concepts of causal inference, to which we return in later chapters. Next, we apply the basic reasoning developed in prior discussions to answering the question of *how* cooperation in the form of democratic choice comes about. We begin by describing necessary, followed by sufficient conditions for democracy. These we attempt to synthesize into three *democratic values*. In conjunction with these three values, we outline three indicators, by means of which processes of democratization can be evaluated.

In Chapter 7, we continue with our discussion of issues of relational governance, moving from democratic choice to discussing issues of hierarchy. Recalling the opposition of *autonomy* and *heteronomy*, we contrast *elective* with *coercive* hierarchies and make an appeal to view firms as anticipatory

systems, encompassing multiple logics. Following this appeal, we enlarge the relational view by suggesting a move away from a principal-agent paradigm to one of *shared* or *relational* agency. Following, we attempt an overview of so-called *democratic choice mechanisms*. Next, we review the potential contribution the first five Cooperative Principles can have towards such a shift to relational agency. We close the chapter with a discussion of the problems, pitfalls and potentials of multi-stakeholding.

Chapter 8 attempts to engage in an experimental and innovative discourse viewing the economy as a conglomeration of complex systems. As we come to the realization that a sustainable theory of the firm cannot be monolingually “inwardly” oriented, it attempts to extend the relational framework to the inter-firm level. It begins with a discussion contrasting the terms *market force* and *market transaction*. It then introduces the innovative domain of *process ecology*, before asking how the last two Cooperative Principles can be interpreted using the perspective of process ecology. Next, we attempt to introduce notions from communications science into this relational epistemology, deriving a notion of a *cooperative n-tuple helix*.

Part III contains three concluding chapters, which each attempt to point to a future research agenda that takes the preceding attempt to relationalize cooperation within a dynamic context of change and uncertainty as a starting point. Chapter 9 introduces a specific research methodology of causal inference and imagines how this methodology might be applied to topics related to the cooperative economy, applying the methodology to a context within an accounting course at Northeastern University. Chapter 10 then develops two research strands based on topics of relational governance. Firstly, it develops a research agenda based on contingent preference development and the notion of *cooperative education*. The second research strands seeks to operationalize relational governance models by looking at issues like dignified work in the low-skilled labor sector, social entrepreneurialism and entrepreneurial dependence in the platform economy, as well as conceiving of a particular application of notions of *shared agency* in the case of Basque employment legislation.

Finally, Chapter 11 develops a third research strand based on mission-oriented cooperative ecology, attempting to apply the lessons of process ecology and notions of multi-level governance developed throughout prior chapters. It begins with preliminary case studies, reviewing the notion of a cooperative ecosystem as presented in a past conference paper, before summarizing three contemporary case studies, firstly Italy’s ecosystem of community cooperatives, the UK ecosystem of “cooperative conversions”<sup>26</sup>

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<sup>26</sup>This refers to the conversion of traditional businesses to cooperatives and cooperative-like structures, like *employee-owned trusts*.

and lastly, an overview of Berlin's platform cooperative startup scene.

Chapter 12 offers a conclusion of the dissertation, containing its main findings and reflecting on a future research agenda for the cooperative economy.

### **1.7.1 Possible Readings**

As this work is quite extensive, different readers may be interested in reading different sections of the book. Those readers more concerned with the implications of this work for economic theory may wish to read Chapter 2, followed by Chapters 5 and 6 and Part II. Meanwhile, practitioners and entrepreneurs may want to focus on Chapters 4, Sections 5.1 and 5.4, Chapter 7 and then skip to Part III. Those readers interested in connecting cooperation with democracy and in understanding the connection between democratic practice and firm governance may restrict themselves to Chapters 3 and 7. Lastly, those readers interested in what a complexity-science based view on economic networks may resemble can focus on Chapters 8 and 11.

## Chapter 2

# Literature Review

As this is a fundamentally interdisciplinary project, it inevitably attempts to bring together a number of disparate, yet related, research programs. These different programs may be explicitly convergent, like the trend in economics towards anthropology and the converse trend of anthropologists studying economic behavior [Wilk and Cliggett, 2018]. On the other hand, some of these research programs may not be explicitly convergent, but contain many overlapping assumptions, concepts and/or conclusions, such as those of ecology and of the paradigm of circular economy. It will be the task of the proceeding work to make these and other connections explicitly and simultaneously contribute to existing interdisciplinary research programs, with the purpose of elaborating a new research paradigm based on environmental, behavioral and normative approaches to cooperation and providing some provisional or exploratory research to outline various aspects of this program.

Before continuing, however, it is important to first situate this project in relation to the afore-mentioned literature. The following discussion will attempt to draw out this synthesis, by outlining those programs and pointing out how the present work seeks to either synthesize or go beyond these and contribute to an advancement of scientific understanding and the strengthening of programmatic linkages that are happening at present. We begin with a basic outline of recent discussions in the theory and history of science. This is followed by a discussion of present discourse on rationality. These are important for several reasons, which we outline below. We return to the discussion of rationality again in Chapter 3.

## 2.1 Social Science versus Natural Science

Karl Popper expressed the opinion that “social science is further away from the ‘ideal situation’” inherent in the physical experiments on which the natural sciences. Thus, its “logic of discovery” is different and different rules apply, as well as different expectations as to what social science can and cannot account for.

Ludwik Fleck, a Polish microbiologist, epidemiologist and epistemologist, emphasized the fact that natural science was not in fact immune from such factors and in his book *Entstehung und Entwicklung einer wissenschaftlichen Tatsache* recounts the many social factors that went into the modern concept of syphilis.

One of the problems in contemporary social science, and which is particularly prevalent in economics, has been described as the “Samuelsonian vice”:

If... one uses sophisticated mathematical methods to analyze a complex adaptive system far from equilibrium under the prior assumption that it is an equilibrium system, the sophistication of the mathematics is not going to correct the fundamental conceptual error. Inherent in the application of mathematical methods to economics is the risk of what I will venture to call the Samuelsonian vice, which is my name for the temptation to change the formulation of the abstract problem to fit the mathematical tools available rather than to seek mathematical tools that are appropriate to the actual problem at hand.[Foley et al., 2010, p. 5], also cited in [Kirstein, 2019, p. 5]

This vice is present in much of economics, which has often followed the advice of Friedman’s call for prediction-oriented models that de-emphasize the need for realism (cf. [Friedman, 1953, pp. 115ff.]).

## 2.2 Science in and for an Open Society

An important starting point for any literature review is theory of science. As Max Planck once remarked, “science advances via the graves of dead scientists”. Thus, below, it is my intention to summarize some main points from theory of science as they pertain to the ability to study the place and role of cooperation from an economic point of view.

A number of issues must be raised at this point. Firstly, we discuss Kuhn’s notion of paradigm and Fleck’s concept of “thought style” and “thought

collective” with an emphasis on their relevance for the present project, and closing with a reflection on subsequent and contemporary developments in the literature on theory of science.

Next, the discussion regarding the role of interdisciplinarity in science will be elucidated with particular focus on Herbert Gintis’ appeal for a “unification of the behavioral sciences” [Gintis, 2014, Chapter 12]. We then move on to a synthetic discussion of the ability of Fleck and Kuhn’s concepts to frame Gintis’ appeal, using Habermas’ concept of discursive knowledge as a context

### 2.2.1 Pluralism

As part of the call for an economic science designed for an open society, we must recognize the fact that the world we inhabit is one of pluralistic visions, values and organizational types. To use an analogy from religious sociology: in the heady days of the 1960s, renowned Austrian sociologist of religion Peter L. Berger proclaimed an “age of secularism”, a view he was to recant in subsequent decades and in fact replace with the notion of “pluralism”. [Berger et al., 1999] In a similar fashion, the triumphalist claims of Fukuyama, that after the collapse of the Soviet Union an “end of history” in the form of liberal regimes and markets have been equally dampened by the subsequent course of world events. It would therefore appear to behoove the dignity of social science writ large, but of course including economics, to *actively* recognize that the world is increasingly shaped by pluralistic forces, where governments, firms, markets, grassroots and local self-organizing, among others, shape and are shaped by reciprocal interactions.

As to the question of what benefits a more pluralistic vision would offer, it can be argued that pluralism offers a number of interrelated benefits. Firstly, a full-throated embrace of economic pluralism by global actors would enable a fuller working of the principle of *multi-level selection*, a higher order version of what Darwin termed “natural selection”. By truly embracing pluralism, governments and communities around the world would open themselves up to experimenting with new methods of organizing social life and discover what works and what doesn’t. This would allow human societies to move beyond the current impasse, where an era of *market fundamentalism* has given way to a tenor of *generalized skepticism*, which its concomitant risks and dangers, e.g., polarization and “democratic deconsolidation” [Foa and Mounk, 2016].

Secondly, an embrace of pluralism would help push global institutions, states and communities closer to a convergence in terms of political and economic systems. Certainly, the dogmatic pursuit of single-minded goals like profit-maximization, international communism or other goals creates frictions between entities pursuing these goals and others pursuing different goals. A

more clear embrace internationally of pluralism would enable international institutions to converge more readily to models that function and are suitable to local needs, as well as being resilient to large-scale shocks. [Ammirato, 2018]

The question of course needs be raised when making such an appeal to pluralism, as to *which pluralism* one favors? This question is much akin to the debate within the Italian Left in the 1960s and 70s, as to *quale socialismo*, meaning “which socialism?” Indeed, as authors like Shaikh have argued, pluralism is often a term with vague connotations, and can be used for opportunistic efforts at what he calls “eclecticism.” Thus, whilst advocating for pluralism, we must ask ourselves whether there are limits to what a pluralistic vision can entertain, how such limits are to be determined and who is to be the authority in making these decisions? It is the author’s hope that this monograph will contribute to progress on these and related questions on the place and role, and nature, of pluralism in realizing sustainable and resilient institutions.

## 2.2.2 The Role of Interdisciplinarity

Although attempts at crafting a “general science” in the manner of classical “Natural philosophy” have become increasingly complex and diffuse [Chvykov and Hoel, 2021], certain advances have been made particularly in particular fields with broad overlaps. Thus, statistical mechanics has provided a basis for both quantum mechanics, chemistry and computer science (in the field of quantum computing) [Sethna, 2021]. Likewise, its findings have been applied to economic questions in the guise of econophysics<sup>1</sup>. Though these latter applications are at a questionable level of generality, the application of statistical mechanics to natural science problems has tended to be fruitful.

Coming from a social science perspective, similar synthetic attempts have been made to construct interdisciplinary foundations for a wide range of disciplines. One such attempt seeks to construct a general framework on the basis of an augmented version of the rational actor model. Thus, Herbert Gintis speaks of the advent of the *behavioral sciences*, which he extends to fields including psychology, anthropology, economics, political science and biology [Gintis, 2014]. Other authors, such as the biologist Alex Kacelnik suggest that the models of rationality used in each of these discipline may feature formidable challenges to such a synthesis. [Kacelnik, 2006].

These two positions may be less contradictory than they first appear. Returning to Popper’s Tübingen lecture, Popper confesses that the extent

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<sup>1</sup>Cf. [Aoyama et al., 2010], [Chatterjee and Chakrabarti, 2007] and [Cockshott et al., 2009].



of knowledge has reduced the ability for experts to dictate the terms of the debate and assure others of their authority. In fact, Popper claims that

Our *objective speculative knowledge* continually extends beyond that which a single individual can master. Therefore, there are no more *authorities*. This observation also extends to sub-disciplines or particular research programs (*Spezialfächer*). [Popper, 1982, Section VIII]

This of course sounds eerily similar to Michel Foucault's notion of the *Archaeology of Knowledge* [?]. Ultimately, though, it spells a path for the potential synthesis of the two – apparently contradictory – positions alluded to above. If we simultaneously assume that the contours of social science research grow more sophisticated and elaborate over time, *quo* Popper, and that different disciplines approach questions with often contradictory positions, *quo* Kacelnik and Gintis, then we see here a justification for an increasing need for dialogue across disciplinary boundaries. Moreover, we see the need for clearer paths for engaging in this dialogue, which, as Popper suggests, can best be reached by staking out towards shared epistemic foundations. In his opinion, these should be based in the classical tradition of *skepticism*, beginning with Xenophon and continuing through Erasmus, Locke, Voltaire and Lessing, which emphasizes its *ignorance* regarding general principles and its *patience* towards differing points of view. [Popper, 1974, pp. 101ff.]

Thus, with the aid of this dual need for interdisciplinarity *and* skepticism, we next discuss Fleck and Kuhn's contribution to the theory of science, which can be seen as applications of Popper's appeal for *patience* and *skepticism*.

### 2.2.3 Discursive Knowledge

Karl Popper mentions in his talk at Tübingen in memory of the Jewish historian Leopold Lucas the need to move away from “authoritative knowledge” to “patient and responsible” knowledge, a type of knowledge more insecure than the classical epistemological notion of knowledge. This is, in fact, an appeal to *discursive* knowledge, a concept subsequently influenced by Jürgen Habermas and Niklas Luhmann.

In Chapter 1, we briefly introduced the notion of discursive knowledge in the context of bureaucratization. Here, we develop those ideas further. In fact, the idea of *discursive knowledge* does not merely refer to people speaking together and choosing. Rather, it refers to a focus on the interactions between communicative acts, speakers and the codes that translate those acts among speakers. Such a focus helps to isolate the *recursive* and *incursive* interactions

(“*double contingencies*”) between the different hierarchies involved in discursive knowledge, both historical communicative events (e.g., a particular discourse or policy), *trajectories* of such events and then higher-order disciplinary “interobjective” codes as “rationalized systems of expectations” or “regimes”. [Leydesdorff, 2021, p. 16] These hierarchical relations are depicted in Figure 2.1, where regimes (blue) incur on trajectories (red), which again incur on events (black). These three levels exist in a dialectical and evolutionary relationship.

Therefore, the notion of *discursive knowledge* can be employed to analyze the interactions between independent codification systems (e.g., disciplinary paradigms) in order to establish overlaps or gaps of specialization. By relationalizing (a term we introduce below), one can then increase the amount of options available to the system as a whole. This recursive evolutionary process is depicted in graph b) in Figure 2.2.

Thus, the notion of *discursive knowledge* can be applied to notions like *money*, which

can be considered as such a

communication-facilitating code. It enables us to accelerate economic transactions: one can pay the price of a commodity instead of having to bargain on the market. Credit further speeds up monetary transactions; credit cards enable us to shop worldwide. These codes of communication operate within *and* on top of the communications from which they emerge endogenously. The codes are part of the communication, but their logic of control is different from that of the historical developments in the communications. While the communication develops historically along *trajectories*,

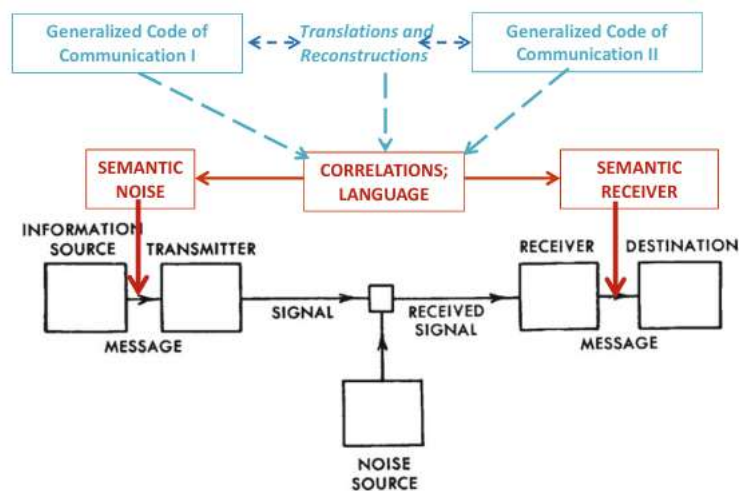
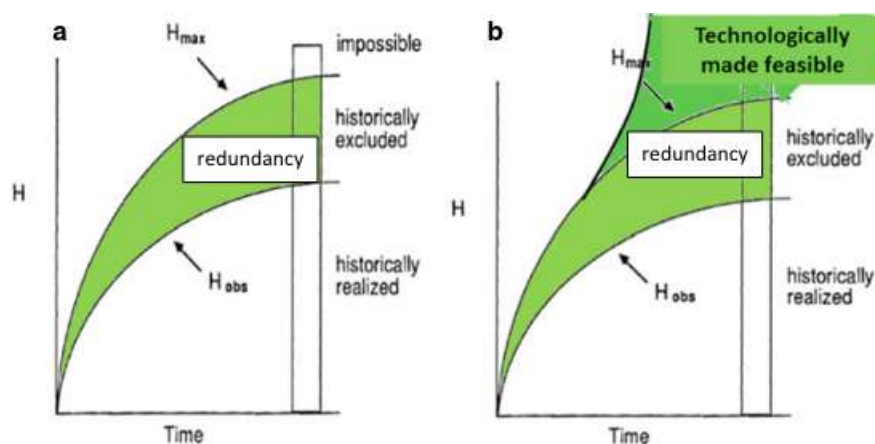


Figure 2.1: An image showing the original Shannon notion of information (in black), with the addition of higher order communication codes and the highest-order systems of rationalized expectations. Taken from [Leydesdorff, 2021, p. 73].

the emerging codes operate as feedbacks from the next level of a *regime*. The regime exerts selection pressure on the trajectories.

[Leydesdorff, 2021, Chapter 4] has together with colleagues developed a *calculus of redundancy*, a recent breakthrough that provides a basis for not only conceptualizing, but physically measuring such redundancies. This research is still at an early stage, but we point out in Chapter 8 some possible uses for such a calculus.



### 2.2.4 Paradigms and Thought Collectives

Mainstream economics in its neoclassical outcropping is today concerned mainly with prices and contracts<sup>2</sup>. As outlined in the preceding chapter and the discussion above, we view this as unnecessarily delimiting. We have called for a pluralistic approach to economic issues. In particular, we have advocated against what Shaikh calls “eclecticism”, “to use whatever best serves some particular interest.”<sup>3</sup>

The question we ask here is to what extent the language of *paradigms* and *thought collectives* can help us move beyond this situation.

The notion of *paradigm* is far more popular than that of thought collective. A search on Google Trends confirms this. However, the former notion, advanced famously by [Kuhn, 1962], was heavily influenced by the latter, which was developed by Polish microbiologist and epistemologist Ludwik Fleck in his 1934 *Ursprung und Entstehung einer wissenschaftlichen Tatsache*.

<sup>2</sup>Cf. [Hill and Myatt, 2010, pp. 118ff], [Shaikh, 2016, pp. 160ff].

<sup>3</sup>From the text of a talk Shaikh gave at ICAPE Conference, January 4, 2018.

Figure 2.2: A model adapted from [Brooks and Wiley, 1986], showing the development of entropy (redundancy) interpreted as “historically excluded”, but possible technology options and b) an evolutionary adaptation of a) with the incursion of new technology options via the evolutionary dynamics of intentional systems (i.e., new codes increase the “historically excluded, but possible” options, from [Leydesdorff, 2021, p. 76].

We argue that the latter's categories are of more utility to the present endeavor than are Kuhn's, though they overlap in certain regards. Both Kuhn and Fleck emphasized the socio-historical aspects of scientific discovery and, particularly, de-emphasize science as a purely "rational" endeavor, devoid of intrigue, interest, emulation and groupthink [Möbner, 2011].

Of particular use in Fleck's arsenal of terminology are his categories of esoteric / exoteric and of *Zeitschriftenwissenschaft* vs. *Handbuchwissenschaft*<sup>4</sup>. We briefly introduce these useful categories of Fleck and then associate them with our present purpose.

Fleck describes *Zeitschriftenwissenschaft* as that activity which people most stereotypically associate with "science":

Den schöpferischen Fachmann, wie er als Personifikation der Schnittpunkte verschiedener Denkkollektive und verschiedener Entwicklungslinien der Gedanken und als persönliches Zentrum frischer Gedanken erscheint, [. . . verfasst Berichte, die. . .] zunächst die Form [haben], die man *Zeitschriftwissenschaft* nennen kann. [Fleck, 1994, p. 156]

By *Zeitschriftwissenschaft*, Fleck means scientific discovery which

trägt [. . .] das Gepräge des Vorläufigen und Persönlichen. Das erste Merkmal zeigt sich zunächst darin, daß trotz der ausgesprochenen Begrenztheit der bearbeiteten Probleme, doch immer ein Streben betont wird, an die ganze Problematik des betreffenden Gebietes anzuknüpfen. Jede Zeitschriftarbeit enthält in der Einleitung oder in den Schlußfolgerungen eine solche Anknüpfung an die Handbuchwissenschaft als Beweis, daß sie ins Handbuch strebt und ihre gegenwärtige Position für vorläufig hält.

On the other hand, *Handbuchwissenschaft* consists of the "systematizing" tendency: "Im Gegensatz zur populären Wissenschaft, die auf Anschaulichkeit zielt, verlangt die Fachwissenschaft in ihrer Handbuchform *eine kritische Zusammenfassung in ein geordnetes System*." [Fleck, 1994, p. 156, own emphasis] In particular, Fleck argues that *Handbuchwissenschaft* evolves from *Zeitschriftenwissenschaft*:

Aus der vorläufigen, unsicheren und persönlich gefärbten, nicht additiven Zeitschriftwissenschaft, die mühsam ausgearbeitete, lose

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<sup>4</sup>Fleck also speaks of *Lehrbuchwissenschaft*, which he associated with the "pedagogical methods" of science. [Fleck, 1994, p. 148], but does not spend much time on this issue. It would furthermore appear that *Lehrbuchwissenschaft* is, generally, analogous to *Handbuchwissenschaft*.

Avisos eines Denkwiderstandes zur Darstellung bringt, wird in der intrakollektiven Gedankenwanderung zunächst die Handbuchwissenschaft. Das Streben zur Gemeinschaft, als Ausdruck des Übergewichtes der Masse des naturwissenschaftlichen Denkkollektivs über dessen Elite, befindet sich, wie angedeutet, in jeder Arbeit des Forschers. [Fleck, 1994, pp. 157-8]

However, as Fleck argues, the transformation from the personal to the systemic “ensteht also nicht einfach durch Summation oder Aneinanderreihung einzelner Zeitschriftenarbeiten.” Such linear summation or aggregation is impossible, Fleck argues, as much of *Zeitschriftenwissenschaft* stands in contradiction and “auch kein geschlossenes System ergäbe”. Instead, “[entsteht e]in Handbuch [...] aus den einzelnen Arbeiten *wie ein Mosaik aus vielen farbigen Steinchen*: durch Auswahl und geordnete Zusammenstellung.” [Fleck, 1994, p. 158, emphasis added] The image of the mosaic is important, as it begs us to return to the issue of *eclecticism*, introduced by Shaikh. We argue that the metaphor of the mosaic is not in contradiction with the argument against eclecticism, as the latter argument is one against the juxtaposition of *contradictory* methodologies and assumptions, not against systematizing science more generally.

In fact, Fleck appears to argue against “mere” eclecticism, suggesting

Der Plan, dem gemäß die Auswahl und Zusammenstellung geschieht, bildet dann die Richtungslinien späterer Forschung: er entscheidet, was als Grundbegriff zu gelten habe, welche Methoden lobenswert heißen, welche Richtungen vielversprechend erscheinen, welchen Forschern ein Rang zukomme und welche einfach der Vergessenheit anheimfallen. (*Id.*)

Fleck closes his discussion on the emergence of *Handbuchwissenschaft* by underlining the *transformative* effect the process has, both on science *and* on the individual scientist:

De[r] Umwandlungsprozeß der persönlichen und vorläufigen Zeitschriftenwissenschaft in kollektive, allgemeingültige Handbuchwissenschaft [...] erscheint zunächst als Bedeutungsänderung der Begriffe und als Änderung der Problemstellung und sodann *als Sammlung kollektiver Erfahrung*, d. h. Entstehen besonderer Bereitschaft für gerichtetes Wahrnehmen und spezifisches Verarbeiten des Wahrgenommenen. (*Id.*, pp. 158-9)

Fleck attributes to both *Zeitschriftenwissenschaft* and *Handbuchwissenschaft* the *esoteric* qualities of thought collectives (special knowledge that requires

initiation, time and effort)), but argues that the emergence of the latter is often impacted by “exoteric, external collective thinking”. This reminds of the call from Popper for “patient and tolerant” science. We return to this point again throughout the present work.

We argue that, while there are indeed many path-breaking and cutting-edge research projects occurring in the behavioral and human sciences that advance the front of knowledge on issues of human sociality, cooperation, ethical and moral behavior and what we later refer to as *co-determination*, this research has, for the most part, not found its way into the *paradigmatic* world of *Handbuchwissen*. We further argue that there is a decided disconnect between existing (mainstream) *Handbuch- cum Lehrbuchwissen* on the one hand, and this advanced research on the other. In particular, as we argue in Chapter 1, the lack of “systematizing” (i.e., the creation of structured research programs) on these fronts leads often to borrowing methods and epistemic constructs from existing *Handbuchwissen*, which leads to incoherent outcomes.

It is our hope, therefore, that the present work will contribute to the effort to craft the epistemic and methodological foundations of a more suitable *Handbuchwissenschaft* for studying cooperation.

### 2.2.5 Normative vs. Positive Science

In this section, the notion of “normative” versus “positive” science is discussed. This discussion prefaces the later introduction of the moral economy in Chapter 4. To what extent does one need to go beyond positive science? This question can perhaps best be answered by reference to the Austrian legal scholar Jellinek’s notion of the “normative power of the status quo”, discussed below, but also with reference to the *Methodenstreit*, which we cover elsewhere and which is dealt with exhaustively in [Mommsen and Osterhammel, 2013].

A number of authors have critiqued the supposedly “value-neutral” quality of economics research. These authors fall into a number of distinct groups. Firstly come those, like Samuel Bowles, Herbert Gintis and others that argue that the foundational reasoning behind “positivity”, seeking its basis in Coase’s “Fundamental Welfare Theorem”, rest on false premises<sup>5</sup>. This group frequently refers to itself as *post-Walrasian*, in reference to Swiss neoclassical founding father Leon Walras (1857-1934)[Bowles et al., 1993], [Kroszner and Putterman, 2009]. Another group, represented by David Ellerman, comes at the problem from a fundamental moral or legal perspective, claiming, for instance, that modern labor contracts are inherently unjustifiable,

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<sup>5</sup>Cf. [Bowles et al., 2012].

as assets like labor (creative ordering activities) are inalienable. This school is occasionally referred to as *Neo-Abolitionist*. Lastly, there is a tradition, represented in economics by Wesley Clair Mitchell and Thorstein Veblen, and in sociology by Zelizer, that critiques the utilitarian foundation of much of social science research as implicitly normative. We cover these different strands below in 2.3.

### 2.2.6 Jellinek: The Normative Power of the Status Quo

An interdisciplinary and discursive approach to science must also be aware of the interactions between the logics of science, of politics and of law. Moreover, the approach raises questions ranging from the famed “problem of induction” [Popper, 1984, p. 4] to issues relating from the so-called “Hawthorne effect” [McCarney et al., 2007] all the way to “confirmation bias” [Jones and Sugden, 2001]. Austrian legal scholar Georg Jellinek considered questions of the application of the law in a society, suggesting that the application of law entails more than merely constraining individual behavior or serving as a guide. Since Savigny, German legal jurisprudence has looked at several simultaneous logics of jurisprudence: the formal legal, the ethical and the social or sociological. [Soeffner and Hitzler, 1994]

Thus, according to Jellinek, the question of the applicability of law derives on the one hand from its application and, at the same time, on its effectiveness, in the language of Weber. In terms of transformational processes, the question must therefore be raised, how to connect these two questions: if a law is not observed, on the one hand, and if a norm is not codified but practiced by a large majority, what is the process by which it may be codified? In the first case, the normative power of the status quo means that the norm which the law has codified has lost its power and a new status quo has usurped it. In the second case, the relation is the reverse, and it behooves social stability to codify the new norm. In each case, there is a dialectical relation between norms, laws and social practices. [Anter, 2020]

Habermas wrote a commentary on the normative power of technocracy to insinuate relations of domination via a (normative) regime of “instrumental rationality”. In the essay, Habermas observes that “Jene Rationalität erstreckt sich überdies nur auf Relationen möglicher technischer Verfügung und verlangt deshalb einen Typ des Handelns, der Herrschaft, sei es über Natur oder Gesellschaft, impliziert. *Zweckrationales Handeln ist seiner Struktur nach die Ausübung von Kontrolle.*” [Habermas, 1968, p. 49, own emphasis] Habermas concludes,

deshalb ist die 'Rationalisierung' von Lebensverhältnissen nach Maßgabe dieser Rationalität gleichbedeutend mit der Institutionalisierung einer Herrschaft, die als politische unkenntlich wird: die technische Vernunft eines gesellschaftlichen Systems zweckrationalen Handelns gibt ihren politischen Inhalt nicht preis. (Id.)

This is a similar observation to that made by Jacques Ellul in his *Technological Society*, Herbert Marcuse in his *One-Dimensional Man* and Martin Buber made in his *Eclipse of Man*. Marcuse had previously remarked that

Der Begriff der technischen Vernunft ist vielleicht selbst Ideologie. Nicht erst ihre Verwendung, sondern schon die Technik ist Herrschaft (über die Natur und den Menschen), methodische, wissenschaftliche, berechnete und berechnende Herrschaft. Bestimmte Zwecke und Interessen der Herrschaft sind nicht erst ‚nachträglich‘ und von außen der Technik oktroyiert - sie gehen schon in die Konstruktion des technischen Apparats selbst ein; die Technik ist jeweils ein geschichtlich-gesellschaftliches Projekt; in ihr ist projektiert, was eine Gesellschaft und die sie beherrschenden Interessen mit den Menschen und mit den Dingen zu machen gedenken. Ein solcher Zweck der Herrschaft ist ‚material‘ und gehört insofern zur Form selbst der technischen Vernunft.[Marcuse et al., 1965, p. 127], cited in [Habermas, 1968]

Adorno critiqued this Weberian perspective, stating, “Herrschaft ist nur noch bedingt durch die Fähigkeit und das Interesse, den Apparat als ganzes zu erhalten und zu erweitern.” [Horkheimer and Adorno, 1957, p. 415], cited in [Habermas, 1968, p. 50]

Thus, it is important not to illegitimately give preference to certain relations *merely for the fact that they exist*. We return later to events like the abolition of the Atlantic slave trade and must remind ourselves that the process of emancipating human and natural potentials has not been maxed out: there is still an arrow of history and there are emancipatory projects that have yet to be borne out. [Gibson-Graham, 2006] This dissertation hopes to expedite certain of those, in particular with regards to relationalizing the economy and creating a better basis for shared value-creation. In order to achieve this relationalizing, it is necessary to comprehend the hierarchical organization of knowledge, including via such systems as “instrumental rationality”, “bureaucratization”, etc.



## 2.3 Post-Walrasian Political Economy

In [Bowles et al., 1993, Chapter 1], Samuel Bowles and Herbert Gintis give a condensed overview of significant shifts occurring in microeconomic theory, particularly the theory of the firm, labor economics and the theory of capital allocation. The authors suggest there is a “revolution currently underway in microeconomic theory constituted by the abandonment of the simple world of Walrasian general equilibrium<sup>6</sup> in favor of a richer world of imperfect information, incomplete markets, unenforceable contracts, costly transactions, and strategic interaction. In this new world people do not always do what they are supposed to do, nor do they always know all that they would like to know.” [Bowles et al., 1993, p. 1] They moreover argue that abandoning precepts of the Walrasian model like exogenously determined preferences (“fully formed agents”) or exogenously enforced contracts “allows us to add an essential missing term” to economists’ debates: “namely, democracy”. (*Id.*)

The authors argue that, in this respect, three main weaknesses characterize the model. Firstly, “the Walrasian model... is increasingly recognized as an impoverished approach to questions of liberty and democratic accountability” [Bowles et al., 1993, p. 2] and claim that “the most influential advocates of economic democracy, from J.S. Mill to C.B. MacPherson and Robert Dahl, have seen democracy not only as a decision-making process but as a type of society fostering particular paths of human development.” In this vein, they cite Mill, who wrote that the highest goal “any form of government can possess is to promote the virtue and intelligence of the people themselves... [and that t]he first question in respect to any political institutions is how far they tend to foster in the members of the community the various desirable qualities, moral and intellectual.” (*Id.*)

The authors claim that Walrasian assumptions preclude investigations such as Mill’s and propose that “[a] viable theory of democratic governance must encompass, or at least not exclude, questions surrounding the process of human development.” The second major weakness in this vein, referring to issues of “legitimacy” and compliance (“obedience to laws”), equally loom large for Bowles and Gintis. “Indeed,” they suggest, “it seemed obvious to nineteenth- and early twentieth-century democratic thinkers that adherence to law in a society of autonomous citizens was problematic and that democratic participation in the making of laws might enhance voluntary compliance and reduce enforcement costs.” (*Id.*, *ff.*) Citing de Tocqueville<sup>7</sup>,

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<sup>6</sup>Cf. [Walras, 2013, pp. 175ff.].

<sup>7</sup>Cf. [Tocqueville, 2003].

who claimed “[i]n a country with universal suffrage the moral strength of the government is greatly increased”, the authors argue that “the Walrasian paradigm provides no tools for the analysis of enforcement when compliance is contingent.” [Bowles et al., 1993, p. 3]

This flaw, Bowles and Gintis argue, even applies to classical treatments of worker cooperatives and democratic firms:

Indeed, even the standard theoretical treatments of the democratic firm are flawed in this respect, taking no account of the possibly superior ability of a democratic system of firm governance to foster voluntary compliance and to reduce enforcement costs in the face of such common problems as free-riding. *The underlying issue here is one of agency* what contribution can democracy make to the solution of problems that arise in social interactions in the presence of incentive incompatibilities that generate market failures or their analogues in the realm of governance? (Id., own emphasis)

The third major concern in applying Walrasian models to democratic theory concerns “the stability and evolutionary viability of systems of democratic governance in a competitive environment [Bowles et al., 1993, p. 3]” Write the authors, “It has long been recognized that democratic organizations or states might be superior in a number of respects, but yet be unable to survive in military or economic competition with a despotic organizations” (*Id.*), an issue they again quote Tocqueville as understanding, and on which they argue “the Walrasian paradigm is silent, for adequate treatment requires the analysis of multiple equilibria, the resulting path dependency of social outcomes and the evolutionary consequences of strong environmental effects.”

These concerns immediately serve as flaws in what Bowles and Gintis call the *neoclassical economic theory of democracy* (*Id.*, p. 3), whose implications are “systematically unraveled” (*Id.*, p. 5) by post-Walrasian thinkers like Amartya Sen and others. The theory’s weakness lies in precisely its tendency to “[abstract] from issues of human development, agency and evolutionary dynamics – shortcomings endemic to the Walrasian model – that has sharply limited the major contributions in this area.” (*Id.*, p. 3ff.) Thus, the post-Walrasian paradigm seeks to move beyond the “*apolitical conception of the economy*, where those following Walras – akin to Marx’s notion of *commodity fetishism* – held “the notion that human relationships in economics might be represented *as if they were relationships between inputs and outputs.*” (*Id.*, p. 6, own emphasis).

Contributing to this shift to post-Walrasianism is an eclectic mix of thinkers ranging from James Buchanan across Elinor Ostrom to Oskar Lange.

each of whom relaxed, rejected, added or skeptically called into question assumptions based on one or more of the following theses: viewing markets as disciplining as well as allocative mechanisms; viewing endogenous institutions and enforcement capacities as determinative of institutional evolution; understanding that *enforcement rents* persist in competitive equilibrium (many post-Walrasians in fact call into question the existence of equilibria, or posit a situation of multiple equilibria with no clear dominant strategy); viewing exchange as a strategic, non-anonymous interaction (often emphasizing the centrality of stable, long-term relationships); as well as, importantly, viewing exchange (and other forms of interaction like reciprocity and redistribution) as *constitutive* of economic agents.

Much of this shift results, for Bowles and Gintis, in an evolution from Marshallian “economics” to a more traditional notion of “political economy”, as expounded in Smith, Ricardo and Marx. Again, endogenizing preferences and contract enforcement sees exchanges as constitutive, emphasizing psychological aspects like social learning. As the authors argue, “Agents are not “endowed” with preferences that they then take to the market. Rather, the transactions are constitutive of economic agents: *agents make exchanges, but exchanges also make agents*. As a result, exchanges have an evolutionary component, involving learning on the part of both agents. In this sense, they are path-dependent. (*Id.*, p. 8, *own emphasis*). We return to this issue again when discussing ergodicity.

Many questions remain open for post-Walrasian economics and political economy, including “how” and “when” market should be regulated, “the concern for participatory institutions” and “the pressure to extend these from political to economic institutions”, “the design of credit institutions”, etc. (8) In order to advance along these various and multifarious research strands, the authors suggest separating “post-Walrasian economics” into three distinct categories, based on the degree to which each of these challenge fundamental Walrasian assumptions. These are depicted in Figure 2.3. The first tradition, which abandons the endogenous enforcement assumption but maintains the exogeneity of preferences is referred to as *instrumental contested exchange*,

as the activities of the agents are explained as instruments towards pre-formed objectives. Yet the exchange is “contested” in the sense that the contract is not third-party-enforceable at zero cost to the parties to the exchange. Efficiency wage theory (Solow, 1980; Akerlof and Yellen, 1986) and principal-agent analysis (Ross, 1973; Shavell, 1979), as well as transactions cost analysis (Williamson, 1985) are generally of this type. (*Id.*, p. 9)

The second research strand abandons the exogeneity of preferences assumption,

but maintains the external enforcement assumption. This tradition is referred to as *constitutive contractual exchange*:

Here the exchange process constitutes the parties to the exchange, but the claims arising from the exchange need not be endogenously enforced. (Id.)

Amartya Sen is considered an example of this tradition. Lastly, those who drop both assumptions are referred to as belonging to the tradition of *constitutive contested exchange*.

To conclude their discussion, the authors suggest that “however [constitutive behaviors] are conceptualized, the stress on the explanatory power of such behaviors for economic theory (notably in Akerlof, 1984; Jones, 1984) may well be the beginning of a series of successful incursions of sociological issues into microeconomic theory.” Moreover,

it appears likely to foster some fundamental rethinking about the structure of economic theory itself and its relationship to empirical studies and to neighboring disciplines. The new approach endows economic theory with a degree of open-endedness and path-dependency more characteristic of biology and geology than of physics, to which economists of the Walrasian persuasion have turned for a model of their intellectual pursuits. . . . The interdisciplinary focus of the research of some of the leading contributors to post-Walrasian economics is suggestive in this respect. No less important, the post-Walrasian paradigm is likely to expand the disciplinary boundaries of economics to include, as in the nineteenth-century, the selective study of law, history, sociology, psychology, and politics.[Bowles et al., 1993, p. 9]

		<i>Enforcement of Claims</i>	
		Exogenous	Endogenous
<i>Constitution of Agents</i>	Exogenous	Walrasian Exchange	Instrumental Contested Exchange
	Endogenous	Constitutive-Contractual Exchange	Constitutive-Contested Exchange

Figure 2.3: Walrasian and three types of post-Walrasian theories, from [Bowles et al., 1993, p. 9].

Certainly, a shift towards more interdisciplinarity would be welcome over and against the “style” castigated by Abba Lerner, who claimed “An economic transaction is a solved political problem. Economics has gained the title

of queen of the social sciences by choosing solved political problems as its domain.” ([Lerner, 1972, p. 259], cited in [Bowles et al., 1993, p. 6])

### 2.3.1 Williamson’s *Transaction Cost Economics*

Williamson developed his notion of “transaction cost economics” (TCE), based largely on the work of Ronald Coase, in two influential works, beginning with [Williamson, 1975] and continuing with [Williamson, 2007][1985]. These works model the role of firms versus markets based on certain assumptions of efficiency gains. Moreover, Williamson’s views are inspired by notions of externalities, as well as of opportunism. We recount [Dow, 2018]’s summary of Williamson’s position, before summarizing Dow’s criticisms of Williamson’s model.

Introducing Williamson’s conceptual framework, [Dow, 2018, p. 234] suggests that Williamson “starts with two postulates about human nature. First, that humans are boundedly rational in the sense of having limited abilities to process information and foresee future events<sup>8</sup>.” Dow argues that this assumption serves the purpose of “justify[ing] the idea that contracts are usually incomplete.”<sup>9</sup> “Accordingly, agents need a governance structure to determine how gaps in contracts will be filled as events unfold. Firms accomplish this through authority relationships.” (*Id.*)

Secondly, argues Williamson, “humans are prone to opportunism.” Claims Dow, “[i]n Williamson’s usage, this goes beyond ordinary self-interest to include guile or deception.” Opportunism becomes more critical in small groups or populations (small  $n$ ). As Dow states,

When a party to a transaction has ready access to many alternative partners who are good substitutes for one another, as in competitive markets, opportunism is usually of little concern. The scope for opportunism expands as the number of available partners shrinks, and may be large under bilateral monopoly. It is a special hazard when small numbers are combined with “impacted

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<sup>8</sup>Williamson was employed at the same University as Herbert Simon and so had ample opportunity to be influenced by the latter’s path-breaking analysis. For more reflections on the influence of Simon on Williamson, cf. [Biggiero, 2022, p. 50ff.]

<sup>9</sup>Nevertheless, Dow claims that “Bounded rationality is not the only possible rationale for incomplete contracts. Others include high costs of negotiating complicated legal agreements and high costs of reliable third party enforcement . . . In any case, contracts do not spell out what every agent must do in every potential state of the world. Accordingly, agents need a governance structure to determine how gaps in contracts will be filled as events unfold. Firms accomplish this through authority relationships.” [Dow, 2018, p. 234].

information,” where at least one transacting party has important private knowledge. (*Id.*)

Moreover, small  $n$  transactions, according to Williamson, are typically associated with asset specificity, meaning that

[o]nce mutually specialized assets exist, the owners of the assets must bargain over a pool of quasi-rent (the difference between total revenue when the assets are used together and total revenue when they are used separately). The bargaining problem tends to be more challenging when agents have private information.

Dow describes *transactions*, *governance structures* and *transaction costs* as the central concepts in TCE, whose main idea is summarized by the statement “transactions are assigned to and organized within governance structures in a discriminating (transaction-cost economizing) way” ([Williamson, 1981, p. 1564], cited in [Dow, 2018, p. 235]). Following Dow, we review these concepts, before reviewing some criticisms of the model. “TCE accepts Commons’s dictum that the transaction is the basic unit of analysis [Williamson, 1975, p. 254]; [Teece, 1980, p. 234]. A *transaction* occurs “when a good or service is transferred across a technologically separable interface” (Williamson, 1981a, p. 1544), cited in Dow, *supra*, *Id.*). Williamson furthermore “identifies three dimensions along which transactions can vary: the specificity of the assets required to execute the transaction, the frequency with which the transaction recurs, and the level of uncertainty surrounding its execution.” Once the particular traits within these three dimensions have been established, “the task is to find a governance structure, chosen from some set of feasible structures, that is best suited to each point in the space.” (*Id.*)

*Governance structures*, according to Williamson, “are implicit or explicit contractual arrangements used by the parties to a transaction to effect adaptations as circumstances change.” Thus, governance structures “can be arrayed on a spectrum according to the degree of autonomy maintained by the parties involved. . . [d]iscrete transactions. . . at one extreme, and hierarchical transactions. . . at the other, with hybrids such as franchising and joint ventures in between” (*Id.*, *pp.* 235-6). The employment relation is “at the hierarchical end of the spectrum and [is] generally agreed to be central to the firm.” Authority relations “arise endogenously. . . and contracting agents retain the right to terminate the relationship.” [Dow, 2018, p. 236]

*Transaction costs* form a standard part of New Institutional Economics (NIE), and according to Williamson, “Only to the extent that frictions associated with one mode of organization are prospectively attenuated by shifting the transaction, or a related set of transactions, to an alternative

mode can a failure be said to exist.” (cited in *Id.*)<sup>10</sup> Thus, “[t]he TCE literature usually assumes wealth maximization, so it is natural to value foregone resources by computing a sum of compensating variations in monetary units. In my definition, the transaction cost arising when a given governance structure is used for a transaction is the total monetary value of the resources sacrificed by not applying a Pareto efficient structure to that transaction. Thus, governance structures are compared using a potential Pareto improvement (or Kaldor-Hicks) test.”

In addition, Williamson is interested in identifying “the specific types of benefits of costs associated with the use of a governance structure” and calls for “a study of the ‘comparative costs of planning, adapting, and monitoring task completion under alternative governance structures’” ([Williamson, 1981, p. 1544], cited in Dow, *supra*, *Id.*). Transaction costs arise both in *ex ante* and *ex post* forms. *Ex ante* costs include “costs of drafting, negotiating and safeguarding an agreement”, while *ex post* costs include “maladaptation costs incurred when transactions drift out of alignment,” “haggling costs incurred if bilateral efforts are made to correct *ex post* misalignments,” and “bonding costs of effecting secure commitments ([Williamson, 1975, p. 20], cited in *Id.*, *supra*).

States Dow, “From this exposition, it is clear that the gross benefit of a governance structure is the value of the adaptations to changing circumstances that the structure makes possible. . . . Governance structures are to be judged by their capacity to provide a ‘better’ transaction in the potential Pareto improvement sense.” [Dow, 2018, p. 236]

### 2.3.2 Criticisms of TCE

Gregory Dow had for some decades had an intellectual debate with Oliver Williamson on the latter’s theory of the firm, until the latter’s death in May, 2020<sup>11</sup> [Dow, 2021]. Responding to Williamson’s claims that hierarchy respectively solves problems deriving from appropriation<sup>12</sup>, monitoring and conflict resolution, Dow states,

In each of these cases, authority at a higher level is invoked as a means to restrain opportunism among subordinate agents. This

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<sup>10</sup>Dow notes, “Therefore, we can just as well refer to the net benefits of a governance structure, relative to feasible alternatives, rather than the transaction costs of the structure.” [Dow, 2018, p. 236].

<sup>11</sup>Cf. <https://www.nobelprize.org/prizes/economic-sciences/2009/williamson/facts/>.

<sup>12</sup>explain

illustrates a more general point: *transaction cost theorists tend to see authority primarily as a remedy for opportunism rather than a device that might be abused in an opportunistic fashion.* Little attention is given to the danger that those in positions of authority might use the data obtained through internal audits to gain strategic advantages over lower-level parties, impose self-serving incentive systems, or use fiat to settle disputes in ways that suit themselves. [Dow, 2018, p. 238, own emphasis]

Thus, according to Williamson, authority is a solution to opportunism by human agents in transactions. However, Williamson *never turns the question of opportunism explicitly to the abuse of power and self-serving behavior by managers*, or to the lack of accountability mechanisms in traditional firms featuring what we later refer to as coercive hierarchies. Moreover, according to Dow,

This omission is puzzling, because transaction cost analysis itself indicates that a potential for opportunistic abuse is intrinsic to authority relations. It is widely recognized that hierarchy concentrates information at a central node for decision-making purposes (Arrow, 1974, 68–70). This implies that information is impacted at the top as an explicit principle of organizational design when authority relations are used. A situation of small numbers and impacted information is precisely the case in which transaction cost theory suggests that opportunism poses the greatest difficulties ([Williamson, 2007, p. ch. 2], cited in (*Id.*))

Moreover, argues Dow, bargaining cannot be used to curb managerial opportunism, as “[i]n TCE, the firm exists precisely because bargaining is too costly relative to authority.” Because of this, “one cannot appeal to the Coase Theorem and assume that agents who might be harmed by an opportunistic abuse of authority will bribe the perpetrators to desist. In a world of positive transaction costs, the assignment of control rights within the firm has real allocative consequences, much as the assignment of property rights has real allocative consequences when externalities exist.”<sup>13</sup> Dow concludes that “The fact that authority can be abused in self-interested ways is fundamental to the question of who should hold authority within the firm. . . . Either control rights can be assigned to capital suppliers, who will sometimes abuse their authority at the expense of labor suppliers, or else control rights can be assigned to labor suppliers, who will sometimes abuse their authority at the expense of capital suppliers.” [Dow, 2018, pp. 238ff.]

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<sup>13</sup>Cf. [Coase, 1960].



Moreover, neither Williamson nor Dow distinguish between different *types* of hierarchy or authority. We therefore attempt to fill this gap in Chapter 7.

### 2.3.3 Hansmann's *Ownership of Enterprise*

H[Hansmann, 2000]'s model has become an influential tool basing the argument for the scarcity of labor-managed firms (LMFs) or other types of cooperative structures on efficiency grounds. Hansmann sees the firm as a nexus of contracts and argues that, while producer cooperatives are owned by their laborers, consumer cooperatives are owned by their consumers. Meanwhile, he argues that joint-stock corporations are “cooperatives of capital investors”. [Hansmann, 2000, pp. 53ff]

His analytical model [Hansmann, 2000, pp. 11ff.] begins with the assumption that both ownership and contracting are costly. Furthermore, Hansmann assumes these values diverge for different classes, so that there are some patron classes that have higher ownership and others that have higher costs of contracting. Thus, his model features two types of costs: *contracting costs* and *ownership costs*. Hansmann then asserts that extending ownership to all classes would be costly and therefore that ownership should go to the class of patrons who are able to minimize aggregate costs. We will return to his assertion in the following section. He assumes costs to be minimized in the class whose ownership costs are relatively low and whose contracting costs are relatively high. Thus, the objective function of the firm with respect to strategic control is

$$C_i = \min CO_j + \sum_{\neg j}^{n-1} CC_{\neg j},$$

where  $CO$  are the costs of ownership for class  $j$  and  $CC_i$  are the contracting costs for all other classes besides  $j$ , summed to the total of all patrons, minus the ownership class. As an example, Hansmann discusses rural electricity cooperatives [Hansmann, 2000, p. 168f.].

Hansmann covers issues that complicate calculation of these costs, such as asymmetric information and managerial opportunism (the so-called “agency problem”) in the case of contracting costs, and problems of collective choice, such as the tendency of voting to reflect median, rather than average, views. Many of these issues are not actually criticisms of ownership and contracting, *per se*, but refer to particular contexts.<sup>14</sup>

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<sup>14</sup>Cf. [Hansmann, 2000, pp. 57ff.].

### 2.3.4 Critiquing Hansmann’s Model of Control

[Sacchetti and Borzaga, 2020a] describe a problem with the traditional theory of the firm, as explicated by [Hansmann, 2000], wherein the external effects of particular ownership and contractual regimes are not fully thought out. Following the paradigm initiated by the Physiocrats and classical political economists<sup>15</sup> and most recently rekindled by [Mazzucato, 2018], the authors stress “the need to find novel institutional arrangements that favour the production of value while preventing the over-extraction of value from society” [Sacchetti and Borzaga, 2020a, p. 732].

The authors further “challenge the theory of corporate governance on the ground that the efficiency considerations applied to governance choice fail to take into account the totality of the costs borne by the collectivity, thus engendering external costs.”(Id.) They review the recent discourse of Corporate Responsibility , which has “debated which groups deserve a fiduciary duty and argued in favor of multi-fiduciary stakeholder theory, whereby firm directors, by virtue of a broad fiduciary duty defined by corporate law, pursue the interests of multiple groups, including managers, employees, users, and others, even if they have low power... but high interest in the firm’s activities.” (Id., ff.)

The authors immediately pose the question as to “what practical solutions with respect to organizational governance can reflect concern with the public and the public interest more broadly?” (p. 733). They tentatively offer [Blair, 1996]’s notion of membership as a candidate, as well as initiatives including B Corps and the European Commission’s *European Social Business Initiative*<sup>16</sup>. Nevertheless, the authors argue, “[d]espite these developments in the nature of firms, economic theory is still very much focused on single-stakeholder ownership and control”, conducting its assessment “by means of contractual agreements or impersonal market exchange.” This assessment describes, among others, the paradigm of *New Institutional Economics* and its concurrent focus on transaction costs. While providing useful insights, the authors argue that these have come at a cost.

“The transaction cost paradigm has influenced research questions, suggesting certain directions and ignoring others.” (p. 734) Thus, as new research programs and paradigms advance beyond the maximization of profit or of

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<sup>15</sup>For the former, only land produced value and other inputs, particularly those of commercial classes like merchants, were subsidiary. For the latter school, best represented by Adam Smith and David Ricardo, value was generated by enterprising individuals and workers, whereas a landlord class existed by drawing out rents from ownership.

<sup>16</sup>Cf. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/social-business-initiative>.

shareholder value, the transaction cost literature has not kept pace, thus risking “providing partial answers to old and new questions that require a more comprehensive approach.” Thus, the existing paradigm, with its focus on self-interested, utility maximizing agents acting on Smith’s notion of “the proclivity for bartering and trucking” [Smith, 1776, Book I, Chapter 2] needlessly restricts the scope of organizational analysis, precluding “the emergence of firms that share . . . strategic control function among a variety of patrons and have aims that do not necessarily coincide with profit maximization” (p. 734).

Thus, in keeping with a move from internal cost assessments to a general social governance approach, the authors argue for a “total cost” model that recognizes “that, although access to strategic control by multiple patrons can cause governance costs to rise, excluding patrons from governance can also be costly.” As examples like ESOPs in the United States and EOTs in the UK (cf. below, 11.4.2) show, control does not necessarily imply ownership, though the reverse is not typically the case. Following the groundbreaking analysis of [Berle and Means, 1932], the authors argue that “governance is defined in terms of *who owns strategic control or the power to make strategic decisions, with or without ownership.*” (Id., own emphasis) According to this reasoning, “[u]nderstanding who has access to . . . strategic decision-making . . . is therefore essential to appreciate the potential total effect of economic activities.” This is an important distinction, as we see ever more frequently in the economy a distinction between ownership and strategic control<sup>17</sup>.

One of the main lessons of the present monograph is that control is often associated with certain characteristics that are welfare-enhancing. Thus, we continually return to this issue throughout the text. Suffice it to say at present that sufficient theoretical and empirical evidence supports the notion that lack of control can lead to abuse and promote socially sub-optimal outcomes. Thus, the authors distinguish between several classes of *Patrons*, or persons interacting with a firm, not all of whom are necessarily owners or involved in strategic control. This is to distinguish between owners and groups of individuals who may not exert ownership rights but have any number of interests in the organization’s survival, including its workers, its clients and members of the general community who may reap the benefit of jobs (positive externalities), or alternatively who are exposed to certain byproducts of the organization’s activities, like noise or pollution (negative externalities).

In particular, the authors describe the idea that only one market failure

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<sup>17</sup>This is not just a issue in the corporate world. In many cooperatives, especially in consumer cooperatives, a managerial class has taken an increasingly assertive role in shaping policy. See, for instance, the discussion in the United States around so-called *Policy Governance*. cf. [Carver and Carver, 1996].

regularly occurs in an organization, as envisioned by Hansmann, as illusory. Secondly, they suggest that if multiple markets do fail, then those agent classes within a firm with the least impact upon strategic management “bear higher costs than members whose interests are protected by access to strategic control.” Thirdly, they suggest that the model leads to an “incomplete assessment of external costs borne by patrons with no formal connections with the firm and by the collectivity overall.” [Sacchetti and Borzaga, 2020a, p. 739ff.]

### 2.3.5 Problems with exclusion and the limits of “private” models

Hansmann’s model has been criticized by a number of prominent scholars of cooperatives, including by Gregory Dow in [Dow, 2018, p. 241], as well as in [Dow, 2003, pp. 200-6]. Bruno Jossa has also stated that “[Hansmann’s] detailed analysis... did not include any firms fitting within the model fleshed out by contemporary cooperative theorists.” [Jossa, 2019, p. 157] Similarly, [Dow, 2003, p. 205] states that “collective choice problems need not be fatal as long as LMFs adopt appropriate governance structures”, and cites Mondragon as a “key counterexample” to Hansmann’s formulations. Finally, he states that “the main drawback of the collective-choice approach is that it does not offer any leverage in explaining a range of other generalizations about LMFs” [Dow, 2003, p. 206].

[Sacchetti and Borzaga, 2020b] point to analytical weaknesses in Hansmann’s model, stating “as Hansmann admitted in his treatment of [contracting costs]... , when multiple and potentially conflicting interests are at stake and transaction costs are present, neither market contracting nor the ownership of one class of owners can avoid producing negative... externalities”. [Sacchetti and Borzaga, 2020a, p. 737]

As Sacchetti and Borzaga point out, there is no reason to assume that contracting costs will always be higher than ownership costs. For instance, the authors point out that “contractual solutions are likely to fail when non-controlling patrons engage in transactions of a highly specific type”. [Sacchetti and Borzaga, 2020b, p. 738] Moreover, there is no reason to assume that the two are entirely separable. In a discussion that recalls [Bowles, 2016]’s discussion of non-separability, which we review in 6.4.7, a 2014 article by [Navarra and Tortia, 2014] argues that in imperfect labor markets, skilled workers with sunk skills may be vulnerable to abuse. Thus, Hansmann’s theory “neglects the possibility that the low COs of one patron could be interdependent with the high CCs of another patron; that is, these could be

inseparable. . .” [Sacchetti and Borzaga, 2020b]

Moreover, Hansmann’s model is based on the notion of only limited market failures. Writes Hansmann, “The analysis just offered suggests that, all other things equal, costs will be minimized if ownership is assigned to the class of patrons for whom the problems of market contracting—that is, the costs of market imperfections—are most severe.” [Hansmann, 2000, p. 21] However, multiple market failures are likely to occur and market imperfections, such as those in the credit market, are one major reason why organizational forms other than a particular version of single-stakeholder firm, namely, capital-managed firms (KMFs) have succeeded. [Bowles et al., 1993]

Thus, if multiple markets fail then it is likely that the cost calculus that Hansmann established fails and “contracted patrons without control rights can bear higher costs than members whose interests are protected by access to strategic control.” [Sacchetti and Borzaga, 2020b] Moreover, Sacchetti and Borzaga point out some inconsistencies in Hansmann’s thinking, writing that “[w]hat Hansmann [sic] suggest[s] is that, even if it is not efficient to make a certain class of patrons owners, excluding them from governance would incur such a high level of costs” that this outcome would be deemed “undesirable.” [Sacchetti and Borzaga, 2020b, p. 739] Bringing this notion of Hansmann into focus, the authors propose that

[b]y failing to consider the interests of patrons who are not engaged in ownership or in contractual relations, the model leads to an incomplete assessment of the external costs borne by patrons with no formal connections with the firm and by the collectivity overall.

This incomplete assessment of external costs is referred to as a *governance failure*<sup>18</sup>, or a situation where an organization may move to a more socially optimal outcome by extending strategic control beyond a single class of patrons. In the following section, we develop this *total cost* model.

### Are Worker Preferences More Heterogeneous Than Investors?

Hansmann also claims that investors are in a better position to reach a consensus on decisions, as they share a common goal of profit maximization. But this view does not bear out in reality. In fact, there are countless cases of minority shareholder groups that have expressed various degrees of dismay and dissatisfaction at firm policy and who are generally outvoted and, ultimately, disregarded [Steffe, 2016]. Therefore, one can lodge the counterargument that “pure” investor ownership “forces” agreement on the

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<sup>18</sup>Cf. [Sacchetti and Borzaga, 2020a, pp. 740ff.] and [Mazzucato, 2011]

common denominator of profit-maximization, which nevertheless may not be the most desirable goal or purpose for a significant share of shareholders<sup>19</sup> This begs the question if KMFs offer sufficient protection for minority views.

Moreover, Hansmann's approach ignores phenomena like hysteresis and social learning, which will form a core of the approach we outline below.

### Deliberation as Capacity-Building

Moreover, the notion that collective decision-making is merely costly is also clearly wrong. Even Hansmann admits that “the process of collective decision making arguably yields benefits for the patrons involved and not just costs.” [Hansmann, 2000, p. 41] Thus, while in a static model that considers only the immediate steps leading up to the decision, it may appear that the relatively simple criteria that a typical investor-held firm applies to make decisions (primarily focused on distributing surpluses, as Hansmann summarizes) may ignore many dynamic processes that in and of themselves have knock-on effects that may have feedback effects on this and other parameters.

Evidence suggests, for instance, that workers are more productive when they feel a sense of purpose in their work, and this may be strengthened by extending strategic control to them<sup>20</sup>. Thus, as the evidence suggests, the higher productivity of producer cooperatives compared with investor-held firms may result in higher surpluses to be distributed. Thus, bringing in other viewpoints, perspectives and opinions into strategic control can actually be of benefit to investor-owners' goal of maximizing profit in the long-run, despite any short-term increased costs in collective decision-making. [Dow, 2018, pp. 158ff.]

## 2.4 Public Choice

The public choice literature has for recent decades been dominated by New Institutional Economics (NIE). This tradition takes as its starting point the Coase theorem ([Coase, 1991]) and build upon things like the principal-agent relation, incorporation transaction costs and information asymmetries, as well as enforcement or monitoring costs. They are thus, according to Figure 2.3 “endogenous enforcement” Post-Walrasians. The problem with this approach

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<sup>19</sup>One needs only look at recent attempts by a small group of investors of Google to introduce some language reflecting broad goals of sustainability into the company's mission statement. The members were roundly ignored.

<sup>20</sup>I cover such evidence in my own [Warren, 2015].

is that it is based on the one hand on aggregating individual preferences and therefore has no emergent processes or feedback effects. Additionally, the traditional public choice literature is very poorly equipped in the creative capacity to outline a strong theory of democracy, such that it is largely ambivalent with regards to the process relation. [Sen, 2017]

Amartya Sen and Elinor Ostrom both moved away from the former position, relaxing the framing on emergence, neither ultimately overcame the second analytical shortcoming. However, neither have developed a “thick” theory of emergent, process-oriented public choice. We will later suggest a relational approach as a solution to these shortcomings, and in Chapters 6 and 7 develop approaches towards a relational view of democratic choice. First we outline Sen’s shortcomings, followed by Ostrom’s.

### 2.4.1 Amartya Sen, Collective Choice, Capabilities and Voting Preferences

Sen, whom we have briefly introduced above as an exponent of *constitutive contractual exchange*, critiques the Utilitarian basis of modern collective choice theory, which he argues is generally more concerned with the *sum total* of utility (seen as pleasure), without an explicit concern for distributional issues. He seeks to move beyond the “informationally poor” assessments of this paradigm and attempts to focus instead on a context-driven approach placing emphasis on the ability for individuals to lead a meaningful life. Sen refers to this approach as the *capability* approach (cf. [Sen, 1980]), and its focus is on ensuring opportunities to achieve freedom in personal choice, rather than on the realized preferences of individuals in particular contexts, which may be delimited by extraneous circumstances.

In this regard, and in regard to Sen’s notion of “development as freedom” [Sen, 1999] (developed further by [Ellerman, 2009]) and his extension of rationality to include public debate [Sen, 2004], we agree with Sen’s criticism of the mainstream. However, there is a matter of *realizing* these ends. For instance, the UN and its affiliate organizations have had some successes in combating extreme poverty and in achieving the *Sustainable Development Goals* (SDGs). These efforts have not been without their critics, however. The projects of agencies like the World Bank. are often limited by time, resources, the diverging interests of donors and recipient political classes, often times inadequate and in many cases even counter-productive[Deaton, 2013, pp. 289ff]. [Ellerman, 2009, p. 150] states, “the basic problem is that in spite of the espoused model of a learning organization, the theory-in-use of [development agencies like the World Bank] is often a model of a “development church”

giving definitive *ex cathedra* Official Views on all the substantive questions.”

Moreover, the International Monetary Fund’s (IMF) stabilization efforts have often-times been criticized for their counter-intuitive logic and, in some cases, disastrous implications [Stiglitz, 2002]<sup>21</sup>.

Thus, while Sen has useful criticisms of the prevailing developmental paradigm and extremely useful criticisms of welfare economics and his principles of freedom and capabilities are noble, his writing is more limited with regards to its utility in applying particular solutions, particularly *cooperative* solutions. Sen unfortunately draws much inspiration from “voting preferences” theorists like [Condorcet, 1785] and [Arrow, 2012]. The weaknesses of this approach are apparent to Sen, yet he does not spend adequate time investigating other mechanisms of reaching collective decisions. It will therefore be the goal of the present work to contribute to this discourse by placing alternatives to voting mechanisms at the center of the debate. In fact, abstracting from individual preferences by creating institutions that have second-order feedback effects upon the preferences of individuals, instilling a sense of civic responsibility, will be the focus of Part II, consisting of Chapters 6 to 8.

#### 2.4.2 Elinor and Vincent Ostrom and the Limitations of New Institutional Economics

[Ostrom, 1990]’s work showed quite convincingly that the assumption of 1) the tragedy of the commons and the dilemma between 2) state intervention and 3) market mechanisms as solutions to 1) is frequently based on *performative* thinking and on an entirely simplified perspective on agency and collective self-organization. We furthermore agree with Ostrom’s claim that in observing the activities of such self-organizing communities, one can develop relevant theories based on lived practices.

With her research at the University of Bielefeld, more precisely at the *Center for Interdisciplinary Research*, Elinor Ostrom contributed significantly to the questioning of neoclassical assumptions. Her thesis that the choice between state and market coordination is a fallacy [Ostrom, 1990, p. 13ff.], was groundbreaking and initiated a new tradition of researching so-called *Common Pool Resources* (CPRs). However, Ostrom limited herself mainly

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<sup>21</sup>Obviously, many such institutions have little ability to integrate notions of stakeholder accountability into their activities. This is likely due to the mental models they employ, which may be represented by examples such as [Acemoglu and Robinson, 2006]’s focus on relations between an enlightened “elite” and a relatively passive “mass”. Thus, much of the problem, we argue, lies in static social ontologies. Moving towards a *moral economy* approach, as outlined in Chapter 4, should allow many institutions to escape this “double bind” [Bateson, 2000].



to classic resources such as fish stocks, community forests and water canals. While these diverse examples, which have their place around the globe and are of both historical and contemporary origins, provide useful impulses for further research and go well beyond the horizon of the neo-classical period, there is no clearer connection with paradigms like that of Polanyi hammered the *fictitious goods* and for dealing with truly *global* commons like the Internet [Benkler, 2003].

Ostrom's closeness to the new institutional economics is also an ambivalent fact. It is true that their explanations show the dead end of this tradition. Unfortunately, Ostrom never really succeeds in shaping the methodological path differently. So she remained firmly in ontological individualism until the end of her career. Her benefit in the cooperative arena is therefore limited. Thus, a more specific expansion of Ostrom's eight principles and their extension to an expanded context of fictitious goods such as work and data would be desirable. This expansion, which is already being pushed by some authors ([Ridley-Duff and Bull, 2021], [Benkler, 2003], [Benkler, 2008]), would also make the demarcation from *New Institutional Economics* clearer. A systematic attempt in this respect would also point the way to a "thick" theory of *co-determination*<sup>22</sup>.

### ***Governing the Commons***

Ostrom's contributions to pushing the mainstream to question some of its canonical assumptions cannot be overemphasized. In particular, the book *Governing the Commons* was pivotal in this arena. Its great strengths serve to conceal its weaknesses, however. Below we outline these central points of the book that pertain directly to the current research agenda and point out how the approach Ostrom spells out must be updated in order to advance towards more coherent *Handbuchwissenschaft* with respect to cooperative economics.

In particular, [Ostrom, 1990, p. 22] called out the fact that many policy prescriptions are based more on metaphors than on actual evidence. Therefore, Ostrom calls for "empirically validated theories" of human organization (24), and in particular, "self-organization" (25). She emphasizes that there is "no one solution" for such questions (14) and points to an excellent agenda in her "three puzzles" (42).

However, much of her approach, e.g., "contingent strategies" (36) and even her "broad conception of rational action" are not sufficiently distinct from the mainstream perspective. Moreover, even though she critically engages with

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<sup>22</sup>see below, Chapter 4.

and questions certain game theoretical concepts (18) such as the Prisoners' Dilemma (46), she does not fully escape the ontological individualism of neoclassical thinking. To do so requires a more decided break with such approaches, e.g., by explicit recognition of not just "broad conceptions of rationality", but of a robust notion of co-determinative behavior, i.e., a recognition of moral action.

Moreover, while Ostrom embraces the idea of analyzing multiple levels (pp. 50ff.), her methodology does not reveal a sufficient concern with this aspect of analysis and only the eighth rule on "nested enterprise" breaches the topic formally. Therefore, a stronger emphasis on embedding interdependence and emergence methodologically should push research to embrace paradigms like ecology and complexity more fully, as we do in Chapter 8. Paradigms like relational economics and the resource-dependency approach fully embed firm and individual behavior in the extant environment and therefore avoid adding the environment in as an afterthought.

Lastly, language and communication are central in governing common resources, or any resources, yet Ostrom spends astonishingly little time with the topic, besides her concern with "rules" and "institutions". Therefore, a robust approach to self-governance must embrace the communicative turn discussed, e.g., by Habermas, Luhmann and Leyedesdorff. Notions like *norms as attractors* and the role of social learning processes are of central importance. The field of *second-order cybernetics* with its emphasis on interdependence and higher-order feedback processes is pre-ordained to play a central role in synthesizing much of this perspective.

### **Polycentrism**

[Ostrom and Ostrom, 2014] introduces the concept of *polycentrism*. This concept is applied to "political system[s]" that are "composed of [...] many autonomous units formally independent of one another, [...] choosing to act in ways that take account of others [...] through processes of cooperation, competition, conflict, and conflict resolution." [Ostrom and Ostrom, 2014, p. 46] emphasizes that in a polycentric order, "resolution of conflict need not depend upon 'central mechanisms'". The idea was inspired largely by Michael Polanyi's *Logic of Liberty* [Polanyi, 2013], whose notion of "spontaneous order" was critiqued by [Ostrom et al., 1961].

The basis of this critique is that "a great deal of deliberateness may be required to establish a federal system of governance where power is used to check power amid opposite and rival interests." [Ostrom and Ostrom, 2014, p. 47] Therefore a polycentric order "requires a good deal of deliberateness to function" and the belief "[t]o expect a democratic society not only to emerge

spontaneously, but to modify and sustain itself in the same way, is not plausible in light of the problems of and probable threats to the viability of democratic institutions.” (Id.) Thus, Ostrom argues that “[w]hen power is used to check power, careful attention should be paid to the *way* that polycentricity serves as a structural basis for the emergence of actual self-governing arrangements. (Id., p 46, own emphasis)

We are in agreement with this view towards deliberation, but hope to extend the analysis beyond the realm of political deliberation. Thus, while [Ostrom and Ostrom, 2014, p. 45] argues that “[t]o the extent that [poly-central] *political* jurisdictions take each other into account in competitive relationships, enter into contractual and cooperative relationships, or turn to central mechanisms to resolve conflicts, they may exhibit coherent, consistent, and predictable patterns of behavior and may be able to function as a ‘system’”, we extend the concept to domains like the *economic*, the *social* and others.

This is attempted in the following by connecting such notions of deliberation with the emerging domain of *relational economics*. Thus, the Ostrom’s contributions are taken as a useful starting point, but the attempt is made to connect these to a broader range of issues and resource-dependencies. In particular, this work intends to take a look at cooperation in a more general and all-encompassing sense than [Ostrom, 1990]’s notion of “Common Pool Resources”, where it is usually the case that access can be controlled. Thus, as [Benkler, 2003] argues, the distinguishing feature of contemporary and future commons is their global nature.

## 2.5 New Findings for Theory of the Firm

New frontiers have been reached on the theory of the firm, of competition and of really existing markets [Shaikh, 2016]. Moreover, the theoretical framework that for decades has dominated discourse about cooperatives has suffered some significant blows ([Dow, 2018], [Bowles and Gintis, 1993]). At the same time, new discoveries have been made on the relation of labor to value ([Cockshott et al., 2009], [Farjoun and Machover, 1983]), and on long-term trends in productivity and demography ([Ashford and Shakespeare, 1999], [Piketty, 2014]).

Recent decades have brought renewed focus to the cooperative legal form. Empirical research by [Fakhfakh et al., 2012], [Burdín, 2014] and others have shown the resilience of cooperatives in the face of crisis and studies of a number of international statistics have revealed that the average cooperative has a longer life expectancy than the average traditional firm [Dow, 2018, p.

104ff]. The empirical findings accompany an increasingly critical reckoning with traditional theories of the firm that have attempted to explain the dearth of cooperatives by inherent weaknesses of the organizational form. Thus, work by Greg Dow has shown the theoretical shortcomings of the so-called “Ilyrian” model of the firm.

These two simultaneous developments – the new empirical research effectively falsifying conclusions drawn from prevailing theory and an increasingly critical exposition of prevailing theory’s internal contradictions and incorrect or unsuitable *a priori* assumptions call for an exerted effort of theory-building, of discovering a new theoretical apparatus able to account for the empirical findings cited above, and which is able to move beyond the pitfalls of theories criticized by authors like Dow.

We therefore propose contributing to the call made by Herbert Simon, for an “empirical microeconomics” [Simon et al., 2009], that is, one based on findings in reality and not on abstract models of questionable empirical validity. We reject the notion that unrealistic models can act as useful heuristics. As we will argue in a moment on the basis of existing literature, such models lack rigorous standards of congruence and are often unfalsifiable. Agreeing with Popper, we suggest that they therefore have little scientific value and often-times serve rather an ideological function.

### 2.5.1 Berle and Means: The Modern Corporation

[Berle and Means, 1932] speak of *managerial capitalism*, a situation wherein the dissolution of ownership of firm shares among a multitude of investors dilutes the power of ownership and creates an environment where managers are able to leverage their positions to increase their power and control of a small group over governance. In fact, they developed the concept of a “capital wage”, the obverse of a labor wage for the capitalist. In that regard, their work is pioneering. At the same time, it has been argued that the world has shifted again considerably with pension funds, sovereign wealth funds and other institutional investors now having large shares in multinational firms, thus reversing this historical process of dissolution and again shifting power away from managers to institutional investors. [Cheffins, 2018] [Lapavitsas, 2013]

The problem with this situation is that, similarly to the problems associated with managerial capitalism, such dominance of investment by a small group of entities entails a lack of accountability, equity (social justice) and inclusion of diverse stakeholders in governance. Thus current investment policies do not directly challenge the supremacy of shareholder value / instrumental rationality. This, at best, leads to ambivalent outcomes with respect to inequality, and at worst facilitates its further growth. Obviously,

historical episodes like the French, Haitian, Russian, etc. Revolutions, the Paris Commune, *secessio plebis*, etc. (cf. the following chapter) have shown us that a situation of ever-growing inequality is not socially sustainable or desirable.

## 2.5.2 Network Theory in Economics and Management

Increasingly, in the era of the platform economy, however, even in the wider economy<sup>23</sup>, network theory matters. It allows for an “embedding” of agents into their environments and thus overcomes the problem of ontological individualism, replacing that view for what analytical sociology calls *structural individualism*. This allows for models that integrate *emergence*, via both a bottom-up process, where, as organs emerge from tissue, groups emerge from individuals, organizations emerge from groups, etc. At the same time, it allows for the types of incursive processes we captured by Figure 2.2.<sup>24</sup>

Thus, whereas neoclassical economics uses as its basis a 19th Century mechanics based largely on Bernoulli’s quest to explain fluid dynamics [Foley et al., 2010], [Velupillai, 2003] economic processes are assumed to occur in an idealized setting befalling the Samuelsonian vice described elsewhere in this work. Thus, attempts like Econophysics have applied more modern methods of statistical mechanics to describing the operation of markets and similar institutions. Particularly, by applying methods of statistical mechanics to social phenomena, econophysicists work from a presumption of statistical – as opposed to mechanical – equilibrium. Some of the most interesting results from the domain of econophysics have been the conclusion that markets inevitably increase inequality by stratifying income [Cockshott et al., 2009].

## 2.5.3 Carole Pateman and the Spillover Hypothesis

[Pateman, 1970] introduced the world to the so-called *Spillover Hypothesis*. According to her theory, individuals who work in democratic settings develop preferences for political participation, so their place in a participatory environment at the workplace “spills over” into the realm of politics. As pioneering as her work was, the empirical implications were not satisfactorily handled in, e.g., [Greenberg, 1986]’s small sample of six enterprises with ambiguous results. Therefore, a research agenda is needed to operationalize Pateman’s hypothesis [Weber et al., 2020].

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<sup>23</sup>As [Wieland, 2018] comments, the vast majority of global trade today passes through intra-firm linkages, not through markets.

<sup>24</sup>An excellent introduction to the potentials of network theory in these domains is [Biggiero, 2016].

“The link between these findings, particularly those on the development of the sense of political efficacy in adults and children, and the notion of a ‘democratic character’ has been overlooked.” (103) Thus, while most contemporary democratic theorists believe a set of behaviors and character are required for democracy, “they are far less clear on how this character could be developed or what the nature of its connection with the working of the ‘democratic method’ itself really is.” (Id.) This results, as Pateman argues, in “a curious reluctance to look at the facts in a questioning spirit.” (104) The result?

... not only a democratic theory that has unrecognised normative implications, implications that set the existing Anglo-American political system as our democratic ideal, but it has also resulted in a ‘democratic’ theory that in many respects bears a strange resemblance to the anti-democratic arguments of the last century. (Id.)

Pateman argues the evidence supports the views of Rousseau, Mill and Cole, who all agreed “that we do learn to participate by participating and that feelings of political efficacy are more likely to be developed in a participatory environment.” (105) Thus, “[t]he analysis of participation in the industrial context has made it clear that only a relatively minor modification of existing authority structures there may be necessary for the development of the sense of political efficacy.” (Id.) She asks whether democracy “is solely the presence of competing leaders at national level for whom the electorate can periodically vote, or does it also require that a participatory society exist; a society so organised that every individual has the opportunity directly to participate in all political spheres?” (105-6)

Pateman is clear towards which side of this question she tends:

Recognition of industry as a political system in its own right at once removes many of the confused ideas that exist about democracy (and its relation to participation) in the industrial context. It rules out the use of ‘democratic’ to describe a friendly approach by supervisors that ignores the authority structure within which this approach occurs, and it also rules out the argument that insists that industrial democracy already exists on the basis of a spurious comparison with national politics. There is very little in the empirical evidence on which to base the assertion that industrial democracy, full higher level participation, is impossible. On the other hand there is a great deal to suggest that there are many difficulties and complexities involved; more than are

indicated for example in the early writings of G. D. H. Cole.  
[Pateman, 1970, p. 106]

We return again to this debate below with the notion of the *political theory of the firm*. Pateman closes her book with the conclusions that “the contemporary theory of democracy represents a considerable failure of the political and sociological imagination on the part of recent theorists of democracy. When the problem of participation and its role in democratic theory is placed in a wider context than that provided by the contemporary theory of democracy, and the relevant empirical material is related to the theoretical issues, it becomes clear that neither the demands for more participation, nor the theory of participatory democracy itself, are based, as is so frequently claimed, on dangerous illusions or on an outmoded and unrealistic theoretical foundation. We can still have a modem, viable theory of democracy which retains the notion of participation at its heart.” (Id., p. 111)

For Pateman, a participatory notion of the firm belongs at the center of such a theory.

#### 2.5.4 Neo-Abolitionism and the Democratic Firm

Mathematician and polymath David Ellerman has written a brilliant book in *Neo-Abolitionism*, full of witty, biting and cunning broadsides to what he refers to as “Economics” (Neoclassicals are honored with Capital Letters). Neoclassicals have lost sight of the facts and have replaced statements about the world with statements about metaphors (as Ostrom argued above), and for Ellerman this shows itself starkly in the labor contract, which is referred to as an “institutionalized fraud” (e.g., [Ellerman, 2021b, p. 102]). Based on three fundamental critiques, one based on contracts, one based on property and one based on a reinterpretation of classical liberal theory, much of the reasoning rests on the logical conclusions of the Protestant doctrine of the freedom of conscience. Similar to Luther’s blistering attack on the “donkeys” in Rome, Ellerman takes the entirety of neoclassical economic to task, including figures like Frank Knight and James Buchanan. Juxtaposing the notions of delegation versus alienation, Ellerman returns to classical sources and current debates to make the case for the absurdity of at the same time expounding democracy in politics and expecting citizens to become “part time robots” (Id., p. 42) at the workplace.

In the first instance, he argues forcefully that contract law does not extend to illegitimate contracts. As responsible labor, which is what a normal labor contract (“incompletely”) regulates, cannot actually be alienated, all such contracts are null and void. Similar to consensual forfeiture to despotic

sovereigns, voluntary slavery or coverture marriage contracts (Id., pp. 34ff.), argues Ellerman, the modern labor contract in its regular form not only violates ethical norms, but is based on a “legal fraud” that people can give up their autonomy at the workplace. Ellerman enlists the help of the example of a criminous act at the workplace as an example (Id., pp. 44ff.). In such cases, says Ellerman, the law would impute legal responsibility where *de facto* responsibility occurred. So, the legal imputation is correct. However, the mere shift to legal acts does not withdraw the *de facto* responsibility of the employee, writes Ellerman and therefore, the imputation of the legal responsibility to the employer in this case is factually incorrect. Figure 2.4 represents this scenario.

Ellerman’s second main object is recovering an in his opinion lost tradition of *labor theory of property*. He contrasts the labor theory of property and its associated theory of imputation (cf. Id., pp. 94ff.) with the labor theory of value and then makes the claim that a focus by Leftists on the labor theory of property would prove more fruitful than the claim that “labor should receive the total surplus” (Id., pp. 110ff.).

In fact, Ellerman says this discussion is moot, as it only concerns the metaphor of distribution of the surplus among the factors of production. Instead, he argues that the focus should in fact be on *predistribution*<sup>25</sup> on who is the firm, as the answer to this question also stipulates who determines the so-called “distribution” (Id., p. 100).

*Neo-Abolitionism*’s third point rests on a a revival of what he calls “democratic liberal theory”, which he contrasts with “conventional classical liberalism”, the latter of which he claims “dumbs down the intellectual history of democratic theory into the question of *consent* versus *coercion*.” (Id., p. 122) In fact, he says, a much more useful distinction is between *alienation* and

Table of injustices due to mismatch of factual and legal responsibility		Factual Responsibility	
		Factually responsible for X	Not factually responsible for X
Legal Responsibility	Held legally responsible for X	True positive	Type II injustice: Innocent party legally guilty
	Not held legally responsible for X	Type I injustice: Guilty party legally innocent	True negative

Figure 2.4: Representation of the logical error in reasoning based on criminous behavior, taken from [Ellerman, 2021b, p. 39].

<sup>25</sup>“The phrase “predistribution” is due to Jacob Hacker (2011) but it was Branko Milanovic who suggested the application to worker ownership. For instance, legislation to increase worker ownership through Employee Stock Ownership Plan (ESOPs) or worker cooperatives is redistributive while raising taxes on the 1% is redistributive” [Ellerman, 2021b, p. 101, footnote]



*delegation* (Id., pp. 126ff.). The effect of shifting the focus of debate from alienation vs. delegation to consent vs. coercion is to obfuscate the paradox that Ellerman calls “one of the most remarkable ‘disconnects’ in history”. It is worth quoting him at length here:

“Wars are fought, lives and treasure are sacrificed, all in the name of “democracy”—and yet hardly a word is said back home about democracy in the workplace where most adults spend much of their waking hours. How can a “democratic society” be so schizophrenic and bifurcated in its vision of democratic rights that a person could be seen as having an inalienable right to self-determination as a citizen but at the same time can be seen as routinely alienating the right to self-determination in the workplace? If such a disconnect was observed in a totalitarian society, it would be considered as the result of massive brain-washing and false consciousness.” (Id., p. 121f.)

Thus, we receive a contradictory intellectual tradition into the present that finds no problems with placing both liberal democratic (political) institutions in the same basket with human rental contracts (Id.). Ellerman finds the intellectual wellspring of this contradiction in classical liberal Enlightenment reactions against monarchical Absolutism, reactions which couched their objections in the absolute right of exclusion over property (*dominion*), which combined elements of both “Ownership” and “Rulership” in the language of Otto von Gierke (Id., p. 123). It is this tradition that colors later writers, including Hobbes and Locke, and carried on even into Marx’s critique of classical political economy (Id.). Ellerman’s uncovering of the roots of this intellectual tradition in the *pactum subjectionis* is fascinating and offers scholars and practitioners alike a fresh take on ethical and legal issues that have continued to be controversially debated over the centuries.

Equally fascinating is Ellerman’s attempt to reconstitute an alternate, democratic liberal theory that seeks to explicitly move away from dominion thinking and that instead emphasizes the inalienable quality of human self-determination. Picking up a tradition carrying at least as far as Marsilius of Padua and Bartolus of Saxoferrato in the 13th and 14th centuries, who each argued forcefully for the sovereignty of the *civitas* against arbitrary authority (Id., p. 127). Continuing his excavations, Ellerman enlists the help of scholars as wide-ranging as William of Ockham and Martin Luther, placing the claim of neo-abolitionism squarely in the camp of the consent-based legitimacy espoused in the Reformation doctrine of the inalienability of conscience. In fact, Ellerman argues, this doctrine was not thought out completely: “The

Reformation doctrine of the inalienability of decision-making about one's basic religious beliefs is true of all human decision-making—such as voluntary co-operation in the workplace. Hence any contract that legally alienates people's decision-making capacity to some ruler or sovereign (or employer) cannot be factually fulfilled". (Id., 133)

### 2.5.5 Carlo Borzaga, EuRICSE and “Social Enterprise”

[Borzaga and Defourny, 2001] solidly placed the notion of “social enterprise” (SE) on the research agenda, pointing out analytical weakness in traditional concepts like “third sector”, “non-profit sector”<sup>26</sup> and “social economy” [Borzaga and Defourny, 2001, p. 1] marshaled to describe “very different enterprises and organizations.” [Borzaga and Defourny, 2001, p. 7] The main problems with both the notions of “social economy” and “non-profit sector” are that they are “both very general concepts covering a wide range of organizations with various roles.” Additionally, “the very nature of these two concepts is static rather than dynamic”. [Borzaga and Defourny, 2001, p. 10] Thus, the authors propose a new terminology of “social enterprise”, as distinct from each of the other concepts.

Particularly, the new concept embraces 1) a type of *social entrepreneurship*, as seen, for instance, by Schumpeter: “[w]e believe that it is possible to speak of a new entrepreneurship which is probably more prevalent in Europe than in the United States.” [Borzaga and Defourny, 2001, p. 11]; 2) “the involvement of different, even diverse partners or categories of partner”, which “often transforms the way in which the activity is organized.” [Borzaga and Defourny, 2001, p. 12]. This includes phenomena like *multi-stakeholding*. Thirdly, “social enterprise” employs new production factors, such as “its capacity to mobilize volunteers”, whereas “[t]oday's voluntary workers are fairly pragmatic and focus more on ‘productive’ objectives and activities that correspond to specific needs.” [Borzaga and Defourny, 2001, p. 13].

Fourthly, they are part of new market relations, including “a trend towards ‘contracting up’, which “tend[s] to accentuate the entrepreneurial character of the association.” (*Id.*) Lastly, they often involve new legal forms, like the social cooperative, that “are designed to encourage the entrepreneurial and commercial dynamics that are an integral part of a social project.” (*Id.*, p. 4)<sup>27</sup>

<sup>26</sup>This category displays particular analytical weaknesses for the authors, as “the non-profit approach prohibits any profit distribution and thus excludes the entire co-operative component of the social economy” [Borzaga and Defourny, 2001, p. 9].

<sup>27</sup>However, the authors note that “the great majority of social enterprises are still using traditional third-sector legal forms, even though the latter might hide significant changes,

Nevertheless, the authors emphasize the social nature of “social enterprise”, underlining “the requirement (absolute or in part) for the production surplus to be ‘socialized’.

The authors devise three “economic” and five “social” characteristics by means of which “social enterprise” may be identified:

1. a high degree of autonomy, “not managed, directly or indirectly, by a central authority”;
2. a significant level of economic risk, meaning “a social enterprise assume[s] totally or partly the risk of the initiative”;
3. a minimum amount of paid work;
1. an explicit aim to benefit the community, meaning “one of the principle aims of social enterprises is to serve the community or a specific group of people”;
2. an initiative launched by a group of citizens, meaning SEs “are the result of collective dynamics involving people belonging to a community”;
3. a decision-making power not based on capital ownership, “this generally means the principle of ‘one member, one vote’;
4. a participatory nature, which involves the persons affected by the activity, as “one of the aims of social enterprises is to further democracy at local level [sic] through economic activity” and
5. limited profit distribution.

As the authors state, the activities of SE are often carried out at “[t]he frontier between provision of welfare services and activities oriented towards reintegration of persons excluded from the labor market” and describe this frontier, furthermore, as “not at all a neat one.” [Borzaga and Defourny, 2001, p. 19]

### 2.5.6 Needs-Based Organization

[Sacchetti et al., 2016] develop a “needs-based” theory of governance, placing a focus on Maslow’s hierarchy of needs. In particular, while the instrumental rationality of profit-orientation may in fact serve the top rung of needs by

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for instance, workers’ cooperatives which open their membership to users tend to become closer to public benefit corporations.” [Borzaga and Defourny, 2001, p. 14].

providing security in the form of income, human beings have vital needs for *self-actualization*. Thus, participating in governance may serve vital (non-instrumental) needs. Thus, the authors argue that “In the needs theory of governance, the human dimension becomes the aim rather than being the tool that serves organizational objectives, while contractual exchanges, most often with clients and suppliers, are instrumental to the pursuit of human development. Similarly, the organization is conceived as an ecosystem which is functional to the individual’s self-actualization. From this perspective, in striving to fulfill her needs, the individual needs to preserve the organization as her living environment.” [Sacchetti et al., 2016, p. 15]

### 2.5.7 The Public Organization and “Total Cost”

In another place, [Sacchetti and Borzaga, 2020b] develop a “public” model of the firm, which we have superficially introduced above in the discussion of Harry Hansmann’s theories. The model, which is described as both “Dewean”, as well as “Meadean in both spirit and formulation”, attempts to show “that the emergence of firms in which strategic control is shared among different groups of patrons can be explained as a way to economise on negative external costs and move towards a fairer distribution of the net public utility produced by organisations.” The authors begin with the assertion that, due to the analytical weaknesses of the model described above, the search for tractable solutions to collective choice issues in organizations would be served by moving from merely considering firm-internal dynamics, but considering the impacts of firm activity on a broader number of constituencies. This because of the fact that multiple market failures are likely to abound and the above model does not consider these situations, and moreover, does not incorporate “external costs” to non-members, as mentioned above.

Therefore, “since there are substantive external costs that are not resolved by contracting, we need to consider solutions centered on firm governance rather than on market transactions.” (p. 740) Taking a page from repeated game theory, the authors refer to an Ultimatum game, where offers that are viewed as unfair are frequently rejected.. This type of situation, when found in organizations, is referred to as a *governance failure*, which the authors describe as “a failure in the nature of the agreement among the parties [within the domain of] the structures and processes that underlie the main functions of governance, such as strategic decision making and monitoring.” These occur “when the combination of control rights and contracting does not make negative externalities significantly low for non-members, whether they are contracted or not, and for the collectivity overall.” (p. 741)

These failures can also be understood as externalities which fall on all

classes of patrons and members of the community without control rights in the firm. The authors list social care as an example, explaining that when strategic decisions about care are made without reflecting the views of clients or carers, “the service may not respond to specific care needs and users are at risk of receiving lower-quality care.” (p. 742) The authors suggest that to compensate for this governance failure, users of care services “will rely on unpaid care from family members... or will buy extra services”, thus lowering household income and reducing overall social welfare.

Following this reasoning, the authors develop a model that describes these effects. We introduce the term  $Y$  to describe net public utility (comparable to *yield* or *output* in the economics literature<sup>28</sup>). Furthermore, we introduce the term  $W$  to describe total need, or welfare demanded. Generally, the authors suggest, when governance failure occurs, the following relation will hold:

$$Y < W.$$

In other words, “all the net public utility produced is likely to be lower than the net public utility required to satisfy localised (patron-specific) and collective needs.” Next, the authors introduce the term  $\pi$  to describe net value appropriation by the class with strategic control. This value is also compared with net produced utility  $Y$ . In case of governance failure, the following relation holds:

$$\pi > Y,$$

meaning that private value appropriation is higher than net public value. The authors then combine the two relations, establishing the following inequality:

$$\pi > Y < W.$$

This simply states that net value appropriated by the class in strategic control is greater than net value produced, which is less than what is socially desirable.

The authors propose moving away from a purely *ownership*-based model to one focusing on strategic control, as this focus “addresses all forms of access to the control function, including representation in decision-making bodies without ownership.” (p. 744) Thus, they propose using the term *membership* instead, which “depends not on ownership but on the right to participate in... strategic control.” They propose three classes of patrons: 1) members (both owners or non-owners, as well as both contractual and non-contractual relations); 2) contractual non-members, who are related to the organization only via contract; and 3) non-contracted patrons who are neither owners nor

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<sup>28</sup>Cf. [Mankiw, 2003, p. 247]

contractually related, but nevertheless considered to be *stakeholders* (e.g., members of the local community).

This model of *extended corporate governance* (p. 746) can be used to power a model of governance that more broadly aligns with overarching social demands, such as those for action on climate change, inequality and any number of other issues.

### 2.5.8 The Political Theory of the Firm

Labor sociologist Isabelle Ferreras has summarized a recent rush of new perspectives on organizational theory. Her 2017 book, *The Firm as a Political Entity* is, she claims, the result of a number of discussions, conferences and global events that saw the creation of an interdisciplinary project to re-imagine the firm in new ways. The goals of the book are three-fold. Firstly, she has set out “to go beyond the reductionist view of the firm as a corporation and offer a realistic view of the capitalist firm in its entirety” [Ferreras, 2017, p. 167]. Secondly, the book attempts “to set the firm within the long-term trend of the transition of the economy into the public sphere of our democratic societies.” (Id.) This she does by means of a provocative and politically Progressive notion of Economic Bicameralism, an idea entrenched in the historical shift from despotism to democratic governments.

Ferreras couches the latter theory in a descriptive, substantive and normative framework, going back to the *Secessio plebis* of the Fifth century Roman Republic (Id., p. 119ff.) and moving up to the Glorious Revolution of England (Id., pp. 122ff.), which saw the formal recognition of the separation of powers. Similarly, Ferreras sees a recognition of the invaluable contribution to the firm’s existence on the part of its workers, whom she calls *labor investors*. Indeed, she suggests, today’s firms are governed despotically, in the manner of private entities, with a Unicameral Government only respecting the opinions of and accountable to the firm’s capital investors. If democracy is to be seen as a Progressive ideal that continually furthers the cause of emancipation, then Ferreras argues it must recognize the “public” nature of labor in today’s service-based economy in which “the client’s presence in the workplace has caused a fundamental shift in the actual fabric – and conceptual location – of the workplace, pushing it away from the familiar space it once occupied at the margins of the private sphere” (Id., p. 84). Therefore, the system of private despotism based on dominium (“Ownership and Rulership”, echoing Gierke above), Ferreras argues, must be replaced by one of full representation of workers in the form of a Bicameral Government of the firm elected equally by a Chamber of Labor Investors and a Chamber of Capital Investors (Id., pp. 140ff).

The strengths of Ferreras' approach are manifold and exemplified by her ability to blend theoretical observations from a number of disciplinary standpoints, including economics, political science, organizational science and sociology with a synthetic analysis of historical facts, tracing out the components of various pertinent historical struggles for emancipation, including those mentioned above. She moreover connects this analysis with a view to recent historical events, such as the development of the contemporary etatist regime in France (Id., pp. 42ff.), as well as studying Germany's codetermination (Mitbestimmung) framework (Id., pp. 48ff.). In the end, she is able to cogently connect this discussion with two traditional research strands covering economic relations: traditional liberal economic theory and Marxism. Both, she argues, echoing Ellerman's critique above, take for granted the instrumental rationality guiding firms today on the basis of control of shares in the corporation.

As alluded to above, Ferreras dismisses this view of the firm as corporation as overly simplistic and forcefully argues for the need to move beyond both the liberal economic and Marxian frameworks, to a standpoint acknowledging at least two distinct rationalities driving the firm: the instrumental rationality of the capital investors, as well as the expressive rationality of the labor investors (i.e., workers). This latter rationality is identified as "subordination of realities to values", in the language of Weber (Id., p. 82) and practically entails the fact that "work is always more than just a way to earn a living" (Id., p. 85). Ferreras argues that "Economic Bicameralism gives voice to the firms' two constituencies: acknowledging that each is indispensable to the other, it offers a structure in which a firm's capital investors and its labor investors can hold power together." (Id., p. 159)

### 2.5.9 Conclusion from Theories of the Firm

We see in the above a general shift away from the stipulations of a neoclassical firm. Both in the tradition of Post-Walrasian Political Economy, which ranges from the relatively neoclassical proximate view of NIE, all the way to more psychologically or politically oriented theories of the firm, we see a move away from exogenous contract enforcement and preference development. The theory of cooperation we develop in the remainder of this work will take such discourses as its starting point and find that a general view of cooperation must move away from both exogenous preference development, as well as exogenous contract enforcement. We will advocate a relational perspective that attempts to incorporate stakeholder interests in a synthetic governance mechanism of set of mechanisms.

As such, the present work supports the shift away from singular (e.g.,

instrumental) logics and towards a “political” or “social” theory of the firm.

## 2.6 Elements of a Science of Cooperation

There has been renewed attention recently given to the history, evolution, transmission and maintenance of cooperation, including in economics discourse. For many centuries, particularly Anglo-American economists like Bentham, Edgeworth, Marshall, Pigou and Samuelson accepted, more or less without question, the unqualified observation made by Adam Smith in *The Wealth of Nations* that human beings have a “natural propensity to truck, barter and trade”. Thus, relations such as those established on reciprocity were basically neglected within the economics literature. This is particularly apparent in the near total absence of consideration of elements like “reproductive” and “care” labor within economics discourse [Gibson-Graham, 2006]. However, that appears to be changing, as the recent influx of behavioral economics with its strong focus on empirical approaches has reintroduced the centrality of cooperation in shaping human behavior.

The study of cooperation has a long history, going back to the roots of philosophical inquiry itself. We begin this section by quickly summarizing this long and studied history, which will be necessarily abridged, touching first on classical philosophers like Aristotle. This discussion precedes an overview of idealist and socialist thought, largely from the 18th century onward. This discussion, in turn, sets the stage for Darwin’s contribution to understanding behavior as the product of evolutionary processes. After recounting the misappropriation of Darwin’s theories by Thomas Huxley and others, claiming the mantle of “Social Darwinists”, we quickly review a vital work by Russian polymath Pyotr Kropotkin, written around the turn of the 20th Century. We then move into the twentieth century, following several significant entries into the study of cooperation.

### 2.6.1 Pre-Modern Studies of Cooperation

The study of cooperation is as old as written language. For instance, the *Code of Ur-Nammu*, the oldest known law code surviving, prescribed a particular regime for cooperating on the use of fresh water [Finkelstein, 1968, Paragraph 28]. Indeed, Aristotle wrote in his *Politics* that human beings are political animals and cooperate in polities to gain mutual advantages, an early reference to a theory of division of labor. Moreover, in his *Eudomian Ethics*, Aristotle also refers to humans as *collective animals* (zoon koinonikon). This is a more specific reference to an ethical or social theory of cooperation. Other



ancient authors like Cicero placed a central emphasis on the civic aspects of cooperation, for instance in his *On Duty (De Officiis)*. Machiavelli later emphasized the notion of cities as collectives of civic-minded individuals. He emphasizes this particularly in his *Histories of Florence*, where he emphasizes the notion of *virtu* as being central for a political community to sustain itself.

Most modern theories of cooperation are based on variations of two authors whose views were pivotal in shaping future social sciences in their grounding of what has been called *social contract* theory: Hobbes and Rousseau. According to Hobbes, who in 1651 published *Leviathan*,

humans being the selfish creatures they are, life in an original State of Nature was in no sense innocent; it must instead have been ‘solitary, poor, nasty, brutish, and short’ – basically, a state of war, with everybody fighting against everybody else. Insofar as there has been any progress from this benighted state of affairs, a Hobbesian would argue, it has been largely due to exactly those repressive mechanisms that Rousseau was complaining about: governments, courts, bureaucracies, police. This view of things has been around for a very long time as well. There’s a reason why, in English, the words ‘politics’ ‘polite’ and ‘police’ all sound the same – they’re all derived from the Greek word polis, or city, the Latin equivalent of which is civitas, which also gives us ‘civility,’ ‘civic’ and a certain modern understanding of ‘civilization’.

Human society, in this view, is founded on the collective repression of our baser instincts, which becomes all the more necessary when humans are living in large numbers in the same place.” [Graeber and Wengrow, 2021, p. 2-3]

Meanwhile, Rousseau wrote *Discourse on the Origin and the Foundation of Inequality Among Mankind* in the context of a contest in 1754. In a brief and necessarily simplified version of Rousseau’s version of primordial evolution,

“Once upon a time, the story goes, we were hunter-gatherers, living in a prolonged state of childlike innocence, in tiny bands. These bands were egalitarian; they could be for the very reason that they were so small. It was only after the ‘Agricultural Revolution’, and then still more the rise of cities, that this happy condition came to an end, ushering in ‘civilization’ and ‘the state’ – which also meant the appearance of written literature, science and philosophy, but at the same time, almost everything bad in human life: patriarchy, standing armies, mass executions and

annoying bureaucrats demanding that we spend much of our lives filling in forms.” (Id., p. 1)

[Graeber and Wengrow, 2021, p. 30] argue that “Each of these authors populated the State of Nature with what they took to be the simplest societies known in the Western Hemisphere, and thus they concluded that the original state of humanity was one of freedom and equality, for better or worse (Hobbes, for example, definitely felt it was worse).” They then hypothesize that the narratives, which have had lasting negative impacts on the social sciences and prevented alternative theories of human sociality from taking root, were the result of a particular reading of the differences in European and (Native) American society as a result of the encounter with the New World. It can be argued that much of modern contract theory and the domain of the principle-agent relation derives its intellectual heritage from particularly the Hobbesian strand of social contract theory.

We return to Aristotle and the classical tradition of cooperation in Chapter 4.

### 2.6.2 Saint-Simon, Robert Owen, Proudhon: Idealist Theories of Cooperation

**Saint-Simon** Saint-Simon contrasted the *industrial classes* against the *idling classes*: “all political change has been due to the evolution of the instruments of production, and today’s technology calls for corresponding political change. Poverty and crises are caused by free competition and the resulting anarchy of production and exchange. This anarchy, however, subjects those who contribute to production—manufacturers, merchants, industrial and agricultural workers—to the authority of incompetent drones and idlers. The most important dividing line, in Saint-Simon’s opinion, was between producers and those who merely consumed the fruits of others’ labour.” [Kolakowski and Kozlowski, 1977, p. 215]

Thus, “[t]he future society, to which industrial concentration was leading, would be one in which industry was managed by the producers of wealth; production would be planned and measured by social needs, and private property, while still permitted, would change its character, as its use would be subordinated to the general good and not left to the owner’s whim; inheritance would be abolished, so that property would be enjoyed only by those who had earned it by their abilities and application. Competition would give way to emulation; private interest would become an instrument of self-improvement, devoted to serving the community instead of opposing it.” (Id., pp. 215-6)

Saint-Simon advocated for a positive view of social science striving towards the Newtonian ideal (215), and argued that history entailed successive progress along both organic and critical stages, circulating from relative stability and harmony to periods of disorganization and illegitimate social structures, that bode for social reform or revolution. Such processes led, according to Saint-Simon, to a society of free association, where the principle of cooperation would ultimately prevail (218).

**Robert Owen** Robert Owen was considered by Polanyi to be the “closest thing that socialism has to a patron saint.” [Polanyi, 1944] A wealthy industrialist, he believed that “[m]anual labor, properly directed, is the source of all wealth and of national prosperity.” [Cole, 1930, p. 222] He furthermore argued that “It is the want of a profitable market that alone checks the successful and otherwise beneficial industry of the working classes.” (Id., p. 223) While the working classes produce the wealth of the world, “existing arrangements of society will not permit the laborer to be remunerated for his industry. In consequence, all markets fail.” Only by cooperation could this state be overcome, so Owen.

Owen fascinated not merely because of his progressive social vision, but also for his role as a socially-inclined entrepreneur. His experimental productive communities at New Lanark and New Harmony drew social and political reformers, as well as liberal-minded journalists and industrialists from around the world, including one Jeremy Bentham. And Owen applied his philosophy in the workplace:

He reduced working hours to ten and a half, employed no children under 10 years of age, introduced free primary education and relatively hygienic working conditions, and eliminated drunkenness and theft by persuasion instead of punishment. To the general surprise he showed that on this basis he could achieve better results in production and trade than employers in whose factories adult and child workers were decimated by cruel and inhuman conditions, while disease, starvation, drunkenness, crime, and slave-driving methods degraded the labouring class to the level of animals. [Kolakowski and Kozlowski, 1977, p. 221]

In *A New View of Society* he spelled out his vision, connecting industrial production, education and, above all, the principle of cooperation in industry. In particular, his vision emphasized a progressive notion of moral education: Owen advocated and practiced “the joint construction of meaning by pupil and teacher through the dialogic exploration and evaluation of ideas validated

by reason and experience rather than merely custom. [...] Aside from the unexpected informality of teacher-pupil interactions, Owen's methods encouraged frequent and unusual levels of cooperation between the sexes in the day-to-day activities of the classroom." [Davis and O'Hagan, 2014] In fact,

The practice of collaboration and mutual assistance held a strongly moral appeal for Owen, especially when it was applied to groups of human beings with a pronounced history of antagonism or misunderstanding. Divisions of gender, generation or religious faith seemed to him fertile context for the application of teaching strategies rooted in the experience of dialogue or sharing. From this beginning, he believed, children could be encouraged to absorb the principle of cooperation as part of their lifelong motivation, 'as though they were literally all of one family.' (Id., p. 89)

**Proudhon** "Proudhon believed in a 'natural' social harmony and in the inalienable rights of man, which were violated by the existing economic system: the right to freedom, equality, and the sovereignty of the individual." [Kolakowski and Kozlowski, 1977, p. 234]

[Kolakowski and Kozlowski, 1977, p. 235] comments that "he is at pains to state that the intellectual organization of social reality in abstract categories is secondary to that reality. The first determinant of human existence is productive work, while intellectual activity is the outcome of such work. If spiritual life has become alienated from its true origins, and if ideas are not aware that their source lies not in themselves but in the world of labour, this is a symptom of an illness in society that must be cured."

"However, 'labour' in Proudhon is a normative as well as a descriptive category. His criticism of property is based on the moral indignation aroused by unearned income." (Id.) Proudhon was convinced that the key to answering the question of cooperation lay in the notion of property. In his work *Property is Theft!*

the system which permits the enjoyment of unearned income is immoral and leads to social contradictions. To draw dividends, interest, rent, etc. on the mere ground that one possesses capital is as though one were creating something out of nothing. It is irrelevant whether the property-owner performs productive work or not; if he does, he is entitled to a proper reward, but anything he enjoys over and above this, merely as an owner of wealth, represents a theft from other workers. [...] The antithesis of a

system based on property, however, is not communism but the abolition of incomes not justified by labour, i.e. a society in which goods are exchanged among producers at a rate determined by the amount of labour that has gone into them. (236)

Moreover, Proudhon's view is steeped not only in the cooperation of laborers among themselves, but also of the organic cooperation of land, labor and tools towards producing useful goods and services: "His view was that none of the three factors of production—tools, land, and labour—created value by itself, but only all three together. Tools and land had no productive force without labour, but the mere expenditure of energy was unproductive too unless it were used to change the face of nature by means of tools. The sea, the fisherman, and his net are all needed before we can have fish to eat." (Id.) Thus, Proudhon "does not really wish to abolish property but to generalize it." (237)

### 2.6.3 Charles Darwin: *On the Origin of Species*

The real origins for cooperation (in human beings) likely lie back in the linguistic, biological and cultural origins of *homo sapiens*. Certainly, the existence of such values would puzzle anyone with a basic understanding of natural selection. Darwin was quite puzzled about the evolution of cooperation, which seemed, *prima facie*, to run counter to his theory of natural selection:

But it may be asked, how within the limits of the same tribe did a large number of members first become endowed with these social and moral qualities, and how was the standard of excellence raised? It is extremely doubtful whether the offspring of the more sympathetic and benevolent parents, or of those who were the most faithful to their comrades, would be reared in greater numbers than the children of selfish and treacherous parents belonging to the same tribe. He who was ready to sacrifice his life, as many a savage has been, rather than betray his comrades, would often leave no offspring to inherit his noble nature. The bravest men, who were always willing to come to the front in war, and who freely risked their lives for others, would on an average perish in larger numbers than other men. Therefore, it hardly seems probable that the number of men gifted with such virtues, or that the standard of their excellence, could be increased through natural selection, that is, by the survival of the fittest; for we are not here speaking of one tribe being victorious over another. [Darwin, 1872, Chapter 5]

Inadvertently, Darwin may have stumbled upon the answer. The problem, it seems, may lay in the fact of attempting to distinguish *inter* and *intragroup* advantages, whereas the influence may be quite significant, from one to the other. And, thus, Darwin continued later:

It must not be forgotten that although a high standard of morality gives but a slight or no advantage to each individual man and his children over the other men of the same tribe, *yet that an increase in the number of well-endowed men and an advancement in the standard of morality will certainly give an immense advantage to one tribe over another.* A tribe including many members who, from possessing in a high degree the spirit of patriotism, fidelity, obedience, courage, and sympathy, were always ready to aid one another, and to sacrifice themselves for the common good, would be victorious over most other tribes; and this would be natural selection. At all times throughout the world tribes have supplanted other tribes; and as morality is one important element in their success, the standard of morality and the number of well-endowed men will thus everywhere tend to rise and increase. [Darwin, 1872, Id., own emphasis]

This notion was passed down to biologists as *multi-level selection*. It is likely central in the development of preferences.

#### 2.6.4 Huxley, Spencer and “Social Darwinism”

**Huxley** T.H. Huxley, frequently (and often disparagingly) referred to as “Darwin’s bulldog” [Bowles and Gintis, 2013, p. xi], was instrumental in proliferating Darwin’s theory of natural selection. While a detailed summary of Darwin and Huxley’s correspondence and interactions would go beyond the current review, it should be noted that it was Huxley’s framing that later influenced the reception of Darwin’s ideas. In any case, Huxley advocated for the worldview expressed by Hobbes. Thus, in [Huxley, 1888, p. 204], he claims,

among primitive men, the weakest and stupidest went to the wall, while the toughest and shrewdest, those who were best fitted to cope with their circumstances, but not the best in any other sense, survived. Life was a continual free fight, and beyond the limited and temporary relations of the family, the Hobbesian war of each against all was the normal state of existence.

Meanwhile, under the Leviathan, “society” or “civilization” is facilitated, enabling the ideal of “the ethical man”:

the ideal of the ethical man is to limit his freedom of action to a sphere in which he does not interfere with the freedom of others; he seeks the common weal as much as his own; and, indeed, as an essential part of his own welfare. (Id., p. 205)

For “the ethical man”, peace is “means as well as ends”. As [Brown, 2010] remarks about Adam Smith, Huxley appears also to ignore the violent history of empire and the slave trade, issues to which we return to subsequently. What matters is that, in Huxley’s estimation, cooperation is the result of humanity’s desire to bind itself, not a motor or cause in its own right. Moreover, he displays a static social ontology in observations such as the following: “That a certain proportion of the members of every great aggregation of mankind should constantly tend to establish and populate such a Slough of Despond as this is inevitable” (215)

Lastly, Huxley in *The Struggle for Existence* appears to apply a deterministic relation between social organization and cooperation: “the higher and the more complex the organization of the social body, the more closely is the life of each member bound up with that of the whole; and the larger becomes the category of acts which cease to be merely self-regarding, and which interfere with the freedom of others more or less seriously.” (Id., p. 228)

**Spencer** Spencer coined “social Darwinism” and “survival of the fittest”, which are little related to Darwin’s original theses. “Spencer coined the term in 1852 in an article on population theory, while suggesting that intraspecific struggle—largely provoked by the pressure of population growth—resulted in ‘progress,’ with the survival of plant and animal species being dependent on their fertility.” [Claeys, 2000, p. 227]<sup>29</sup> Of course, in this sense, Spencer was not unique and was indeed entering a tradition whose inception [Polanyi, 1944, Chapter 10] attributes to Townsend’s 1786 *Dissertation on the Poor Laws*.

Spencer’s view is thus strongly teleologically oriented. “In his book *Social Statics*, for example, published in 1850, Spencer’s beliefs in ‘human perfectibility’ and the ‘necessity’ of progress were made to rest on the supposed operation of a ‘law’ underlying the whole of organic creation that was unreservedly Lamarckian” [Freeman, 1974, p. 213] In this particular sense, Spencer’s position differs from Darwin’s: while Darwin dismissed the Lamarckian vision as

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<sup>29</sup>For an extended overview of relevant literature, see [Claeys, 2000, p. 226, footnote, 19].

“nonsense”, “absurd” and “veritable rubbish”<sup>30</sup>, Spencer based his notions of “survival of the fittest” on exactly such conceptions.

Thus, “This lumping together of the evolutionary theories of Spencer and Darwin is, in the light of the evidence, unwarranted, for the theories of Darwin and Spencer were unrelated in their origins, markedly disparate in their logical structures, and differed decisively in the degree to which they depended on the supposed mechanism of Lamarckian inheritance and recognized ‘progress’ as ‘inevitable’.” ([Freeman, 1974, p. 213])

This difference is significant, as [Ulanowicz, 2009, p. 28] makes clear:

While some do give voice to the role of history in Darwinian evolution, far fewer seem motivated to emphasize that Darwin’s narrative represented a radical departure from the absolute lawfulness of the Newtonian world. One doesn’t speak, for example, of Darwin’s law of evolution. Rather, one refers to it as a theory, or less frequently as the process of evolution. This shift from law to process is highly significant because, as Whitehead and Russell (1913) were able to demonstrate, the outcome of a proper law is always determinate. With a process, however, despite the action of particular constraints, the outcome is decidedly indeterminate.

Thus, we advocate for a process-based view of cooperation that is indeterminate, not one of deterministic laws towards some final endpoint, e.g., Hegel’s *Philosophie des Rechts*.

### 2.6.5 Pyotr Kropotkin: The Principle of Mutual Aid

Pyotr Kropotkin was a Russian nobleman, anarchist and geographer, who abandoned a prestigious court career to explore flora and fauna in Siberia [Miller, 1976] and who in 1890 began publishing a series of refutations of Huxley’s version of Darwinian evolution, which were published in 1902 as *Mutual Aid: A Factor of Evolution*. Huxley, so Kropotkin, “...made modern literature resound with the war cry of woe to the vanquished, as if it were the last word of modern biology. They raised the ‘pitiless’ struggle for personal advantages to the height of a biological principle which man must submit to

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<sup>30</sup> “[H]e wrote (F. Darwin 1888a:23) to J. D. Hooker: ‘Heaven forbid me from Lamarck nonsense of a “tendency to progression”, “adaptations from the slow willing of animals”, &c.! But the conclusions I am led to are not widely different from his; though the means of change are wholly so.’ And, later (also in letters to Hooker), he described Lamarck’s work on the species question (pp. 29, 38) as ‘veritable rubbish’ and ‘absurd though clever.’” [Freeman, 1974, p. 213]



as well, under the menace of otherwise succumbing in a world based upon mutual extermination.”<sup>31</sup>

Kropotkin compares Huxley’s vision with that of Hobbes and “finds that Huxley’s image is an scientifically groundless as former’s hypothetical state of nature” [Kinna, 1992, p. 42]. “But”, writes Ruth Kinna, in a compelling summary of the controversy, “it is also charmless: Huxley’s vision, Kropotkin suggests, is simply a restatement of the Hobbesian war of each against all.” (Id.)

In the end, during his journey through Siberia, Kropotkin was continually impressed by the high degree of sympathy and interdependence he discovered in the harsh conditions of nature, which contributed to his study the persistence of solidarity and mutual aid in human societies. He ultimately concluded that, despite centralizing power in the State and the rise of anonymous transactions, the principle of mutual aid still continues to provide a strong guiding signal in things like volunteer work, the adoption of orphans, mutual aid societies, cooperatives, etc.: “In short, neither the crushing powers of the centralized State nor the teachings of mutual hatred and pitiless struggle which came, adorned with the attributes of science, from obliging philosophers and sociologists, could weed out the feeling of human solidarity, deeply lodged in men’s understanding and heart, because it has been nurtured by all our preceding evolution.” [Kropotkin, 1998, p. 229]

Later in his career, Kropotkin continued to develop and refine his beliefs on mutual aid, and later settled on a dualistic notion, embracing both evolutionary and cultural factors in the principle. As Kenna remarks

[t]he first is an adaptation of Darwinian ideas and refers to an instinctual desire to co-operate, common to all species. In the second Kropotkin introduces the Lamarckian factor to suggest that the spirit of mutual aid becomes habitual in certain environments (the autonomous federated anarchist commune being the most conducive environment for the ethical spirit). As it does so the biological impulse gives rise to particular ethical sentiments. He describes these sentiments in terms of a threefold progression from mutual aid to justice and ultimately to morality (Kropotkin, 1904; 1905; 1910). Between 1912 and 1919 Kropotkin further elaborates his ideas, presenting the final statement of his thesis in *Ethics*. [Kinna, 1992, p. 46]

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<sup>31</sup>Cited in [Kinna, 1992, p. 42].

## 2.6.6 Neoclassical Theories of Cooperation

Neoclassical economics has no place for cooperation. Its focus is instead on finding suitable parameters in which to facilitate competition, which is taken to be an extension of Spencer’s metaphor of “social Darwinism”. Writes [Ellerman, 2021c] of the neoclassical model in this respect:

In spite of all the heterodox critique of the empirical applicability of the competitive model, neoclassical economists are clear that it was never intended as an empirical model. Perhaps the most philosophically sophisticated of the orthodox defenders is Frank Knight who was quite clear on the point. The competitive model is not intended to be descriptive; it is postulated as the ideal or paradigm around which to *frame and limit* the normative discussion, e.g., are workers paid the value of their marginal product as in the competitive model or not?

**The “Illyrian” Firm and Its Critics** In response to the apparent success of the Yugoslav model of cooperative ownership (“self-management”, as it was called), a number of neoclassical economists attempted to account for this firm type. The ensuing model has been dubbed the Ward-Domar-Vanek firm, or the Illyrian firm. According to [Dow, 2018, p. 35],

The theoretical literature on labor-managed firms has been strongly influenced by the early work of Ward, Domar, and Vanek, who assumed that LMFs maximize income per worker. It will be convenient in what follows to call any firm that maximizes income per worker a WDV firm. Elsewhere, I have called these “Illyrian” firms, borrowing from the title of Ward’s article.

The WDV model has a number of problems. “The most fundamental problem”, so Dow,

[...]is that it does not anchor the objective function of the firm in the interests of an identifiable set of individual agents. It is unclear what group of labor suppliers has authority over the firm’s labor input or why this group wants to maximize income per worker. This is not an issue when the current membership is fixed and equal to the current workforce, because then maximizing total income and income per worker are the same thing, but such issues are immediate when the number of workers is variable. For example, the maximization of income per worker may require that some workers be expelled. This creates obvious conflict between

those who expect to remain and those who expect to leave. The WDV model does not specify any collective choice procedure to resolve such conflicts, or any system of individual property rights with respect to firm membership. (Id. p. 37)

Dow develops an alternative model, which he refers to as the SD firm, where “membership rights are traded on a competitive market” (Id.). Ultimately, he concludes that

an economy consisting of labor-managed firms can replicate Walrasian equilibria in the short run without relying on free entry or corrective taxes. This is not true for WDV firms, so one should not identify the LMF in general with the Ward-Domar-Vanek firm in particular. The results also reveal that when markets are complete and competitive, a capitalist economy has no efficiency advantage over its labor-managed counterpart.

We will conclude that membership shares in democratic firms should not, in fact, be sold in markets, as Dow argues. The reasoning is much similar to the argument that citizenship should not be “for sale”. More on that later.

**“Post hoc, ergo propter hoc”** True to Jellinek’s notion of the “normative bias of the status quo”, there is a long-held bias against economic democracy, the empirical lack of which many theorists attribute to essential features of elective hierarchy. Usually, the argument runs that workers have higher risk aversion than entrepreneurs and therefore, enterprises owned jointly by workers will forego necessary investments, rendering the firm undercapitalized and under-invested. A similar argument, advanced by Williamson, suggests that opportunism among stakeholders is the reason why non-elective hierarchies are preferable. As individuals like Gregory Dow have shown, these arguments are not convincing at face value. Nor are the assumptions that underlie them realistic.

For instance, as Dow points out, the assertion of opportunism can equally be made on the part of managers. Likewise, mainstream theories that gloss over qualitative differences between labor and capital do injustice to the inalienability and unique characteristics of human labor. Therefore, as Dow suggests, any organizational theories that try to account for the dearth of democratic enterprises must take into account such analytical asymmetries and not merely assume, *post hoc, ergo propter hoc*.

**Undercapitalization and Underinvestment** At the same time, long-held beliefs on productivity and investment deficits in cooperatively owned

enterprise have been disproved by empirical study ([Pencavel et al., 2006], [Fakhfakh et al., 2012], [Burdín, 2014]). Additionally, more and more empirical studies have shown cooperative resilience in the face of the Global Financial Crisis and similar challenges<sup>32</sup>, the number of cooperatives in many parts of the world continues to grow and the UN declared 2012 the year of the cooperative [Patmore and Balnave, 2018, p. 1]. Additionally, the increasing interest the cooperative movement has seen has led some jurisdictions to create laws adequate to the needs of cooperative business. Moreover, new and innovative legal structures have been devised to deal with issues of financing and investment. [Blome-Drees et al., 2017]

These developments mean that at the same time that new understanding is developing of interpreting, describing and explaining pro-social behavior, new microeconomic foundations in the theory of the firm are rendering past debates on labor ownership of firms moot, or at least displacing the debates into more fruitful domains<sup>33</sup>. These advances now put us into a strong position to pro-actively study and catalog the many real advantages that cooperatively owned firms display over their traditional counterparts. At the same time, some of the more negative theoretical findings (which have been consistently at odds with empirical findings) have now given way to more sympathetic (realistic) readings of the shortcomings that may even point to pragmatic solutions to problems such as under-investment (and the like).

### 2.6.7 Axelrod: *The Evolution of Cooperation*, 1981

[Axelrod and Hamilton, 1981] describes the evolutionary emergence of cooperation, concluding that “cooperation can get started by even a small cluster of individuals who are prepared to reciprocate cooperation” and furthermore that the evolution of cooperation requires that “the cooperation be based on reciprocity, and that the shadow of the future is important enough to make this reciprocity stable.” Axelrod’s reductionistic analysis finds that “the individuals do not have to be rational. . . [n]or do the players have to exchange messages or commitments”. Furthermore, “there is no need to assume trust between the players”, also “altruism is not needed”, and “no central authority is needed”. [Axelrod and Hamilton, 1981, pp. 173-4] Instead, for Axelrod, the emergence of cooperation “requires that the players have a large enough chance of meeting again and that they do not discount the significance of their next meeting too greatly.” It also “requires that successful strategies can thrive and that there can be a source of variation in the strategies which

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<sup>32</sup>For an overview, see either [Ammirato, 2018] or [Dow, 2018, pp. 85ff.].

<sup>33</sup>Source: Private correspondence with Prof. Greg Dow and Prof. Gilbert Skillman.

are being used.”

Axelrod describes the results of a famous computer tournament, in which five of six rounds (in the sixth, it came in second place) were won by a simple program called “TIT FOR TAT”, as being attributable to the program’s “being nice, provocable, forgiving, and clear.” [Axelrod and Hamilton, 1981, p. 176] Indeed, the *reciprocal altruism* discussed by Bowles and Gintis is an example of “TIT FOR TAT”. Particularly, Axelrod underlines the importance of *provocability*:

I came to this project believing one should be slow to anger. The results of the Computer Tournament for the Prisoner’s Dilemma demonstrate that it is actually better to respond quickly to a provocation. It turns out that if one waits to respond to uncalled for defections, there is a risk of sending the wrong message. The longer defections are allowed to go unchallenged, the more likely it is that the other player will draw the same conclusion that defection can pay. [Axelrod and Hamilton, 1981, p. 184]

While we will show later that the assumptions of viewing the Prisoner’s Dilemma as a workhorse model for human social interaction is deeply flawed, the sentiment expressed above may not depend on the situation resembling a Prisoner’s Dilemma. Moreover, it anticipates E.P. Thompson’s discussion of the rationality of the mob below in 4.5.1.

Importantly, Axelrod admits that the mechanisms that facilitate the evolution of cooperation *can* “also involve more deliberate process such as imitation of successful patterns of behavior and intelligently designed new strategic ideas.” [Axelrod and Hamilton, 1981, p. 175] In fact, he lists three distinct methods for “promoting cooperation”: “making the future more important relative to the present; changing the payoffs to the players of the four possible outcomes of a move; and teaching the players values, facts and skills that will promote cooperation.” (*Id.*, p. 126) In particular, we wish to emphasize the last of these methods, which is insufficiently dealt with in the book, whose level of generality is such that it attempts to apply the same rules to bacteria, birds, and human society. However, as Axelrod himself admits:

humans have developed their recognition abilities to the extent of having a part of their brains specialized for the recognition of faces. The expanded ability to recognize individuals with whom one has already interacted allows humans to develop a much richer set of cooperative relationships than birds [or bacteria] can.” [Axelrod and Hamilton, 1981, p. 140]

In comments like this and elsewhere, the author makes clear that gene-cultural evolution sets *homo sapiens* apart in the biological world and imprints us with particular tools suitable for the development and maintenance of cooperation. Thus, “teaching the players values, facts and skills that will promote cooperation” should take a much more central role in any study of how *human* cooperation occurs, develops or is maintained. However, the author spends little time on the issue, besides discussing the strategic difficulties in fostering altruism, which leads him to conclude “that reciprocity is a better foundation for morality than is unconditional cooperation. . . [as] [i]t actually helps not only oneself, but others as well. It helps others by making it hard for exploitative strategies to survive. And not only does it help others, but it asks no more for oneself than it is willing to concede to others.” [Axelrod and Hamilton, 1981, pp. 136ff.] The former characteristic is referred to as a “self-policing feature”.

In terms of actually outlining what a program of “teaching the players values, facts and skills that will promote cooperation” would look like, this is left largely to the reader’s imagination, besides the following oblique comment:

So teaching the use of nice strategies based upon reciprocity helps the pupil, helps the community, and can indirectly help the teacher. No wonder that an educational psychologist, upon hearing of the virtues of TIT FOR TAT, recommended teaching reciprocity in the schools.” [Axelrod and Hamilton, 1981, p. 139]

This says very little about the place, context, organization and *content* of such a moral education. Indeed, these are pressing issues. To cite Axelrod’s closing appeal:

The conditions may all be favorable for long-run developments, but we may not have the time to wait for blind processes to move us slowly toward mutually rewarding strategies based upon reciprocity. Perhaps if we understand the process better, we can use our foresight to speed up the evolution of cooperation. [Axelrod and Hamilton, 1981, p. 191]

It is towards this end that the present work intends to contribute. One of its central theses will be that the scientific community generally, with few notable exceptions, has dedicated entirely insufficient resources to the design and study of institutions (many of which exist all around us) that consciously promote cooperation. Possibly this is due to the implicit assumption that such policies undermine the principle of autonomy and self-determination. However, as we will see below, this need not be the case, and is often not

the case in practice. We return to the topic of moral education especially in Chapter 6.

### 2.6.8 Sociobiology, Inclusive Fitness, Conquest of the Social

#### Sociobiology

E.O. Wilson made waves with his 1975 publication of *Sociobiology*. In it, he attempted to discover the biological roots of social behavior. The book, which takes as its starting point the discussion early discussion of multi-level selection by Darwin above, was highly controversial and in many ways made transformative arguments.

**Inclusive Fitness** Wilson's<sup>34</sup> original thinking "is best captured by taking Hamilton's formula for *inclusive fitness*, which states the precondition for the evolution of altruism as consisting of higher benefits than costs to the behavior in question, and taking a sum over a population. Axiomatically, the formula reads

$$rb \geq c,$$

where  $r$  is the relatedness of the individual upon whom one is conferring a benefit,  $b$  is the level of benefit of the action to the individual and  $c$  is the cost to the individual carrying out the action. This means that summing the formula for  $i$  groups of  $j$  individuals would entail

$$\sum_{i,j} rb_{k \neq j} \geq \sum c_{i,j}$$

It is easy to see that, according to the formula, the ability for altruistic behavior to develop and evolve would necessarily be limited to societies with a high level of relatedness, and would even there be quite limited to actions that confer extraordinary benefit to the recipient when measured with respect to the costs accrued. To illustrate, let us take a relatively high level of median relatedness, .2, and a benefit to cost ratio of .2, and a benefit to cost ratio of 5 to 1 has to occur for altruism to be able to spread." [Warren, 2015, pp. 114-5]

Inclusive fitness became the foundation for explaining *how* cooperation arose. However, in later years, Wilson revised his views on the importance, and even truth, of the idea of inclusive fitness. We address these revisions now.

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<sup>34</sup>The discussion of inclusive fitness is in part adapted from my own [Warren, 2015].

### *Evolution of Eusociality*

In a radical departure from his prior position, E.O. Wilson joined Martin Nowak and Corina Tarntia in publishing an article in *Nature* in 2010 entitled *The Evolution of Eusociality*. In this article, the authors essentially argue that human sociality is different from insect sociality because human beings are less specialized and form “highly flexible alliances”. Moreover, the path to human sociality traversed via multi-level selection. By means of this process, “the brain became simultaneously highly intelligent and intensely social.” These developments led over time to “personal bands and alliances based on intelligence and memory.” [Wilson et al., 2012]

One of the main problems with the notion of inclusive fitness is the theory’s justification in haplodiploidy, a circumstance where males develop from unfertilized (haploid) and females from fertilized (diploid) eggs. Insects of the Hymenoptera (bees, wasps and ants) and Thysanoptera orders, as well as certain other insects, display haplodiploidy. In such species, sisters are in fact more related. [Nowak et al., 2010] Due to the high incidence of eusociality among these species, then, a correlation was found. However, in the 1990s, the evidence of inclusive fitness declined as diplodiplodal eusocial species like the mole rat were discovered. Thus, “the association between haplodiploidy and eusociality fell below statistical significance.”<sup>35</sup>

Moreover, the benefits of close kin relation were offset by the many known negative implications it entails: disorders with respect to disease resistance, nepotism and inbreeding, among others. Therefore, inclusive fitness (hereafter IF) “evolved into an abstract enterprise largely on its own.”<sup>36</sup> This meant that IF could “not [be considered] a general theory of evolution”, as it involves no dynamics. Moreover, the authors argue, it “requires stringent assumption”, “interactions must be additive and pairwise”, which “excludes synergy and  $n > 2$  scenarios”. More damningly, however, the authors assert that “the IF condition is identical to... standard natural selection”, making it “just another way of accounting” and “less general” than standard evolutionary theory.

“Relatedness measurements without a meaningful theory are difficult to interpret”, thus “there are no predictions... specific to IF theory.”

In fact, the authors argue, there are many potential explanations of eusociality.<sup>37</sup> These include the non-radical observation that cooperation

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<sup>35</sup>Cf. [Nowak et al., 2010, footnotes 6-8].

<sup>36</sup>Cf., supra, footnote 16.

<sup>37</sup>We will review some of these in our brief summary of ergodicity economics. The reader may be interested in a fuller perspective, which can be gathered from [Peters and Adamou, 2015].



may be beneficial regardless of relation<sup>38</sup>. Moreover, questions of *cohesion* and *persistence* of groups matter, and these emphasize “the way in which groups are formed, and not simply their existence.” Therefore, the authors argue that “relatedness is better explained as the consequence rather than the cause of eusociality.” With respect to the real discrete cause of eusociality, the authors argue “[t]he causative agent is the advantage of a defensible nest, especially one both expensive to make and within reach of adequate food.” This “adaptive radiation” entails a number of “pre-adaptations” that make members of a species hardy in terms of rendering certain (cooperative) outcomes more likely given certain cues.

The authors describe five evolutionary stages of development towards proper eusociality. The first stage, “mass provisioning”, entails the first primitive group form. The second stage, “progressive provisioning” involves the “pre-adaptive trait” of the nest. The third stage involves the development of eusocial alleles via mutation or recombination. An example of the latter is the development of the pheromone-binding protein Gp. 9 in the common fire ant (*Solenopsis invicto*), which was due to a mutation. The fourth stage involves the development of *non-genetic* traits (behaviors) via interaction. This is probably the most radical aspect of the 2010 paper and it is worth dealing with at length here, due to its relevance in the remainder of this work. Indeed, the fourth stage emerges because “[a]s soon as the parents and subordinate offspring remain at the nest, natural selection targets the emergent traits created by the interactions of colony members.”

The question is on whom selection acts? The authors argue that, at the fourth stage, selection is no longer acting on genes or individuals, but on the *colony* or *group itself*. It is worth quoting their argument at length:

By focusing on the emergent traits, it is possible to envision a new mode of theoretical research. It is notable that the different roles of the reproducing parents and their nonreproductive offspring are not genetically determined. They are products of the same genes or ensembles of genes that have phenotypes programmed to be flexible. As evidence from primitively eusocial species has shown, they are products of representative alternative phenotypes of the same genotype, at least that pertaining to caste. In other words, the queen and her worker have the same genes that prescribe caste and division of labor, but they may differ freely in other genes. This circumstance lends credence to the view that the colony can be viewed as an individual, or “superorganism”. Further, insofar as social behavior is concerned, descent is from queen to queen,

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<sup>38</sup>Cf. *supra*, note 44.

with the worker force generated as an extension of the queen (or cooperating queens) in each generation. Selection acts on the traits of the queen and the extrasomatic projection of her personal genome.

Thus, the result is that “the eusocial Queen has increased fecundity and reduced mortality”. The complex level of colony-wide or superorganism-wide selection means that “it is hard to evolve eusociality, but easier to maintain it once it has been established.” The authors critique IF’s focus, not on “gene-centered”, but on “worker-centered” evolution (i.e., the evolution of traits in worker ants), referring to this perspective as “unnecessary”. Understanding the fourth evolutionary stage “is the proper subject of combined investigations in population genetics and behavioral ecology.” The authors reflect that research in this domain “ha[s] scarcely begun” due to the focus on reductionist theories within the mainstream. In particular, “a key element in the origin of eusociality is defense against enemies.” The final stage in the evolution of eusociality exerts selection pressure at the between colony level via multi-level selection.

### 2.6.9 Franz de Waal, *Our Inner Ape*

One of the most important topics in relation to the viability of cooperatives viz. other organizational forms is the question whether human nature tends more towards cooperation or conflict, and to what extent this tendency is inherent (exogenous) or determined by circumstances (endogenous). Primatologist Franz De Waal comments on the conflict between the behavior of the bonobo and the chimp, *homo sapiens*’ two closest relatives,

To have two close relations with strikingly different societies is extraordinarily instructive. The power-hungry and brutal chimp contrasts with the peace-loving and erotic bonobo—a kind of Dr. Jekyll and Mr. Hyde. Our own nature is an uneasy marriage of the two.[De Waal, 2006, p. 5]

Ultimately, we share as much with both chimps and bonobos, who form two poles of our nature. Or, as de Waal states, “With both cruel and compassionate sides, we stand in the world like a Janus head, our two faces looking in opposite directions.” (*ibid*) The question arises then of why so few social scientists focus on our cooperative, empathic side. We hear life is “nasty, brutish and short”, that we have “selfish genes” and stories of violence and brutality fascinate us. But ultimately, this just occupies one side of the equation:

The chimpanzee demonstrates the violent side of human society so well that few scientists write about any other side at all. But we are also intensely social creatures who rely on one another and actually need interaction with other people to lead sane and happy lives. Next to death, solitary confinement is our most extreme punishment. (*ibid*, *f.*)

Moreover, as de Waal reflects, recent neuroscience has vanquished the belief that cooperation is somehow epiphenomenal or merely the result of socialization:

By placing people in brain scanners and asking them to resolve moral dilemmas, experts have discovered that such dilemmas activate ancient emotional centers deeply embedded in the brain. Instead of being a surface phenomenon in our expanded neocortex, moral decision-making apparently taps into millions of years of social evolution. [De Waal, 2006, p. 32]

Many of these evolutionary processes are also present in our ape relatives, according to de Waal.

### 2.6.10 “The Nature and Origin of Preferences”

During the 1980s and increasingly in the 1990s, an interdisciplinary research project was initiated with the MacArthur Foundation, bringing together “Sam Bowles, Kenneth Arrow, and Amartya Sen, [who] initiated a series of research projects aimed at bringing together researchers from economics and other human sciences with the goal of promoting empirically grounded and transdisciplinary research in the social sciences.” [Henrich et al., 2004, p. 1] Out of this, the “Nature and Origin of Preferences” network was initiated:

Beginning in the early 1980s, a number of economists began testing the predictions of economic theory in laboratories using undergraduate subjects. In these experiments, subjects were asked to make economic decisions in which real money was at stake, sometimes substantial sums. While some results were consistent with the behavior of rational economic actors with standard (selfish) preferences, many were not. [Henrich et al., 2004, p. 2]

Thus, the researchers began concluding that “[t]here is much evidence, both from within economics, and from other disciplines, that this view of human nature misses a lot: people care both about other people, and about

how social transactions occur—not just the outcomes.” (Id. p. 1) The goal of the network became “the study of these so-called social preferences, through the work of experimental economics.” However, much of the results were contradictory. Thus, experiments by Joe Henrich in the tropical forests of southern Peru, for instance, discovered that “the Machiguenga [indigenous hunter-gatherers of the Peruvian tropical basin, cf. [Henrich et al., 2004, pp. 125ff.]] did not behave like the student subjects at all.” (Id., p. 3) Thus, more general theories of social versus selfish preferences were needed.

[Bowles and Gintis, 2013, p. 133] state that “Though the idea that altruism proliferated among humans by means of war dates back to Darwin [, it] has not been subjected to systematic investigation. When inter-group conflict has been considered, its extent has simply been assumed”. Thus with many aspects of cooperation. Their research on the ancestry and evolution of cooperation is therefore vital. In my own previous work, I recount some of the main arguments in *A Cooperative Species*, including its description of “the cultural, biological and other processes that explain how humans became this exceptionally cooperative species.” [Bowles and Gintis, 2013, p. 3] For a more detailed account of that entry, refer to [Warren, 2015].

Much of this literature is concerned with so-called “state dependence”, whose main premise, in, e.g., the example of having a job, “is that [...] if it is the case that (present or past) states of unemployment influence the chance of employment, then the likelihood of having a job in period  $t+i$  is, in fact, *state-dependent*” [Warren, 2015, p. 132, own emphasis]. Developing knowledge in this domain entails an advance in as far as it helps model phenomena that “enhance the ability of trust relationships, upon which cooperation depends, to develop. This is an interesting result for understanding the circumstances in which cooperation may arise.” (Id.) However, much of this research has not emphasized the *process* moving agents between those states. It has been primarily observational, with some game theoretical experiments conducted, as well.

Thus, this work seeks to both build on and extend prior theoretical and empirical work towards constructing a *general theory of cooperation*. In particular, it takes as its task the analysis of the *discrete processes* involved from shifting between various “states” (this is what psychologist Kurt Levin might have referred to as “Gestalt shifting”). Thus, whereas prior work was primarily concerned with demonstrating *that* state-dependence exists, this dissertation takes as its task the discovery of both environmental and psychological processes that can help explain *how* individuals and groups shift between and among states. This should serve as an essential link between a theory of social and context-dependent preferences and practices such as organizational governance, strategic management, as well as various political

processes.<sup>39</sup>

## 2.7 Communications Theory, Archaeology and Ergodicity

Notions like eusociality and other theories of cooperation also touch issues of communication and decision theory, as well as being strengthened by congruent findings from the domain of archaeology. We review the relevant literature below.

### 2.7.1 Discursive Knowledge

Authors like Loet Leyedesdorff have written about the dynamics of discursive knowledge and devised persuasive arguments as to the social implications of knowledge-generation and dissemination. Embracing the notion of discursive rationality of Habermas and the system theory of Luhmann, attempting to move beyond the limitations of both approaches. Leyedesdorff argues that Habermas' ideal of "discursive rationality" is limited in its applications. In particular, while finding much of interest in Habermas' distinction between "system" and "life world", [Leydesdorff, 2021, p. 5] describes Habermas' argument that "a sociology of science should not focus only on the micro-organizational differences between disciplines, but also explore their relations with these macro-socio-epistemic drivers. As a member of the Frankfurter Schule, Habermas, however, remained at this stage neo-Marxist: he questioned the room for unrestricted discussion (*"Herrschaftsfreie Diskussion von allen mit allen"*) from the perspective of the critical tradition."

However, Leyedesdorff is in agreement with Luhmann's criticism of Habermas' position with regards to the impossibility of "Herrschaftsfreier" discourse, summarizing key points of Luhmann's criticism in the fact that all language is already hierarchically structured and that merely inferring that "rationality" can resolve this amounts to an appeal to the arbitrariness of defining what is and is not "rational". Thus, while "both Habermas and Luhmann called for a theory of *meaning* as foundational to sociology [...] Habermas elaborated this theory in terms of communicative *action*, whereas Luhmann theorized communication *structures*." (6)

Noting a "double contingency" in human thought, communication and action, "both actions and texts are part of a first contingency; they are historical and observable. From an evolutionary perspective these observables

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<sup>39</sup>For a political application, cf. [Landemore, 2020, pp. 79-104].

in the first contingency provide the variation. However, inter-human communications develop evolutionarily in terms of selection mechanisms. Selection criteria are not immediately and unambiguously observable.” (Id.) It is these higher-order selection criteria in their recursive and incursive impact on structuring communication that influence the evolutionary dynamics of scientific knowledge, in conjunction with events at the lower level.

In other words, interactive rationality, which Habermas distinguished from means/ends rationality, is shaped in terms of meanings provided and shared among humans reflexively. Providing meaning to information can be considered as the selection of a signal from the noise. Not all information is meaningful; and one or more selections can be involved. However, the selection mechanisms cannot be inferred from the observable variation. Unlike variations (which are phenotypical), selection is “genotypical”—a system’s property—and may also be deterministic. Habermas’ assumption that the social system of communications can be considered as unrestricted (*“herrschaftsfrei”*) specifies a counterfactual; somewhat comparable to “all men are born equal.” However, normative assumptions are not sufficient for understanding the complex dynamics under study. We need research programs! (7)

This appeal to a research program can be interpreted as an interpretation of science as a form of multi-level cooperation between linguistic forms, speakers and the systems of communication which they may or may not share. We return to the work of Leydesdorff in Chapter 8, when we introduce the notion of an *cooperative n-tuple helix*.

### 2.7.2 New Findings in Archaeology and Anthropology

Archaeological and anthropological discoveries of recent decades cast doubt on the Hobbesian and Rousseauian theories of the evolution of social institutions. This “conceptual shift” (in the sense of “paradigm shift”, “Gestalt shift” or “Denkstilwandel” referred to above in 2.2) is exemplified by works such as [Henrich et al., 2004], [Bowles and Gintis, 2013], [Wengrow and Graeber, 2015], [Cockshott, 2020] and [Graeber and Wengrow, 2021]. For example, [Graeber and Wengrow, 2021, Chapter 2] claim that “the terms ‘equality’ and ‘inequality’ only began to enter common currency in the early seventeenth century, under the influence of natural law theory. And natural law theory, in turn, arose largely in the course of debates about the moral and legal implications of Europe’s discoveries in the New World.” [Graeber and Wengrow, 2021, p. 30]. Moreover,

they attribute the rise of interest in such topics directly to the encounters of French missionaries like Gabriel Sagard’s with indigenous North American tribes like the Hurons and Wendets. (*Id.*, pp. 35ff.)

We will re-encounter this “indigenous critique” throughout the following work, and will employ the concept to frame the remaining examples of non-European sources of democracy. Part of the critique returns to the criticism of the Hobbesian and Rousseauian notions of a “state of nature”, where close-knit bands of highly related human ancestors competed in “nasty, brutish and short” ways for survival. We quickly review a competing thesis.

**Cosmopolitan Ancestors** “Indeed<sup>40</sup>, the premise that our ancestors lived in close-knit groups appears quite suspect. [Moreno-Gómez et al., 2009] discuss the potential for the existence of *cosmopolitan ancestors*. There is considerable evidence for this theory. The archaeological record [Ambrose, 1998], for instance, speaks for significantly less genetic diversity than the parochial, close-knit communities individuals certain biologists, like” Richard Dawkins (*The Selfish Gene*) or Thomas Huxley (*The Struggle for Survival*), “assume to have preceded modern man would in fact possess. Additionally, ethnographic study of contemporary ‘pre-contact’ societies<sup>41</sup> reveals a high degree of continual and consistent contact with outside groups (trade and warfare<sup>42</sup>). Indeed, the high degree of conflict [Bowles and Gintis, 2013, pp. 102ff.]<sup>43</sup> and the extreme level of climatological volatility that accompanied the late Pleistocene [Andersen et al., 2004] would have necessitated frequent and sometimes extreme levels of migration and interaction.” [Warren, 2015, p. 115ff.]

“On a more abstract level, when a number of repeated generation computer simulations were run, it was shown that even mild levels of *perceptual error*, that is, errors in interpreting behavior correctly and relatively innocuous cost-benefit ratios” (a la Hamilton’s formula above) “reduced quite extraordinarily the upper limit of group members allowing for altruistic behavior to develop. Even for a relatively low perceptual error rate of 2%, maximum group size where altruistic behavior forms a dominant equilibrium ranged from 2-8, much smaller than the size we understand groups to have con-

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<sup>40</sup>This section is adapted from [Warren, 2015].

<sup>41</sup>See [Salzano et al., 1977] for a seminal study in the field; [Lins et al., 2010] and [Henn et al., 2011] are a more recent studies making similar claims.

<sup>42</sup>In fact, migration and trading of individuals between groups seems to be quite frequent among such societies.

<sup>43</sup>Indeed, there is a good argument that warfare likely strongly contributed to the evolutionary stability of altruism, via *parochial altruism*, which we don’t mean to address at present, but which provides a very compelling assessment of the *facilitator* of the evolution of cooperation and altruism.

sisted of in the late Pleistocene/Early Holocene, which was likely closer to 80[Moreno-Gómez et al., 2009] [Graeber and Wengrow, 2021].” [Warren, 2015, Id.] Thus, theoretical findings like that of [Moreno-Gómez et al., 2009] and archaeological discoveries like [Graeber and Wengrow, 2021]’s force us to re-think traditional theories of the evolution of cooperation and to re-cast them in non-Hobbesian terms.

### 2.7.3 Erdogicity Economics

One of the most fascinating and potentially radical developments in social sciences in recent years, *erdogicity economics* seeks to revise some core foundations of economic theory. Particular with regard to the formation of preferences, “erdogicity economics” questions the general assumption of ergodicity to complex systems like the economy. In short, ergodicity holds that Birkhoff’s equation, which sets the *time average* and *expectation value* of a certain parameter equal. This equation, it is claimed, “successfully describes the thermodynamic behavior of gases”, is not as universal as is often assumed. Writes Ole Peters in a 2019 article in *Nature*,

[I]n a wider context, many observables don’t satisfy [Birkhoff’s equation]. And it turns out a surprising re-framing of economic theory follows directly from asking the core ergodicity question: is the time average of an observable equal to its expectation value?[Peters, 2019, p. 1216]

Moreover,

[a]t a crucial place in the foundations of economics, it is assumed that the answer is always yes — a pernicious error. To make economic decisions, I often want to know how fast my personal fortune grows under different scenarios. This requires determining what happens over time in some model of wealth. But by wrongly assuming ergodicity, wealth is often replaced with its expectation value before growth is computed. Because wealth is not ergodic, *nonsensical predictions arise. After all, the expectation value effectively averages over an ensemble of copies of myself that cannot be accessed.* (ibid, own emphasis)

“Ergodicity economics” therefore places a high emphasis on the long-term time averages of expectations, rather than an ensemble approach based on expected discounted utility (EDU), which it is argued assumes risk-seeking behavior that is inconsistent with empirical evidence. Moreover, the argument



is that the EDU approach makes unjustifiable assumptions epistemically in terms of its assemblage of states (multiverse representations of subjects). The implications are that risk-management theory and practice “often solely relies on investors specifying their risk preferences or... their utility functions... without explicitly considering the effects of time.[Peters, 2009, p. 41]” This leads to a situation, according to Peters, where

[i]n an investment context, the difference between ensemble averages and time averages is often small. It becomes important, however, when risks increase, when correlation hinders diversification, when leverage pumps up fluctuations, when money is made cheap, when capital requirements are relaxed. If reward structures—such as bonuses that reward gains but don’t punish losses, and also certain commission schemes—provide incentives for excessive risk, problems arise. This is especially true if the only limits to risk-taking derive from utility functions that express risk preference, instead of the objective argument of time irreversibility. In other words, *using the ensemble average without sufficiently restrictive utility functions will lead to excessive risk-taking and eventual collapse.*

Thus, we can relate the premises of “ergodicity economics” to those of the “ecological phenomenology” of [Ulanowicz, 2012], in that they share the assumption of irreversibility. We can also associate “ergodicity economics” to the the sociological literature, particularly of the literature on *performativity*<sup>44</sup>. To what extent the findings of ergodicity weigh in on the current project? How does ergodicity’s rethinking of preference formation and risk assessment bear on the scope of the project? Indeed, the performativity of the standard approach misdirects our attention: [Bookstaber, 2017, p. 49] connects the centrality of non ergodic situations in social behavior to the fact of recurring crisis. In terms that in some ways echo Keynes’ charge of academic “scribbling” in *The General Theory*,

Economics operates as if we are like MGonz, like a “goddamn robot,” and it will present a reasonable view of our behavior and preferences if we live in such a context-less world. The fact of humanity is an impediment. That characteristic might not matter in the short term or in a stable world, but times of crisis are not such a world. So we get back to the point that in using crises as the crucible we find limitations to the standard economics approach.

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<sup>44</sup>Cf. [MacKenzie et al., 2007].

Much of this has to do with time inconsistency and “quasi-hyperbolic” discounting, a topic we return to in Chapter 6. Thus, the relevance to the present monograph is that if the notion of utility as specified in the neoclassical model is logically inconsistent, then there is reason to introduce notions like hysteresis, social learning and co-determination into our analysis of the development of preferences. Indeed, the development of preferences and the psycho-social context in which this process occurs take on renewed significance:

When utility was first formalised, it was intended to amend the concept of ‘mathematical expectation’ and thus referred to as ‘moral expectation’. It was not intended to escape from an embedding of randomness within the ensemble, which had not been comprehended back then. . . In a series of papers by Peters presents in detail what Bernoulli’s decision criterion really is. The astonishing result is that Bernoulli’s criterion is inconsistent with the criterion in EUT. Surprisingly, it was Laplace who gave EUT its correct form. . . [Kirstein, 2019, pp. 113-4]

### **Ergodicity and Cooperation**

Ergodicity can go long ways to explaining the human proclivity for cooperation, i.e., the “pre-adaptation” in the language of E.O. Wilson, or “genetic mutual aid” in the language of Kropotkin. We return to this issue below in 7.3.1.

### **Ergodicity and Inequality**

Returning to the discussion of the critical issue of *inequality*, recent findings from the domain of ergodicity economics can help shed light on issues of inequality, as well. We quickly summarize the findings of a recent paper by [Berman et al., 2020]. Despite the standard economic assumption that market economies produce fair outcomes, “we find the opposite: from the 1980s onwards, the US economy is best described in our model as one where wealth is systematically reallocated from poorer to richer, and where the distribution of rescaled wealth never equilibrates” (2) [Berman et al., 2020] The authors establish a relationship that correlates with levels of equality: “[t]he larger  $\tau$  is, the lower the steady-state inequality is. At the same time, wealth mobility would also be higher. This resembles the relationship coined “the Great Gatsby curve” in the context of income ” (8) “Such splitting of the population is a common feature of non-ergodic processes. If rescaled wealth were an ergodic process, then individuals would, over long enough time, experience all parts of its distribution. People would spend 99% of their time as “the 99 percent” and 1% of their time as “the 1 percent”. The social

mobility implied by models that assume ergodicity might not exist in reality if that assumption is invalid.”

Moreover, “[t]he evidence we present does not support using the ergodic hypothesis in RGBM to model US wealth data from the last hundred years. We find either negative reallocation, for which the rescaled wealth distribution never stabilises, or slow positive reallocation, for which stabilisation takes decades or centuries.” (13) “Under such conditions, each time we observe the rescaled wealth distribution, we see a snapshot of it either in the process of diverging or far from its asymptotic form. It is much like a photograph of an explosion in space: it will show a fireball whose finite extent tells us nothing of the future distances between pieces of debris.” (14) In conclusion, “when we admit the possibility of non-ergodicity,  $\tau \leq 0$ , it becomes clear that these phenomena can emerge in an economy that does not actively guard against them.” (14)

## 2.8 Need for New Paradigm

In concluding this literature review, we see that many of the reigning mainstream theories and perspectives on firm and organizational behavior are deeply flawed. There is thus a need for a new paradigm in analyzing and accounting for organizational behavior. This paradigm needs to account for dynamic interactions at various levels. Moreover, it must incorporate the fact of complexity in all its implications. It must also do away with the arbitrary distinction, initiated by J.S. Mill, between so-called “pecuniary” and other forms of behavior, in keeping with the co-determination of human behavior as we have come to understand it in recent decades.

Certainly, as outlined above, paradigms are the result of concerted social activity, so this work will not be the only one of its ilk. In this section, we outline some kindred ideas, concepts and theories, both from the above review and covering works not yet mentioned, with the aim of positioning the current project within the emerging paradigm.

### 2.8.1 Herbert Gintis: Unification of the Behavioral Sciences

[Gintis, 2014, p. 194] remarks that

The behavioral sciences include economics, anthropology, sociology, psychology, and political science, as well as biology insofar as it deals with animal and human behavior. These disciplines have

distinct research foci, but they include four conflicting models of decision making and strategic interaction, as determined by what is taught in the graduate curriculum and what is accepted in journal articles without reviewer objection. The four are the psychological, the sociological, the biological, and the economic.

These four models are, according to Gintis, “not only different, which is to be expected given their distinct explanatory aims, but are also incompatible.” While “all four are flawed”, they “can be modified to produce a unified framework for modeling choice and strategic interaction for all of the behavioral sciences.” As Gintis asserts, such a model can then be modified to suit particular research questions.

Much progress has been made towards achieving such a multi-disciplinary synthesis, argues Gintis:

In recent years [...] the value of trans-disciplinary research in addressing questions of social theory has become clear, and socio-biology has become a major arena of scientific research. Moreover, contemporary social policy involves issues that fall squarely in the interstices of the behavioral disciplines, including substance abuse, crime, corruption, tax compliance, social inequality, poverty, discrimination, and the cultural foundations of market economies. Incoherence is now an impediment to progress.

The five components of Gintis’ theory are “(a) gene-culture co-evolution; (b) the sociopsychological theory of norms; (c) game theory, (d) the rational actor model; and (e) complexity theory.” (Id., p. 195) These domains all offer useful contributions to a coherent theory of human social behavior and any synthesis, Gintis argues, “[i]mply change only in areas of overlap”. [Gintis, 2014, p. 196]

### 2.8.2 J.K. Gibson-Graham: Diverse Economics

[Gibson-Graham, 2006, p. 1] argue that many past entries into the study of capitalism have factually rendered a situation where “economic theory has related to politics as a subordinate and a servant: we understand the world in order to change it.” Therefore, they conclude that “the project of understanding the beast has itself produced a beast, or even a bestiary; and the process of producing knowledge in service to politics has estranged rather than united understanding and action.” (Id.) In particular, many past efforts to understand capitalism have produced “regulatory fictions”

(2). Thus, their work “problematizes ‘capitalism’ as an economic and social descriptor.” (2)

Thus, the authors criticize the implicit idea entailed by many critical analyses of contemporary economic and political relations as facilitating a fatalistic conclusion “that capitalism is the hegemonic, or even the only, present form of economy and that it will continue to be so in the proximate future. It follows from this prevalent though not ubiquitous view that noncapitalist economic sites, if they exist at all, must inhabit the social margins; and, as a corollary, that deliberate attempts to develop noncapitalist economic practices and institutions must take place in the social interstices, in the realm of experiment, or in a visionary space of revolutionary social replacement.”

Thus, according to the authors, “depictions of ‘capitalist hegemony’ deserve a particularly skeptical reading. For in the vicinity of these representations, the very idea of a noncapitalist economy takes the shape of an unlikelihood or even an impossibility.” (Id.) Thus, [Gibson-Graham, 2006] have proposed a framework for moving beyond contrasting terms like “capitalism” and “socialism”, embracing notions of collective action, reproductive labor and emphasizing the importance of space in shaping both economic and political relations. We believe the perspective entails a refreshing push to move beyond the (somewhat stalled) “varieties of capitalism” rhetoric. In particular, such an approach embraces the construction of new subjectivities, approaches and institutions, as well as elements of knowledge and paradigms that can be built up pragmatically on the basis of their mutual benefit.

It is hoped that the current dissertation contributes to the discourse around “diverse economies”.

### 2.8.3 Pfeffer: Resource Dependence

[Pfeffer and Salancik, 2003]’s radical and innovative approach to viewing firm governance as an external relation (i.e., the firm is always enmeshed in networks of resource dependency, and is not autonomous of those resources) was a visionary contribution to both organizational management and economics literature. We only mention it in passing here, as we review the main points of the analysis in Chapter 8. It should suffice to mention that organizations interact with their environment in multiple ways that go beyond receiving price signals and fulfilling orders. They build up relationships with suppliers, neighbors, competitors and governments and frequently engage in processes of co-optation and similar measures to exert control on their environment, which equally exerts control on the firm via the external resources the firm must acquire in order to survive.

We return to this discussion again later and merely mention the work here as an inspiration towards new paradigms of firm governance.

#### 2.8.4 Lucio Biggiero: Methodological Pluralism

[Biggiero, 2016, p. 27] suggests that “since socio-economic networks are (almost all) redundant in connections – that is, they are not efficient and characterized by cycles – then three more pillars of standard economics crumble: i) the hypothesis of homogeneous agents, and hence of the representative agent; 2) the hypothesis of constant returns and proportionality between causes and effects, due to eventual shocks; 3) the hypothesis of lack of endogenous processes and changes.”

Moreover, “Scientific knowledge growth, especially when dealing with complex phenomena, can be realized only through methodological pluralism (Mingers & Gill, 1997; Salanti & Screpanti, 1997; Samuels, 1998), which does not mean ‘simply’ that more methodologies should be admitted and promoted, but also that the corresponding results should be carefully considered and employed in a fruitful recursive interaction.”

On the other hand, the author states “The problem is that a methodology is not, per se, a theory. It can be a way to look at it, that is, it can be also an epistemology, and a way to gather and elaborate data on a certain problem, but this is not yet a theory about it. In this sense, economists are right to side among the ones who argue that network analysis – including SNA – is a set of tools, a methodology, and not a set of theories.”

Thus, the current effort is just such an attempt to construct theories on the basis of both pluralist methodologies and the trend towards multi- and interdisciplinary research befalling the social and behavioral sciences.

#### 2.8.5 Relational Economics

[Wieland, 2018] has called for a new *relational economics*, placing “social theory” at the center of economic analysis. In agreement with Latour, who argues the economy is “what counts”, Wieland argues that this notion depends strongly on measures like GDP, which themselves underlie strong normative assumptions. In fact, value can be created in collaborative, cooperative environments like Universities, governments and in online commons like Wikipedia, such “digital dark matter” is frequently ignored by measures like GDP, and is frequently of a “non-pecuniary” nature. Observing that within global value chains, over 70% of global trade is not coordinated by markets, Wieland argues the focus of analysis should be reoriented away from markets and towards organizations. “In economic theory, the firm is viewed as a purely

economic entity”, whereas recent research into concepts such as “two-sided markets” has called this focus into question.

The market view relegates much to so-called “externalities”, Binnenbaum (2005) argues for including “various logics”. Bathelt and Fickler foreground “process” and “randomness”. Herscovici trades rational expectations for historicity as the focus of relational economics. Thus, [Wieland, 2018] argues for moving from *exchange* to *transactions* (or, as he alternately formulates, from *exchange transactions* to *relational transactions*)<sup>45</sup>. Similarly, he argues for moving away from a focus on *markets* to a focus on *relational governance*. Similarly, taking up Whitehead’s *process philosophy*, Wieland introduces the concept of *polyvalence*, arguing that “a society of events is polyvalent when it uses multiple language games and system references to depict economic matters and uses decisions to establish their relations to one another.” [Wieland, 2018, p. 9]

### 2.8.6 Conclusion

Having cast this grand view on the relevant literature, we now push ahead to Part I, where we attempt to construct suitable foundations for a general theory of cooperation. From the above, we learned the decided limits of current research paradigms and recognized the need for new paradigms. The paradigms and outlines mentioned above all referred to networks and relations as foundational for any suitable analysis of cooperation. Truly, cooperation occurs in all domains of human society, not just in the economy, and we will later learn that nature is largely based on cooperation within and among ecosystems.

For the time being, we return to the domain of relations and are particularly interested in investigating the utility of a moral economy framework for advancing towards a general theory. However, before introducing the theory, we must introduce a context of justification. We do this immediately in Chapter 3, where we suggest a historical context of justification for a moral economy view towards cooperation. This historical context follows the genealogy of cooperation in the spread of democracy and democratic practices through history.

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<sup>45</sup>We can inquire as to possible isomorphisms with [Brown, 2010]

**Part I**  
**Foundations**





# Chapter 3

## Genealogy

Before beginning this chapter, we first outline the research methodology of this and the following two chapters.

### 3.1 Methodology Part I

In this section, we first outline the research design of Part I, followed by case selection and data sources.

#### 3.1.1 Research Design

The design of the following three chapters will be based on the methods of political economic history, seen as *macro-causal analysis*, or “comparative history primarily for the purpose of making causal inferences about macro-level structures and processes.” [Skocpol and Somers, 1980, pp. 181ff.]. Particularly, we will be interested in blending Castoriadis’ notion of democracy as a visionary project based on a *civic imaginary* ([Castoriadis, 2005]) with Habermasian notions of regulating the life world with formal systems [Habermas, 1981]. At the same time, we will attempt to continually emphasize the point [Finley, 1999] has made in *The Ancient Economy* that democracy arose simultaneously with the slave economy in Greece. We will bring in concepts like *ergodicity*<sup>1</sup> and *macroculture*<sup>2</sup> as explanations for the evolution of democracy and attempt to cross-examine these theoretical findings with historical (and, where possible, prehistorical) record. Particularly, we will take an interest in studying historical justifications for slavery, such as Aristo-

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<sup>1</sup>Cf. [Peters and Adamou, 2015].

<sup>2</sup>Cf. [Kyriazis and Metaxas, 2013].

tle's<sup>3</sup>. These investigations may help shed light on the question of the deeply restricted sense that democracy is understood in today and therefore prepare the way for discussions in later chapters.

The conclusions we will have drawn by the end of Chapter 5 is that democracy must be understood as a progressive *process* of emancipation of stakeholders from what classical philosophy referred to as the “realm of necessity.”<sup>4</sup> Thus, we conclude that domains like the economic must be included in discussions of democracy. Furthermore, we propose that the concept of the “moral economy” is a suitable one for making this shift. We conclude Chapter 4 with the observation that the framework of *relational economics* is a suitable one for capturing the “moral economy” and outline how that framework might be employed in Chapter 5.

### 3.1.2 Case Selection

The case selection here is driven by the question of the *genealogy* of democracy, in the sense of Nietzsche and Foucault<sup>5</sup>, of understanding both the *Herkunft* (origins) and *Entstehung* (emergence) of democracy in the ancient world *as a system formalizing a cooperative logic for governing*. At the same time, case selection is also driven by a desire to connect the (mainly theoretical) extant work on the evolution of democracy with historical example. We therefore choose 1) ancient Greece as the case of reference, and compare it with a number of other exemplars of what we call *classical* or *real democracy*, such as 2) the Italian city-states of the Middle Ages and Renaissance and 3) the Iroquois confederacy of North America, among others. In particular, we are interested in outlining foundations of a mechanistic theory of democracy, focusing on both antecedents to democracy, as well as its consequences in terms of cultural transmission. This theory will be developed in Part II. Thus, the case selection in the three chapters making up Part I is made with reference to the attempt to “lead to new historical generalizations” [Skocpol and Somers, 1980, p. 182] as well as to “thick” theories that can be formalized later on. [Elster, 2015, pp. 454ff.]

### 3.1.3 Data Sources

The data sources for the case studies outlined above consists in the theoretical component mainly of textual analysis, both of the primary historical record and of secondary historical literature, as well as both primary and secondary

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<sup>3</sup>Particularly in his *Politics* and *The Nichomachean Ethics*.

<sup>4</sup>Cf. Hegel's 1805/6 Jena lectures in his [Petry et al., 1977].

<sup>5</sup>See, e.g., [Foucault, 1978] or [Mahon, 1992].

commentaries on various historical periods. In particular, we combine a study of primary texts like Aristotle's *Ατθενειον Πολιτεια* [Rhodes et al., 1984] with later writers such as Cicero, Machiavelli, Kant, Hegel, Marx and Schumpeter towards the goal of both critically examining historical facts *and* their reception and interpretation at differing times according to the respective *Zeitgeist*. In this way, we hope to develop, above all, a *critical* view of past theories of cooperation and juxtapose these with various historical events.

## 3.2 Genealogy

It will be the aim of the following foundational discussion to suggest that the natural terrain of the social sciences is that of ethics. In particular, behavioral sciences like sociology, economics, anthropology, psychology, political science and biology, in as far as they regard human and animal behavior, all concern a *moral economy* and do not necessarily need to be based on the notion of a rational, self-interested agent as the foundational building block. Though the present work is addressed from the language of economics, it embraces a multi-disciplinary perspective that acknowledges the interdependence of various domains of social action. In particular, the moral economy perspective places a central emphasis on the role of norms in shaping behavior. Game theoreticians since [Harsanyi, 1967] have noted that welfare-improving strategies are possible if behaviors are agreed to “external” to the strategy set, meaning by regulating access to information regarding other player’s behavior, beliefs or preferences. It is quite damning that the economics community has not fully caught on to the wide-ranging implications of such findings<sup>6</sup>.

This is why this work lays out strategies to building up a new paradigm based on *cooperation* as a central tenet. Following that main ambition, this chapter first introduces general ideas that will reappear throughout the present work. It does this by means of history and basic theory, seeking to lay out a *genealogy of cooperation*, beginning with some pre-historical reconstruction on the basis of archaeological evidence. This is followed by an analysis of the rise of democracy in classical antiquity, tracing out the paradoxical rise of an innovative and radical system of governance by citizens simultaneous to one of the major slave societies of the ancient world. [Finley, 1999] In fact, we trace out that what made citizenship *the* vital trait in the ancient world was the privilege it bestowed on those willing and able to defend the nation from invasions. We trace out such “defensive macrocultures” in the hoplite

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<sup>6</sup>In fact, in the spirit of multi-disciplinarity, the principle of multi-stakeholding advocated for in this work applies as well in the realm of scientific discourse, as we argue in Chapter 8.

armies of the Greek dark ages, as well as in the Athenian navy leading up to the great democratic reforms of Cleisthenes. Later on, in Chapter 6, we plan to model the new behavioral patterns of solidarity and demonstrate how such developments cannot be captured in standard game theoretic tools.

Following this discussion, we move into the Middle Ages and the Renaissance, where a new rationality, “act-based” [Aumann, 2019], began to arise. This particularly in the banking centers of central and northern Italy. We will attempt to show how the continuing use of democratic political institutions reveal a continued presence (and, in fact, as we shall see by applying Burckhardt’s lens toward the Renaissance, a *resurgence*) of a norm-based macroculture associated with the defense of the polity against invasions. Indeed, the increasing complexity of the selection processes for political leadership roles in cities like Venice and Florence are, we will argue, a signal that, economically speaking, the instability of the time often meant a retrenchment of the *status quo* over and against the aspirations of rising classes, like the artisanal guilds.

Moving on to the rise of the system of human rentals [Ellerman, 2021b], we proceed to show how the role of the defense of the nation still played a strong role in shaping the political process, but was slowly usurped by an alternative logic based on property. We attempt to show that this shift was due to a reaction to Absolutism, with *dominium* becoming the strongest legitimator of countervailing power against central state bureaucracy. It is here and in the Reformation, we argue, that much of the individualism of the present-day economic thinking originates, e.g., Mandeville’s bees<sup>7</sup>. We attempt to show how over the course of the human rental contract’s and the merchant classes’ rise to political hegemony, the shift from citizenship to property concealed a shift in status from a moral economy to a more arcane, Utilitarian perspective that balanced abstract notions of “pleasure” with equally abstract notions of “dis-utility”, meant to symbolize the growing dominance of a disembedded job market.

We show that this “plantation”-style Utilitarianism stands against deep-seated moral convictions and is, moreover, not in keeping with fundamental shifts in the productive apparatus. In fact, as labor has become more public, present-day notions of status are no longer tied to property, but membership in organizations. As economic organizations like firms become increasingly the dominant actors in the world, notions of citizenship are again shifting, as not only the ability to withdraw one’s labor, but also one’s data, become increasingly privileged status goods. We try to show by the end of the chapter how the struggle for rights during the 20th century can be attributed to the

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<sup>7</sup>Cf. [Heilbroner, 1961, Chapter 2].

“rediscovery” of the public and of the continuing progressive expansion of what Castoriadis calls the “civic imaginary”. We close the chapter by arguing that, not rationality, but *imagination* and the ability to conceive of *counterfactuals* is what distinguishes human beings and that this realization requires a *moral economy* perspective, which we begin to develop in Chapter 4.

### 3.3 Genealogy: Archive & Arsenal

[Buchstein, 2016] speaks of four main types of *democratic theories*: *historical*, *empirical*, *formal* and *normative*. We briefly outline Buchstein’s four definitions and his assessment as to their continuing contribution to the study and practice of democracy in the 21st century. Firstly, Buchstein defines historical democratic theories according to

Im Forschungsfokus der historischen Demokratietheorie steht die ideengeschichtliche Rekonstruktion von Theorien über die Demokratie aus der Vergangenheit.

Die grundlegenden semantischen Veränderungen betreffen die Bewertung, die Zeitlichkeit und die Institutionalisierung von Demokratie und lassen sich in drei groben Linien nachzeichnen. Diese Linien können mit den drei Formeln ‚Aufwertung‘, ‚Zukunftsorientierung‘ und ‚Anreicherung‘ überschrieben werden.[Buchstein, 2016, p. 11]

. Their continuing contributions to present day practices embrace two main contributions, the *archival* and the *arsenal* functions:

Als Archiv bewahrt und tradiert sie die umfangreichen Bestände des politischen Denkens seit seinem Beginn; als Arsenal hält sie einen vielfältigen Fundus an Ideen, Modellen, Erklärungsmustern, Argumenten und Reformvorschlägen für aktuelle wissenschaftliche und politische Debatten bereit.[Buchstein, 2016, p. 13]

Secondly, Buchstein defines *empirical* democratic theories as ones that

beansprucht, politische Systeme, die den Namen Demokratie tragen, zu beschreiben und zu Aussagen über kausale politische Wirkungszusammenhänge in diesen Systemen zu gelangen. Ideengeschichtlich lässt sich die systematische empirische Analyse von Demokratien bis zu Texten von Platon und Aristoteles zurückverfolgen. Die moderne empirische Demokratietheorie

klassifiziert demokratische Systemtypen, benennt deren Funktionsvoraussetzungen und misst deren Leistungsfähigkeit. Sie bedient sich dabei unterschiedlicher Methoden der qualitativen und quantitativen Sozialforschung. Ihre Theoriebildung erfolgt in der Regel induktiv auf dem Wege der schrittweise vorgehenden Verallgemeinerung von empirischen Einzelbefunden und ihrer komparativen Einbettung.[Buchstein, 2016, p. 17]

While we agree in spirit with Buchstein, we must add at this point that it is not true that empirical democratic theories can be traced back to Plato and Aristotle. Firstly, both of these men lived at the end of the “golden era” of Greek democracy, were both at least ambivalent towards the practice (Plato vehemently opposed it) and such a statement ignores many prior entries in “empirical democratic theories”, including Thucydides and Herodotus, among others<sup>8</sup>. In any case, as to the continuing relevance of empirical democratic theories, Buchstein suggests

Zusammengefasst lässt sich festhalten, dass die empirische Demokratietheorie die häufig zu Generalisierungen neigenden Diskussionen im politischen Alltag mit der Tatsache konfrontiert, dass es nicht die *eine* Demokratie gibt, sondern eine Vielzahl verschiedener Formen, Ausprägungen und institutioneller Konstellationen von Demokratien. Das Wort Demokratie wird in der Perspektive der empirischen Demokratietheorien gleichsam zu einem Pluraletantum.[Buchstein, 2016, p. 20]

Of formal democratic theory, Buchstein suggests they

besteh[en] aus konstruierten Modellen, die auf wenigen Axiomen oder Voraussetzungen basieren und sich je nach Theorieansatz unterscheiden. Formale Ansätze gehen von bestimmten Axiomen aus, auf deren Basis sie die Eigenschaften von demokratischen Systemen modellhaft ableiten. Ihre Theoriebildung erfolgt auf deduktivem Wege. (*Id.*, *ff.*)

As to the continuing contributions of formal democratic theories, Buchstein has little of substance to say, besides commenting on the controversy both Luhmann’s and Buchanan’s theories have unleashed in their respective domains and nevertheless pointing to their mutual contribution of “sie zwingen dazu, sich stärker mit den Schwächen und Schattenseiten von Demokratien

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<sup>8</sup>One can even draw “empirical democratic theories” from the tragedian Euripides. Cf. especially the writings of Cornelius Castoriadis, e.g., [Castoriadis, 2005].

auseinanderzusetzen.” Ultimately, this contribution is unsatisfactory, which is why we wish to contribute to the discourse between formal democratic theories and the remaining branches in later chapters, particularly in Part II.

Lastly, Buchstein defines *normative* democratic theory as those that

beanspruch[en], überzeugende Begründungen für demokratische Herrschaftssysteme und deren konkrete institutionelle Ausgestaltung geben zu können. Ihre Aussagen fungieren als kritische Maßstäbe bei der Qualitätsbewertung real existierender politischer Systeme.[Buchstein, 2016, p. 27]

Buchstein emphasizes the importance and centrality of normative democratic theories by criticizing those democracy theorists that disclaim adherence to normative evaluative criteria: “Derartige Versuche, sich geradezu demonstrativ von der normativen Theorie abzusetzen, sind selbstwidersprüchlich und gegenüber den eigenen Forschungen unangemessen.” [Buchstein, 2016, p. 34]

In fact, argues Buchstein:

Nur auf dem Boden der normativen Theorie können die Definitionsmerkmale und damit die Kriterien festgelegt werden, die für die empirische Demokratietheorie darüber entscheiden, ob die von ihren Regierenden reklamierte ‚Volksdemokratie‘ in China, ‚islamische Demokratie‘ im Iran oder ‚gelenkte Demokratie‘ in Russland zur Gruppe der modernen Demokratie gerechnet werden sollen oder nicht. Und nur vor dem Hintergrund der normativen Demokratietheorie kann entschieden werden, ob die Autoren der *Federalist Papers*, die sich explizit gegen den Begriff Demokratie verwehren und stattdessen den Terminus Republik bevorzugen, dennoch in die Ahnengalerie der modernen Demokratietheorie aufgenommen werden sollen. (*Id.*)

On the other hand, this central place for normative democratic theory “does not give normative democratic theories the leading role over and against the other three types of theory.” Much more than this, each must acknowledge the place of the other and

Normative Demokratietheorien, die beanspruchen wollen, überzeugende Begründungen für demokratische Herrschaftssysteme zu geben, müssen sich ideengeschichtlich positionieren können, dürfen nicht gegen die logischen Ansprüche der formalen Theoriekonstruktion verstoßen und dürfen sich in ihren Begründungszusammenhängen nicht in einen empirisch luftleeren Raum flüchten.[Buchstein, 2016, p. 35]



We are in general agreement with Buchstein’s assessment of the interdependence of empirical, formal, historical and normative democratic theories and intend below to craft a holistic framework by which to understand democracy as a progressive ideal. This framework will embrace both historical, normative and formal aspects that will in later chapters be juxtaposed with empirical studies. We begin our *genealogy of cooperation* immediately below by a brief survey of key historical periods which see what we later refer to as a “democratic imaginary” developing, both in particular historical circumstances and evolving (and occasionally regressing) as an idea. In the last sections of the chapter, we outline how these various strands have coalesced in the guise of the contemporary movement for economic democracy, as seen in particular through the global cooperative movement, anti-racist movements and in phenomena like “economic rights”.

We close the chapter by outlining our vision for a so-called *democratic imaginary*, a term whose roots presumably lie with Cornelius Castoriadis, but which has also been embraced by others, including historians like Gierke. Moreover, we proceed to connect this idea with John Dewey’s progressive concept of democracy.

### 3.4 Ancient Roots of Democracy: Archaeology

The problem in interpreting pre-historic artifacts lies in the openness with which they may be interpreted. This means that, failing the discovery of any pre-historical “smoking gun” evidencing democracy, we are left with interpreting what record exists, attempting to catalog this chronologically and make inferences on the basis of this. Nonetheless, new methodologies like ethnomathematics and cliodynamics offer insights and can be used to offer confirming or disconfirming evidence for various theses.

In this regard, one of the more revolutionary discoveries of the past decades was the 2005 reporting of the discovery of burial vases dating ca. 750 BCE on the island of Paros. These finds are particularly interesting because they challenge a dominant theory on the spread of one of the supposed preconditions for democracy: hoplite warfare. While there are numerous theories to describe the speed and nature of the spread of hoplite warfare, the modern consensus was in a slow spread in piecemeal form “between 750 and 700 [BCE].” As the authors claim that “now, the two vases from the Paros tombs offer evidence that hoplite warfare was established by about 730, possibly supporting the earlier explanation.” [Zafeiropoulou and Agelarakis, 2005, pp. 33-4]

Moreover, the notion of “cosmopolitan ancestors”, which we have introduced above in 2.7.2, has presented us with new theories and concepts about humankind’s primordial past. So, too, has recent archaeological evidence provided further cause to suspect the Hobbesian and Rousseauian theories of states of nature. Thus, archaeologists in modern Ukraine and Moldova have discovered ancient cities like Taljanky, Maidenetske, Nebelivka, some of which had “existed before the earliest known cities in Mesopotamia.” [Graeber and Wengrow, 2021, p. 275] While some archaeologists have referred to these settlements as “overgrown villages”, Graeber and Wengrow’s recent entry rejects this description. They suggest that the real reason such settlements were not accepted as cities is political: “there didn’t seem to be any [centralized authority]. No evidence was unearthed of centralized government or administration – or indeed, any form of ruling class.” (Id.)

However, the longevity of such settlements (4100-3300, BCE), which are referred to as *Cucuteni-Tripolye cultures*, suggests that these were more than just “overgrown villages”. The largest of these settlements currently known, Taljanky, “extends over an area of 300 hectares” (277), larger than Uruk. It “presents no evidence of central administration or communal storage facilities. Nor have any government buildings, fortifications or monumental architecture been found. There is no acropolis or civic centre; no equivalent to Uruk’s raised public district called Eanna (‘House of Heaven’) or the Great Bath of Mohenjo-daro.” (Id.) Moreover, far from being “simple” societies, “A surplus was definitely produced, and with it ample potential for some to seize control of the stocks and supplies, to lord it over others or battle for the spoils; but over eight centuries we find little evidence for warfare or the rise of social elites. The true complexity of the mega-sites lies in the strategies they adopted to prevent such things.” (279)

Marija Gimbutas here speaks of “Old Europe” civilizations and [Graeber and Wengrow, 2021] infer from the evidence social structures based on “the image of a circle”, interpolating from contemporary Basque settlements, who “also imagine their communities in circular form”. In these societies, “everyone has neighbours to the left and neighbours to the right. No one is first, and no one is last.” (280) Opposed to referring to such societies as “simple”, the authors claim that “households cannot simply schedule their daily labour in line with their own needs. They also have to consider their obligations to other households, which in turn have their own obligations to other, different households, and so on.” (281)

[Graeber and Wengrow, 2021, Chapter 8] document such apparently egalitarian social arrangements elsewhere in the prehistorical record, including China. They argue that,

Before the Shang, nothing particularly interesting was supposed to have happened – just a few decades ago, textbooks on early China simply presented a long series of ‘Neolithic’ cultures receding into the distant past, defined by technological trends in farming and stylistic changes in regional traditions of pottery and the design of ritual jades. The underlying assumption was that these were pretty much the same as Neolithic farmers were imagined to be anywhere else: living in villages, developing embryonic forms of social inequality, preparing the way for the sudden leap that would bring the rise of cities and, with cities, the first dynastic states and empires. But we now know this is not what happened at all.

Thus, in Taosi, the discovery that the pre-historic settlement actually grew after an apparently violent social revolution casts the Hobbesian view into doubt. Thus, the authors argue,

Here, on the banks of the Fen River, we might conceivably be in the presence of evidence for the world’s first documented social revolution, or at least the first in an urban setting. Other interpretations are no doubt possible. But at the very least, the case of Taosi invites us to consider the world’s earliest cities as places of self-conscious social experimentation, where very different visions of what a city could be like might clash – sometimes peacefully, sometimes erupting in bursts of extraordinary violence. Increasing the number of people living in one place may vastly increase the range of social possibilities, but in no sense does it predetermine which of those possibilities will ultimately be realized.

While a further overview of global archaeological records in light of the above observations would go beyond the scope of this project, a general theory of cooperation must attempt to introduce narratives of reciprocity and cooperation into the prehistoric record, and see if these narratives are congruent with the record. Merely assuming a Rousseauian-Hobbesian state of nature that interprets centralized, authoritarian states as a necessary development of increasing social complexity is not a satisfactory argument.

### **3.5 Greece: Cradle of Democracy**

Just as family genealogy is an ongoing process, genealogies of ideas whose roots lie partly in the legendary realm of prehistory are contested terrain. In fact, the detailed study of Greek democracy only became possible after

the discovery in the late 19th century of a copy of “Aristotle’s” *Athenian Constitution*. In particular after the suggestion by Bergk in 1881 that two pages in Berlin could be from the document, E. Budge “identified as the *Athenian Constitution* a text written on the back of some abandoned financial accounts of the late 70s A.D.” [Rhodes et al., 1984, p. 10] Thus, together with Schliemann’s discoveries in Asia Minor, which were accompanied by a “media event” promulgated by Schliemann himself<sup>9</sup>, began a new era of detailed examination of the historical record of the genesis and emergence of democracy in Greece [Samida, 2018]. While there may have been democratic traditions elsewhere and prior to the Greek examples (we discuss some of these traditions in 3.9, we simply know far more about the Greek experiment with democracy than we do about any earlier example.<sup>10</sup>

Obviously, the extant documents and references are colored by the various authors’ own predilections, and therefore, a *suprahermeneutic* reading is impossible. For instance, “In 6.2-3 alternative versions of a story about Solon are attributed to ‘democrats’ and ‘hostile sources’: the democratic version is preferred, as more consistent with Solon’s upright character, but there is no suggestion that the story may be wholly untrue.” (*Ibid*, p. 20). At the same time, the famed historian Herodotus’ aversion to democracy is well-documented. Moreover, the project of studying, historically situating and comparing Athens’ democratic Constitution with others in the ancient world “[p]robably... would have continued... if Aristotle had not left Athens, and the democracy had not been overthrown.” [Rhodes et al., 1984, p. 33]

Nevertheless, the record provided by *The Athenian Constitution* is without precedent and “[t]he historical part... contains a great deal of material that has not been preserved for us in any other text”, meaning it both preserves information not found elsewhere and “gives... a different slant on facts which are available elsewhere.” (*Id.*) The specificity of associating Athens’ democratic order with its particular constitutional history is also evident in

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<sup>9</sup>Cf. [Samida, 2018, p. 81], who argues that “Heinrich Schliemann war [...] gewiss einer der ersten Archäologen, der seine Entdeckungen und Ausgrabungsergebnisse durch eine – wie man heute sagen würde – konsequente Presse- und Öffentlichkeitsarbeit medienwirksam in zahlreichen Tageszeitungen, Zeitschriften, Büchern und Vorträgen weltweit publik machte und dessen Entdeckungen eine große Rezeption nach sich zogen.” Thus, one can conceive of these reports, which included an article in the *Times* of London, facilitated by Max Müller [Samida, 2018, p. 86], inspired a renewed investigation of extant artifacts that may have accelerated the discovery of the Αθηναίων Πολιτεία.

<sup>10</sup>We should also note that, as Castoriadis emphasizes, most of what we know about Greek democracy we know through the example of Athens. There were clearly other democracies in Greece, including Argos, which Thucydides describes as such. Many of the Sicilian colonies were also democracies. For an overview of non-Athenian Greek democracy, cf. [Robinson, 2011].

the text:

[the author] has compiled not a general history or even a history of Athens but more specifically a history of the Athenian constitution. . . [in fact] a factual account of how the constitution of a Greek city state worked had never been attempted by any until Aristotle's school started collecting constitutions." (*Id.*, p. 34)

Thus, in the following, we briefly sketch out the received history of Greek democracy, focusing mainly on the Athenian case, as it is the most extant, and supplementing this with references to other cases as they arise. We begin by tracing out and distilling a *democratic imaginary* with reference both to Constitutional changes, cultural practices and reflections from Greek poetry, philosophy, art and theater. We then return to a theme frequently expounded by M.I. Finley and his predecessor at Columbia, Michael Rostovtzeff, the relationship between democracy and slavery. We then move on to discussing the role of citizenship in the development of the *democratic imaginary*, followed by the role of hoplite warfare and the Greek navy in promoting certain values that contributed to and complemented the increasing role of democratic forms of collective choice and governance.

### 3.5.1 The Collapse of the Mycenaean World

Historians generally agree that the Mycenaean civilization which dominated the Eastern Mediterranean during the Bronze Age collapsed some time around 1050, BCE [Snodgrass, 2017]. While the reasons for the collapse are to this day disputed [Dickinson, 2006], the collapse ushered in the Greek dark ages and a period known generally as the Homeric era. Of this era, and of Homer's point of view, Karl Popper writes "What Homer tries to stress and to explain is not the unity of history, but rather its lack of unity." [Popper, 2020, Part 1, Chapter 2] Thus, whatever its contours, it was a time of great uncertainty, instability and continual invasions from various groups, and lacking in the great palatial states of Mycenae, Argos, etc. and their centralized armies. Cities and towns had to defend themselves. [Raaflaub, 1999, pp. 135ff.]

A thesis that has received increasing attention as to why the Mycenaean civilization collapsed considers unsustainable levels of inequality. While there has been some attention paid in recent decades<sup>11</sup>, more recently, [Levitt, 2019, p. 46] argues that "[t]he degree to which inequality was a factor in the collapse of ancient states has not been systematically investigated. This might reflect (i) the genuine scarcity of archaeological evidence; (ii) a lack of

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<sup>11</sup>Cf. [Graziadio, 1991].

interest in looking for and marshaling evidence; or (iii) the absence of rigorous analysis of possible social differentiation in skeletal trauma, which itself may reflect lack of interest in these research questions.” Citing recent research, e.g., [Boix and Rosenbluth, 2014] the author states that “[f]or Middle Bronze Age Mycenae, [...] the average height of royal males [was found] to be 172.5cm, but commoners were over 6 cm shorter.” [Levitt, 2019, p. 38]

Obviously, conflict between elites and the masses cannot account for 100% of the instability seen in cases like the Mycenaean. “Alongside great inequality, dynastic and intra-elite conflict and a tendency to fragmentation were deep-seated fault lines in Imperial political structure.” (Id., p. 42) Nevertheless, the current state of the art on the relations between inequality and instability in the prehistorical record is unsatisfactory:

”Scholars usually ignore dynamic system positive feedback: economic and hence fiscal weakness, due to administrative and political mismanagement, caused depletion of military budgets and military weakness; this induced barbarian invasions, which led to loss of territory and therefore a smaller tax base, further reductions in military finances, further military frailty and yet more invasions until [e.g., Mycenaean civilization] was dismembered. But extreme inequality, popular alienation from the elite and from the state had a role.” [Levitt, 2019, p. 41]

It is hoped that the next years will bring new insights to these domains. Recent excavations, like that of slave quarters in *Regio V* at Pompeii<sup>12</sup> offer a hopeful glimpse into future prospects of the relationship between ancient inequality and civilizational collapse.

### 3.5.2 Solon’s Reforms

[I]t is unlikely that much direct evidence survived... on the state of Athens before [Solon’s] reforms... We may accept that many peasants were dependent on an overlord, cultivating their land on condition that they and others were liable to be enslaved if they fell inextricably into debt; and that political power was exercised by the Well-born, who were for the most part the richest citizens, through the use of archonships and the council of the Areopagus.[Rhodes et al., 1984, p. 42]

<sup>12</sup>Cf. <https://www.theguardian.com/world/2021/nov/06/discovery-of-pompeii-slaves-room-sheds-rare-light-on-real-roman-life>].

Thus, the extant text of *The Athenian Constitution* claims that “strife for a long time between the notables and the masses” ensued after the incursions of the Megarans in the person of Cylon [Rhodes et al., 1984, p. 41]. Further, it reads that “[t]he poor were called dependents and sixth-parters, since it was for the rent of a sixth that they worked the fields of the rich. All the land was in the hands of the few. . .” Further, “All loans were made on the security of the person until the time of Solon: he was the first champion of the people.” If the document didn’t make it clear by that point the level of dependency of the great masses of Athenians before Solon’s reforms:

The harshest and bitterest aspect of the constitution for the masses was the fact of their enslavement, though they were discontented on other grounds, too: it could be said that there was nothing in which they had a share.[Rhodes et al., 1984, p. 43]

Thus, *The Athenian Constitution* claims that “the people rose against the notables” [Rhodes et al., 1984, p. 46]. As a result, Solon as Archon enacted a number of sweeping reforms. The first of these included a general cancellation of debts, as well as reforms to standards, weights and coinage.[Rhodes et al., 1984, p. 40] Since loans were made on security of person, as stated above, and as this meant a great deal of debt bondage and, in some cases, exile, this reform was radical in its effects, being referred to as *the Shaking-off of burdens* (Σεισασχητηρια)<sup>13</sup>. Solon himself describes this reform in one of his poems, claiming

. . . The Earth which once was enslaved but now is free.  
To Athens, to their home of divine origin,  
I brought back many who had been sold,  
Some unjustly, some justly,  
And some who had fled out of dire necessity,  
Who no longer spoke the Athenian tongue  
After wandering in many places.  
Others, who were subjected there to shameful slavery,  
Fearing the whims of their masters, I set free.  
These things I achieved by my power, Harnessing together force  
and justice. . . [Rhodes et al., 1984, p. 52]

However “mere” debt cancellation would have marked Solon as merely another reformer in a long string of populist-bent leaders, from Hammurabi to the Jewish Jubilee [Graeber, 2011, pp. 65, 82ff.]. The *Athenian Constitution* holds that “the three most democratic features of Solon’s constitution [were]

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<sup>13</sup>Cf. [Wallace, 2007]

first and most important, the ban on loans on the security of the person; next, permission for anyone who wished to seek retribution for those who were wronged; and third, the one which is said to have particularly contributed to the power of the masses, the right of appeal to the jury court – for when the people are the masters of the vote they are the masters of the state.” [Rhodes et al., 1984, p. 50] However, again, moving beyond the cancellation of debts and access to redress of grievances, Solon, according to Rhodes, “had ended the monopoly of the office by the Well-born, opening it to all who satisfied a property requirement” [Rhodes et al., 1984, p. 53]

Solon “distributed among the five hundred bushel class, the cavalry and the rankers the major offices, such as the nine archons, the treasurers, the sellers, the Eleven and the *colactretae*, assigning offices to the members of each class according to the level of their assessment.” [Rhodes et al., 1984, p. 48] Interesting, in a practice likely originating in the Athenian military<sup>14</sup>, Solon “had the officials appointed by allotment from a short list of men elected by each of the tribes.” (*Id.*, *ff.*) In hindsight, this reform can be equally attested to be a proto-democratic one, a dynamic shift enabling further changes, as depicted by Figure 2.2. Suffice it to say that selection by lot removes the ability of strategies to be developed as to selection outcomes. This can be seen as a rudimentary mechanism for choreographing a coordinated equilibrium.

Another interesting reform involves the so-called *Law of Denunciation*, of which the *Athenian Constitution* claims

Seeing that the city was often in a state of strife, and that some of the citizens through apathy accepted whatever might happen, [Solon] enacted a special law to deal with them, that if when the city was torn by strife anyone should refuse to place his arms at the disposal of either side he should be outlawed and have no share in the city.” [Rhodes et al., 1984, pp. 49-50]

The kernel of wisdom in this law is relevant for today, with *democratic deconsolidation* threatening the legitimacy of many Western liberal regimes [Foa and Mounk, 2016]<sup>15</sup>. One of the more interesting charges the *Athenian Constitution* lodges against Solon’s reforms appears immediately after the section lauding his most democratic reforms. In fact, he is charged of “not writing laws simply and clearly.” Many of Solon’s laws were agrarian in nature [Ober et al., 1996, p. 289]

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<sup>14</sup>See, e.g., Hanson’s observations below.

<sup>15</sup>Moreover, it is a clear attempt to *activate* the citizenry, a topic we return to later.



### Between Solon and Cleisthenes: The Winding Road to Democracy

According to *The Athenian Constitution*, neither aristocracy nor *demos* was pleased with Solon's reforms:

... both parties regretted his appointment because his settlement was contrary to their expectations. The people had thought that he would carry out a complete redistribution of property, while the notables had thought that he would restore them to the same position as before, or make only small changes." [Rhodes et al., 1984, p. 51]

Solon's own poetry echoes this turmoil when he claims at one point "*I turned about like a wolf among many dogs.*" (*Id.*, p.53) Thus, as P.J. Rhodes comments, "The solution finally adopted is problematic... Solon's settlement failed to satisfy either side, and discontent persisted... Solon had ended the monopoly of the office by the Well-born, opening it to all who satisfied a property requirement: we must assume that some non-aristocrats were trying to exercise their newly acquired right and that the Well-born were trying to prevent them from doing so." (*Id.*)

Thus, factions were again divided in the city. The *Constitution* claims "[t]here were three factions: one the men of the coast, led by Megacles... whose particular objective seemed to be the middle form of Constitution; another the men of the plain, whose aim was oligarchy, and who were led by Lycurgus; and the third, the men of the Diacria, whose leader was Pisistratus, a man who seemed most inclined to democracy." [Rhodes et al., 1984, p. 54] Pisistratus waged three attempts to overturn Solon's order, the first two being overturned quickly, but the third time he "deprived the people of their arms, and this time secured the tyranny firmly" [Rhodes et al., 1984, p. 57] Pisistratus and his sons ruled Attica for "thirty six years", according to the *Constitution* and Rhodes claims that Pisistratus, "as tyrant , represents a setback" for the unfolding democratic imaginary. (*Id.* p. 18)

### Cleisthenes' Constitution

The year 2021, when this particular section was written, marks 130 years since *The Athenian Constitution* was discovered and the missing links in the genealogy of Athenian democracy were largely connected. Particularly, the reforms of Cleisthenes are now much better understood in their impact of stabilizing the democratic imaginary in practice and law. P.J. Rhodes comments that "[m]uch of the material in [the chapters covering Cleisthenes' rule] is to be found in no other surviving text" [Rhodes et al., 1984, p. 62].

Thus, as the document informs us, Cleisthenes first apparently appealed to the masses of Athenians because of a struggle for power with Isagoras: “as Cleisthenes was getting the worse of the party struggle, he attached the people to his following, by proposing to give political power to the masses.” After some struggle, in which the popular masses supported Cleisthenes over Isagoras, “the people obtained control of affairs, and Cleisthenes became leader and champion of the people.” (*Id.*)

Cleisthenes’ reforms created, according to the *Athenian Constitution*, a constitution that “was much more democratic than that of Solon.” (*Id.*, p. 64) This Constitution, which would serve as a foundation for the duration of Athenian democracy<sup>16</sup>, involved a number of fundamental reforms to the social and political organization of the *polis*. This included “distribut[ing] all the citizens through ten tribes instead of the old four, wanting to mix them up so that more men should have a share in the running of the state”; “ma[king] the council a body of five hundred instead of four hundred, fifty from each tribe (previously there had been a hundred from each old tribe)”;

His reforms continued with “divid[ing] the land of Attica by demes into three parts. . . and he called these parts thirds, and allott[ing] three to each tribe in such a way that each tribe should have a share in the regions.” His most radical reforms involved such reorganization, breaking apart older ingrained clan-based allegiances. For instance, “he made the men living in each deme fellow-demesmen of one another, so that they should not use their fathers’ names and make it obvious who were the new citizens but should be named after their demes”. He also promoted the standing of the demes, supplanting their role in the place of older committees like the *naucrariae*.

Additionally, Cleisthenes imposed oaths on the council of five hundred and introduced the practice of *ostracism*, a popular practice<sup>17</sup> initially designed to marginalize supporters of the tyrant Pisistratus, but eventually “[the Athenians] took to removing anyone else who seemed too powerful.” (*Id.*, p. 65) Moreover, “for the first time since the tyranny the nine archons were appointed by lot on a tribal basis, from a short list of five hundred elected by members of the demes: all the archons before this were elected.” (*Id.*)

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<sup>16</sup>In fact, even during the humbling defeats of the Peloponnese war, when Athens for a short period suspended the democratic constitution and imposed an oligarchy, the *Athenian Constitution* records Clitophon moved that the Council tasked with devising the interim constitution “should also search the traditional laws which Cleisthenes had enacted when he set up the democracy, so they might consider these too and deliberate for the best – his point being that Cleisthenes’ constitution was not populist but very much like Solon’s.” [Rhodes et al., 1984, p. 74]

<sup>17</sup>Cf. [Rhodes et al., 1984, p. 64].

### The Age of Pericles and the Peloponnesian War

Castoriadis attributes the failures of the Peloponnesian War to Athenian *hybris*. In fact, he sees in the *Funeral Oration* of Pericles one of the most astute summaries of the democratic imaginary in the extant record, according to Castoriadis, an expression of “the extraordinary novelty of this conception of what constitutes the power of a human group.”<sup>18</sup>

[Harris, 2006] distinguishes between three aspects of governance which Pericles praises in his Oration, the *deliberative*, the *magistrates* and the *judiciary*. Firstly, Pericles praises the deliberative nature of Athenian political institutions, outlining that “the management of affairs is not in the hands of the few, but in the hands of the many”, i.e., access to the deliberative institutions is widespread. Moreover, in the same vein, Pericles praises “equality before the law for all.” The second observation, for Harris, concerns the judiciary aspect of Athenian democratic institutions.

Thirdly, Pericles compares Athens favorably with Sparta in that “when selecting magistrates... the Athenians do not pick candidates from one side of society... but in accordance with merit.” Moreover, “Since the Athenians do not enforce a property qualification for magistracies, a man who is able to do some good for the community is not barred from office simply because lack of wealth... has prevented him from displaying his worth.” [Harris, 2006, pp. 32-3]

### 3.5.3 The Paradox of Slavery and Democracy

[Finley, 1999, pp. 62ff.] comments on the historical idiosyncrasy of the simultaneous development of democracy and slavery in the Greek polis.<sup>19</sup>

<sup>18</sup>According to Castoriadis, “l’extraordinaire nouveauté de cette conception de ce qui fait la puissance d’un groupe humain.”, which he claimed appeared for the first time “in universal history” in the Greek city-states. [Castoriadis, 2011b, p. 136]

<sup>19</sup>This paradox was not a Greek idiosyncrasy. It also applied, e.g., to the Iroquois Confederacy, which we discuss below in 3.9.2. [Lauber, 1913, p. 29] writes,

The statement has been made that no personal slavery ever existed among the Iroquois—that their captives were either killed or adopted as a part of the nation. Quite the contrary is true. They held both Indians and whites in personal slavery. They brought back from the Ohio country bands of captives, sometimes numbering three or four hundred. They preyed upon the Shawnee and carried them off into slavery.<sup>4</sup> They captured and enslaved the Miami for whose redemption they were presented with quantities of beaver skin. These they received but failed to free the slaves. They brought home slaves from Maryland and the south, and from the land of the “Chatt” (the Erie). It was the Iroquois (the Seneca), called by an early writer “Sonnagars,” who enslaved captives taken from the tribes of Carolina and Florida.

We see then that the role of slavery in democratic societies is frequently endemic, and that slavery and democracy are not *per se* antithetical. This observation makes a *progressive* definition of democracy all the more pressing, as we see in the above examples that the distinction between citizen and non-citizen is a logical grounds upon which to base the privileges of democracy. At the same time, as Finley points out, over the course of the history of the Greco-Roman world, the role of citizenship as a distinct marker of status declined<sup>20</sup>. Nevertheless, the distinct movement towards a static social ontology, whose best modern representative is Nietzsche<sup>21</sup>, increasingly viewed labor as odious and adopted what Katherine Pistor has referred to as “arcane Utilitarianism”:

Primarily, of course slavery existed as a labor system. Homer’s Nausicaa may have worked with her slaves and treated them as companions, but that was truly the heroic age. Hesiod’s free farmer may have walked the plow behind his white oxen with pleasure, but attitudes changed. By Aristotle’s time, docile, easily managed slaves, not free men, were preferred for such labor. While it is difficult to think that the increase in the number of slaves and an appreciation of their usefulness for doing the things free men would otherwise have to do was not a factor in the ever more disdainful attitude taken toward work, it is possible that the association of submission, cowardice, and all things base and lowly with those persons who performed the work free men avoided was of equal, if not of more, importance.

The Greeks did not like to have to do things. Those tasks necessary to sustain life and to make it pleasant were regarded as a form of bondage precisely because of the necessity involved. Those things which gave pleasure were to be enjoyed, but pleasure was not expected to be found in employing the skill or technique needed to make beautiful objects or music. Workmen should not be praised, for theirs was a mean occupation.” Artisan and free man was another near-contradiction in terms. Although the artisan lacks a master, he is nevertheless subject to a limited servitude, doing for hire or for the state what the slave does for the master. The ideal life was one completely free from menial duties.” Freedom meant to do what one wanted. The slave not only did those things which free men did not want to do, but did them under constraint,

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<sup>20</sup>Cf. the discussion of “Status and Order” below in 3.6.

<sup>21</sup>Cf. [Nietzsche, 1985, Vol. 1, pp. 577ff.; Vol. 4, pp. 153ff.]

because he had no choice. The occupation merited the character, and the character, the occupation.[Cuffel, 1966, p. 337]

However, Cuffel argues that this shift to a static ontology did not occur inevitably, but *accompanied an increasing availability of slave labor*:

Opposed but complementary to the idea of the slave was the Greek idea of the free man, what he was like and what he did, publicly and personally. Standing as a barrier between the idea of the free man and the full realization of this idea were the nagging necessities of life that took time, attention and skill, necessities that were incompatible with the good life of strenuous leisure and intelligent participation in the activities and politics of the city. Work of any sort went in status from onerous but not dishonorable tasks, from irritating but required inconveniences to slavish and base occupations. *As more and more slaves became available, they performed more, and more varied, jobs. The low opinion in which slaves were held was extended to the work done by them.* (Id, p. 338, own emphasis)

Thus, Cuffel argues that that causal relation is the converse of what Hannah Arendt and Westermann, who argue (e.g., in [Arendt, 2013] or [Westermann et al., 1955]) that “the ancients reasoned the slavish nature of all occupations serving the needs of life required slaves.” [Cuffel, 1966, Id., footnote 119] Instead, Cuffel argues, similarly to Finley, that it was the wide availability of slaves that led to a social ontology that increasingly tied slaves to a menial existence, and connected this existence with their domination by their masters. The latter, in turn, experienced increasing levels of luxury and *leisure*. Thus, Cuffel points out that these two existences were increasingly naturalized as being two sides of one coin:

The notion of freedom and the qualities associated with it were enlarged almost proportionately with the extension and further debasement of the slave and the ideas of his place in society. In Grecian antiquity the ideas of freedom and slavery were inseparable. Many must be slaves that some may be free. Freedom is for the superior men, the good men, and it must follow, since there is justice in the world, that those who are slaves must be inferior and must be bad, in the sense of spoiled as well as in the sense of being morally imperfect.

This dualistic notion of freedom and bondage is reflected in Aristotle’s ethical writings, as well as in most of Plato’s dialogues<sup>22</sup>. In a passage recalling the

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<sup>22</sup>Cf. [Aristotle, 2011, Book VII].

Master-Slave dialectic of Hegel, we read

What has been called a paradox in Greek thinking surely exhibits a misunderstanding of the way in which freedom and slavery were regarded as obverse sides of the same coin. Master and slave were thought of as forming parts of one another. There is a community of interest between them. The slave is a partner in the master's life, just as the master is the director of his. The relationship is an extension of the natural order of things, the subordination of the lesser to the greater, of the inferior to the superior. (Id.)

Thus, we see here as well a discursive interaction between historical events (increasing availability of slaves), between codes or trajectories (freedom-bondage) and a regime (the particular model of archaic democracy, in which Aristotle described the necessity of slavery being due to the fact that tools “do not move themselves” [Aristotle, 2003]).

### 3.5.4 The Role of Citizenship

Finley suggests that the most vital distinction in the Greek classical era was the distinction between citizen and non-citizen:

But for the study of the Greek economy, the distinction of the most far-reaching significance, one that continued right through the classical period in both democratic and oligarchic states, was between the citizen and the non-citizen, because it was a universal rule-I know of no exception-that the ownership of land was an exclusive prerogative of citizens.[Finley, 1999, p. 48]

Moreover, the relation between citizen status and democracy was recognized by the ancients. “As Aristotle knew, early agrarian *poleis* (such as Solonian Athens) could be in some sense quasi-democratic: if the property qualification was quite low and made allowances for individual changes in status, there was always some fluidity between census rubrics, ensuring that a great many middling farmers, or *mesoi*, could qualify for citizen rights.”[Ober et al., 1996, pp. 289ff.]<sup>23</sup>

However, mere census rubrics can tell us little about the process of democratization: “the real democratic education of the Athenians, in the broadest sense of that word, was more amorphous and insidious, involving a remarkable transformation in the thought of the traditional *polis* dweller himself.” (Id. p. 289) Hanson remarks that this transformation involved a

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<sup>23</sup>For Aristotle's thinking on these matters, cf. [Rhodes et al., 1984, 1.3-4; 26.2; 47].

balancing of both richer and poorer citizens interests, leading to a middling situation where “truly large farms never existed during the four centuries of *polis* culture, just as at the other extreme land redistribution schemes of the landless mob never became too widespread.” [Ober et al., 1996, p. 291] Thus, at least for the Greek *polis*, membership in the form of citizenship was the level upon which political and economic (e.g., property) rights were distinguished.

### 3.5.5 The Role of the Agonic

Jacob Burckhardt<sup>24</sup> and Nietzsche were both fascinated with the *agonic* in Greek society. The concept, which underlies the modern word *agony* also referred to a form of freedom that is related to, but distinct from, the modern conception of competition.<sup>25</sup> At this point, it is useful to quote from [Owen, , p. 82]’s discussion of Nietzsche’s conception of freedom at length:

[In] Nietzsche’s conception of freedom [. . .] [t]he praxis of practice forms the agent through the development of [individuals’] powers to engage in, and realize the goods of, the practice in question (to be able to overcome obstacles and resistances to mastery of the practice that are internal to participation in the practice, for example, the cultivation of the skills required) and, at the same time, the development of their power to engage in the self-directed exercise of one’s powers (i.e., to be able to overcome obstacles and resistances to mastery of the practice that are internal to one’s own current constitution as an agent).

Thus, *agony* in the Greek sense refers to the *activity* of both *mastery* and *self-mastery*.

Thus, as opposed to the modern conception of “competition”, the *agonic* refers to an internal struggle for mastery:

The praxis of agonic practice cultivates also the disposition to develop one’s powers to overcome the challenges posed by mastering the practice, including those challenges to achieving this mastery that are internal to one’s current constitution as an agent. Thus, the praxis of agonic practice cultivates an agonic relationship to

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<sup>24</sup>For an overview of the influence of the *agonic* in Burckhardt’s understanding of democratic practice, cf. [Bauer, 2001, pp. 161ff.]

<sup>25</sup>A good example of the agonic is the Olympic games, where players are free to compete in a particular context that is itself contextualized within a greater social cosmos.

oneself, a practical relationship to oneself characterized by a disposition to self-overcoming understood as the disposition to increase one's powers to act and especially one's ability to self-direct the exercise of one's agency. (Id.)

For Nietzsche, this form of self-direction (or self-management) relates to the individual's ability to overcome their own limitations by means of will, which is related to responsibility:

This power of self-direction refers to one's ability to set and bind the exercise of one's powers to one's own ends and hence to take responsibility for oneself, for who one is, for what one's projects are, for how one acts. To stand in this practical relationship to self is, on Nietzsche's account, to exhibit "the will to self-responsibility" that distinguishes the autonomous agent and he gives expression to this understanding of freedom through the exemplary figure of the sovereign individual: "The human being with his own independent long will, the human being who is permitted to promise —*der versprechen darf*"]. The sovereign individual is autonomous precisely because he is able and disposed to set his own ends as challenges to overcome and to bind his will to the task of realizing these ends as meeting these challenges.

These values were central to Greek society, and played out not only in the individual development of citizens, but also within the social or ethical sphere, in politics and in sport<sup>26</sup>. For Hannah Arendt, this notion of the *agonic* refers specifically to the practice of politics. According to Arendt, this practice can best be described as a kind of "language game" in the sense of Wittgenstein, containing four main elements:

First, the activity consists in interaction among equal citizens with different viewpoints on their common world and who engage in agonistic activities for recognition and rule in public space. Second, like players in most games, humans take on their identities *as* citizens and peoples in virtue of participation in this inter-subjective activity and, *eo ipso*, bring into being and sustain the 'field of action' of the game, the 'public realm' in which they interact.

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<sup>26</sup>Of the Olympic Games, it can be said that "[a]t the level of social existence [...] it appears in a special way, as it is implemented with the willful participation of man who acts as a 'meeting point' where 'the source of all being perceives itself ... in the same act, in which man sees himself rooted in it'. All of this in its holistic view is the Greek agonality." [Vizitey, 2014, p. 1].



Third, this activity is political freedom. Political freedom is not a matter of the will or the intellect, or of background constitutions, laws and rights, but a form of activity with others in public that is liberated from the 'automatic processes' to which humans are subject and 'within and against which' free citizens 'assert' themselves. Freedom is the practice of freedom. It is neither the motive nor the goal of this kind of activity that renders it free but its spirit or character: the 'principles', 'virtuosity' or *ethos* (such as love of equality) the action manifests. Fourth, this unique form of speaking and acting together is free because it embodies two aspects of 'action': '*agere*', to begin, lead and rule, and '*gerere*', to carry something through together, a task. It is 'a beginning' because the participants always bring something 'miraculous' - new, contingent, singular and unpredictable - into the world, breaking with routine and changing the game to some extent, and they seek to carry it through, to sustain the practice over time. In virtue of the miraculous appearance of practices of freedom the time of humans is not completely in the realm of necessity or universality but partakes of the unpredictable 'deeds and events we call historical'" [Tally, 1999, p. 162]

Thus, the *agonic* played a central role in the notion of citizenship and personality of the classical Greek world. It signified a dynamic concept that was constantly in the process of overcoming itself. It was this dynamism that captivated Nietzsche and Burckhardt. We return again to the concept when we attempt to develop the outlines of a *general theory* of cooperation in Chapter 5.

### 3.5.6 The Shifting Allegiances of Hoplite from the Greek Dark Ages to the Democratic Polis

The role of the hoplite armies of the Greek dark ages has been a frequent component of theories explaining or accounting for the rise of democracy in ancient Greece<sup>27</sup>. As discussed above, recent archaeological discoveries have lent confirming evidence to the theory of a rapid dissemination of the hoplon

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<sup>27</sup>For example,

Demades, a 4th-century Athenian orator described "theorika" (payment to citizens to enable them to watch the theatrical plays) as the "glue of the democracy". We suggest that the phalanx became the "glue of proto-democracy". [Kyriazis and Metaxas, 2013, p. 16, footnote 13]

shield throughout the Aegean. Thus, it appears that “[a]lmost always after the eighth century B.c., those residents of the Greek city-state who qualified (by both birth and property) as full citizens organized themselves for battle as hoplite infantry in the phalanx, a mass formation of heavy-armored equals who fought on flat agricultural land” [Ober et al., 1996, p. 290]

This created conditions where, “[a]t least until the mid-fifth century, then, the political status of the *polis* resident of Greece was reflected in his particular role on the battlefield, with the frequency and exclusivity of hoplite battle a sure indication of the social and political superiority of [a] rather broad landowning class.” (*Id.*, *ff.*) Hanson speaks of “agrarian solidarity” and cites Aristotle: “The men who fight have the most power, and those who possess the arms (χεκτῆμενοι τὰ ῥοπλά) are the citizens.” Hanson speaks of the ambiguous status of the hoplites, sometimes lumped in with the wealthy and sometimes taking part in uprisings of the landless. Moreover, “in colonization schemes, the wealthy were often expressly excluded, the state emphasizing that it was the *zeugitai* and the *thêtes* who needed sole opportunity to win new land.” [Ober et al., 1996, p. 292]

Hanson suggests that the empire “hastened the democratization process begun by Cleisthenes [...]. It enhanced the status of social groups that held no land, providing jobs for more than twenty thousand citizens outside agriculture.” (*Id.*, p. 293)

Hanson suggests that one might expect a conflict between old landed hoplite interests and a growing class of landless thetes and metics:

The result of what we may legitimately now call the Athenian experiment, this catalyst of polis deviancy among the Greek city-states should have been, I think, constant friction between old-guard hoplites and landless citizens, who were traditionally limited in their rights but were now performing important economic and military functions for the state—with occasional outright fighting between the two groups as landed broad-based oligarchy and timocracy sought to suppress landless democracy. Radical democracy of the Athenian kind, after all, was in theory inimical to broad-based agrarian government. (*Id.*, p. 294)

However, as Hanson suggests, the conflict between old guard and increasingly landless citizens was not forthcoming:

Yet between 507 and 338 B.C. convulsion more often than revolution prevailed at Athens. As more democratic institutions took hold in the century after Cleisthenes (507 B .c.), the agrarian exclusivity of Attic farmers was transformed or at least partially

reinvented. Although there was always growing tension between Athenian landed and non-landed, no overt fighting broke out between hoplites and the poorer during this long process of democratization. (*Id.*)

Instead, conflict between the groups “gradually diminished” and “Farmer-hoplites increasingly accepted the tenets of Athenian democracy, as privileged classes reinvented the nature of the traditional whole in order to save at least some of its parts.” (*Id.*) Hanson marshals Aeschylus and Aristophanes as moderate voices who “had no real sympathy for aristocratic (or Spartan) oligarchs, but rather praise for the egalitarian nature of Athenian democracy”. These moderate supporters of democracy, Hanson argues, better represent the general tenor of “democratic yeomen”, than voices like Aristotle or Thucydides, who represent “disenchantment of the more wealthy at Athens” rather than the typical character of moderate citizens of the time. (*Id.*)

Hanson discusses the evacuation of the fields surrounding Athens during the era of Pericles: rather than seeing these measures as abandonment of hoplites on the part of the mob, Hanson argues that the policy was more complex in nature: “the Athenians offered some help to agriculturalists in ways that were consistent with the new democratic thinking, rather than old-fashioned timocratic ideology.” (*Id.*, p. 297)

Hanson speaks of the casualties of the Peloponnesian War as an example of the unequal impacts on the lives of hoplite versus these classes: “During the twenty-seven years of fighting, landless thêtes, the supposed beneficiaries of Athenian liberalism, died more than twice as frequently as hoplites, the purported losers under radical democracy. If the Peloponnesian War was a tragedy for all Athenian citizens, then it became an abject slaughter of its landless population.” (*Id.*, pp. 298-9) Nevertheless, “short-term enhancement for individual growers accompanied long-term destruction of the agrarians as a privileged class” (*Id.*, p. 300)

Nevertheless, the hoplites also gained from democracy: “The new self-interested Athenian hoplite wanted the psychological security of keeping foreign armies off his farm—without the need to march out to meet the aggressor in a pitched battle. To a large extent the democracy—through roads, forts, rural patrols, and garrisons—granted him his wish.” (*Id.*) Hanson suggests that the introduction of pay for hoplites “probably around the mid-fifth century, [...] was no doubt welcomed by Athenian farmers themselves, who in the twilight of the old agrarianism were discovering the attractions democracy had to offer. (*Id.*) Moreover, economically speaking, “generous polis entitlements to others (e.g., Aristides’ “everybody”) could only expand the economy. Trickle-up economics, as it were, enhanced the assets of those

who were not poor to begin with. Athenian expansionism, then, was not a zero-sum format where someone's gain was another's loss, but rather an inflationary and expansionary process that actually benefited most people involved in it." (*Id.*, p. 302)

Using Finley's method of "evidence from silence", Hanson asks why, if hoplite yeomen opposed radical democracy, were the revolutions of 411 and 404 unsuccessful and why was democracy restored in a period of mere months? Hanson answers:

Neither insurrectionary group could count on the support of Attic hoplite agrarians. Just as the "hoplites" (or whoever the "Five Thousand" actually were) had been instrumental in dethroning the ultra-right-wing "Four Hundred" (e.g., Thuc. 8.92.4; 8.98.1), so, too, many of these hoplite landowners in power now actually acted as custodians for, not usurpers of, democracy. When the danger of aristocratic revolutionaries was over, in a matter of months power returned from agrarian hoplites to the original radically democratic government. (*Id.*, p. 303)

Similar grounds are named for the subsequent failed reforms of Phormosius<sup>28</sup>. Moreover, "The occasional call to "make the thêtes into hoplites" [...], in the strictly political (rather than military) sense of granting all citizens in democracy equal access to office-holding, was also a phenomenon of the late fifth and fourth century B.C., a time when class distinction and the census rubrics themselves were becoming ever more incidental. Yet we never hear of a wish 'to make the hoplites into thêtes.' Ideologically, hoplites were made to feel that the landless thêtes were becoming more like themselves, rather than vice versa. This "big-tent" notion that others were brought up, rather than insiders pulled down, was important to the Athenian experimentation with democratic polis transformation." (*Id.*, p. 306)

Importantly, "the large number of slaves and resident alien mettes [sic, metics] at Athens, and the careful restrictions between citizen and noncitizen also helped to draw hoplites into line with democratic thinking." Thus, "[i]nclusion of the landless at Athens in the citizenry may have resulted in a society that was no more egalitarian in demographic terms than that which existed during more conservative agrarian regimes." As we see that culture is frequently path-dependent, this fact may not be as significant in retrospect in terms of maintaining democratic culture as it is for its establishment. In other words, it may be easier to extend membership to further groups once internal group solidarity has been firmly established.<sup>29</sup>

<sup>28</sup>Cf. [Ober et al., 1996, p. 304]

<sup>29</sup>This should remind of Wilson's discussion of *eusociality* above. Cf. also [Greene, 2014].

Lastly, Hanson speaks of the importance of common experiences in shaping cross-class solidarity: “At Athens there were also instances—military service, colonization schemes, *cleruchies* — where yeomen *zeugitai* and propertyless *thētes* shared common enterprises and aspirations. ” (*Id.*, p. 307) Thus, eventually,

the old idea of the Greek polis that its local landowners alone were to be makers of its laws/protectors of its people/producers of its food gradually was forgotten at Athens, but that rethinking was not accomplished by wholesale exiles, executions, or confiscations. There was no need for these coercive measures under an insidious system such as Athenian democracy, which could reconstruct—symbolically, ideologically, spiritually—hoplites as stalwart defenders of the democratic order. While hoplites had become democrats, democrats had, in some equally important sense, become ‘hoplites.’ (*Id.*, p. 308)

### **Thetes and the Athenian Navy**

Any discussion of the role of the Greek military in promoting democratic civic values is incomplete without explicitly referring to the thete class of sailors. It has been argued that Athenians “in a psychological sense walled themselves off from their own farmland to connect with the sea” [Ober et al., 1996, p. 293] Moreover, Barry Strauss argues that at the time of Cleisthenes’ radical reforms,

the poorest citizens lacked the leisure or mindset needed to make the most of the new possibilities of political participation: they lacked such qualities as self-confidence, a knowledge of the world, and less tangibly, the ability to imagine themselves as part of an active political community. Half a century later, by the time of the Ephialtic revolution of 462-461, those Athenians were well on their way to acquiring those qualities. [Ober et al., 1996, p. 313]

Strauss attributes a large measure of this change to the role of the *thetes* in the Athenian navy, which he refers to as “the main catalyst” of this change, which operated to “ignite... the thete’s political consciousness by offering them a practical education.” (*Id.*) Thus, he cites Aristophanes, who in *The Wasps* has old sailors complain, “Some people whose hands have seen no calluses through oars or spears held against the enemy of our land, and yet they steal our wages! Simply put I say these few words: Those of you who have no sting should receive the wages of a juror.”

The main reasons for the self-confidence of the thetes, according to Strauss, are

First, however much he may have sneered, no hoplite, no cavalryman could deny the critical military importance of seapower to Athens... Second, as the striking arm of what came to see itself as a nation of rulers, thetes would not easily accept political subordination at home. Third, by the time the permanent military importance of thetic rowers began to become clear in the 470s and 460s, *isonomia* had been a dominant motif of Athenian ideology for two or more generations... Fourth, by creating and maintaining the Athenian empire, the navy generated the public income that financed state pay and the indirect forms of education (drama, festivals, etc.) that made possible political participation by the poor without bleeding wealthy Athenians dry.

The fifth, and for Strauss, most important causal factor is “that service on a trireme was an experience that created its own social imaginary”. We see here direct reference to the important contribution of democracy towards social learning, simultaneously its precondition:

Participation in the community of rowers created new identities for the participants. Year in and year out, the thetes, the backbone of the democracy, sat on triremes and pulled oars, or served as petty officers or, less commonly, as marines or archers. The experience shaped their collective consciousness; it made *dēmokratia* and *isonomia* and *eleutheria* into not merely slogans but living realities. Communities are bound by symbolic, ritual, and emotive ties as much as by a rational and contractarian calculus. [Ober et al., 1996, p. 316]

Strauss calls attention to two juxtaposed incidents describing the differences in behavior and culture among the Athenian and Spartan navies during the Peloponnese War:

During the naval campaign in the Corinthian Gulf of 429, when the Athenian fleet was under the command of Phormio, the seamen were afraid of the prospect of attack by a numerically superior Spartan fleet. Their response was to gather among themselves... and to discuss the situation. Noticing their action, Phormio called the men together to give a “pep talk”... In other words the sea men behaved like free men: they engaged in free speech that provoked persuasive oratory on the part of their commander. The situation

was different in 411, when seamen in the Peloponnesian fleet, many of them *eleutheroi* [free citizens], responded to delinquencies in pay. . . . Once again the seamen gathered together to discuss their grievances. . . . Unlike Phormio, however, the Spartan commander Astyochus responded with a threat of physical violence, which provoked an even more violent response from the seamen. . . . the juxtaposition reveals a blunt message: Athenian triremes are sites of free and rational debate, while Peloponnesian triremes subject *eleutheroi* to emotion, compulsion, and violence. (*Id.*)

Strauss emphasizes the difficulty in drawing conclusive inferences about the role of the *thetes* in the Athenian polis:

. . . it is worth reiterating a point made by Rosalind Thomas: the extant texts of classical Athens represent only the tip of the iceberg of contemporary public discourse. Not only is what remains only a small part of the original literary or artistic production; it represents an even smaller part of the entire cultural production of what was primarily an oral culture. The *thetes* in particular were mainly illiterate, and not in a position to hire speechwriters or commission grave reliefs or purchase fine, painted pottery. Hence, the absence of a fully elaborated *thetic* ideology in extant ancient evidence does not mean that such ideology never existed. (*Id.*, pp. 320-1)

Thus, we may never know the true role of Athenian sailors in the spread or take-up of democratic beliefs or practices.

### 3.5.7 Conclusions from the Greek Experience of Democracy

Reflecting on the role of ancient Greece in shaping future notions of cooperation and democracy, a number of concluding observations can be made. Firstly, Castoriadis points out that the Greek examples should be interpreted not as a prototype, but rather as a “seed” that helps to trace out and compare future examples of self-governing. We return to this notion at the end of this chapter. Secondly, we see a high degree of decentralization. This decentralization even extended to the colonies. [Bauer, 2001, p. 161] Thirdly, we noted the central role of citizenship in the emergence of democracy in the Greek *polis*. Fourthly, the concept of the *agonic* was reviewed in its contribution to the development of civic practices, both individually and socially. Fifthly, we emphasized the dialectical relationship between military and defensive

necessities and the saturation of a democratic social spirit. Lastly, we should reiterate Finley's observation of the apparent paradox of the simultaneous emergence of democracy and a slave-based economy in the Greek *polis*, a topic we return to again in the next chapter.

## 3.6 Rome: Setback for the Democratic Imaginary

Following a long line of authors beginning with Gibbon, we wish to propose interpreting Rome as a historical setback for the development of civic cooperation. As this is not primarily a historical work, we cannot exhaustively deal with this topic, which has been addressed elsewhere<sup>30</sup>. In the following, we restrict our analysis to a few key phenomena that will serve to highlight the greater point of this chapter, which is to reflect on the domains or logics which the concept of democracy necessarily involves, which cannot merely be restricted to an artificially constrained "political" domain, as this domain is defined in modern terminology. Moreover, a more general goal of this chapter is to halt at significant periods or events in history that had an influence, in whatever direction, on the subsequent history and tradition of democracy, either on the arsenal or archive of ideas.

The section is thus structured in the following manner: we begin by discussing the idea of Rome as *res publica*. After this initial discussion, we continue by contrasting the political centralism of Rome to the decentralization of the Hellenic polis. We next review the thesis of Finley, of a gradual shift from status to order which he attributes to the historical trajectory of Rome from republic to empire. This discussion is followed by two resulting issues, firstly the *secessio plebis*, a series of revolts of Rome's lower classes. Secondly, we return to the topic of slavery, looking at how the institution colored the polity and set in course a legal tradition that facilitated later slave economies, notably the Atlantic slave trade. We then quickly review the nature of corporations in ancient Rome, before concluding with a few reflections on the impact of Rome on the democratic tradition.

### 3.6.1 Political Centralism

German anarchist theorist and autodidact Rudolf Rocker, contrasting Greek and Roman civilization, remarks that the primary distinction between the two

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<sup>30</sup>See, e.g., Finley's comparisons of Rome and Greece in [Finley and Shaw, 1980]; also Rocker's discussion of Rome in [Rocker, 1999].



cultures was the *lack of political centralization among the Greeks*. Thus, while Greece “fehlte dem Lande jede Grundlage einer politischen Einheit, deren Träger stets geneigt sind, das freiheitliche Empfinden zu unterdrücken und die Verfolgung gewisser Ideen grundsätzlich zu betreiben” [Rocker, 1999, p. 348], “verfolgte Rom von Anbeginn die Idee einer alles umfassenden politischen Einheit, die im römischen Staate ihren vollendeten Ausdruck fand.” (378)

While the Greeks “gründeten ihre Kolonien unter denselben Voraussetzungen wie ihre Städte in der engeren Heimat, als selbstständige Gebilde. . . [a]uch die Kolonie hatte ihre eigene Verfassung, war eine Polis für sich und wetteiferte mit den Städten der Heimat in der selbstständigen Entfaltung ihres eigenen kulturellen Lebens.” (Id. p. 361) Meanwhile, Rome’s “aristokratisch-demokratische[s] Staatswesen” (375) was dominated by “nationalen Idee [. . .] man fühlte sich nicht bloß in Rom, sondern auf der ganzen Halbinsel als Römer.” (Id. p. 377)

While, in the case of the Greek poleis, “eine zentralistische Vereinigung gegen die Perser nie zustande kam.” (364), Rocker cites Hegel, who argued that “[d]as römische Prinzip war ganz auf die Herrschaft und Militärgewalt eingestellt. Es hatte keinen geistigen Mittelpunkt in sich zum Zweck, zur Beschäftigung und zum Genießen des Geistes.” (Id. p. 381) And while, in the choice between “Autonomie” vs. “Heteronomie”, the Greeks continually chose the former (Id. p. 367)<sup>31</sup>, the Roman empire “war keineswegs ein Verband von Bürgern, sondern eine Herde Untertanen” (Id. p. 378), writes Rocker, citing Kropotkin.

Finley, too, sees the degradation in the status of the free citizens of Rome as a consequence of the political centralization:

The replacement of the city-state form of government, with its intense political activity, by a bureaucratic, authoritarian monarchy made a major contribution; as the great majority of the citizen population lost their role in the selection of officials and their place in the army, which was now professionalized and increasingly composed of recruits from certain “backward” provinces, they lost ground in other respects, too. [Finley, 1999, p. 86-87]

We cover the results of a shift towards a more archaic form of social organization as a result of increasing centralization next.

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<sup>31</sup>Castoriadis would agree, juxtaposing the heteronomy of the Roman Empire with the autonomy of the Greek *polis* as distinct *ethos*. [Castoriadis, 2005]

### 3.6.2 From Status to Order

As Finley concludes in his *Ancient Economy*, the Greco-Roman world, for all its divergences, shared a fundamental trait that *labor* was seen as an abhorrent. Finley comments on Cicero's discussion of occupations in his *De Officiis*, "Most of the specific employments he enumerates are occupations, but not all: wage labour is not an occupation, nor is agriculture when it embraces everyone from a poor tenant to the absentee owner of hundreds, even thousands, of acres. Although Cicero himself was a large landowner, his 'occupation' was not agriculture but the law and politics, both of which he understandably neglected to mention. He is an excellent exemplar of the truth that in antiquity land ownership on a sufficient scale marks 'the absence of any occupation', not only in the particular". [Finley, 1999, p. 44]

Moreover, such phenomena make the application of concepts like class difficult in such a world. Finley again:

Half a century ago Georg Lukacs, a most orthodox Marxist, made the correct observation that in pre-capitalist societies, "status-consciousness ... masks class consciousness". By that he meant, in his own words, that "the structuring of society into castes and estates means that economic elements are inextricably joined to political and religious factors"; that "economic and legal categories are objectively and substantively so interwoven as to be inseparable". In short, from neither a Marxist nor a non-Marxist standpoint is class a sufficiently demarcated category for our purposes... [Finley, 1999, p. 50]

In its place, Finley suggests the category *status*:

It is for such distinctions that I suggest the word "status", an admirably vague word with a considerable psychological element. Trimalchio has been likened to the Pompeiian who called himself *princeps libertinorum*, first among the freedmen, and that is status. Rich Greeks and Romans were, in the nature of things, members of criss-crossing categories. Some were complementary, for example, citizenship and land ownership, but some generated tensions and conflicts in the value system and the behaviour pattern, as between freedmen and free men, for instance. Although an order or estate had a position of superiority or inferiority to other orders, it was normally not egalitarian internally (Id. ff.)

In one of the most interesting passages from *The Ancient Economy*, Finley states that "the employers of labour in the later [Roman] Empire were not

making the efforts needed to maintain a full complement of slave labour. If the explanation for their behavior is not to be found in the drying up of the slave supply or in decisions about efficiency, productivity and the like, then it must lie in a structural transformation within the society as a whole.” [Finley, 1999, p. 86] He continues,

The key lies not with the slaves but with the free poor, and I believe the elements can be pinpointed. The starting point is the trend, visible from the beginning of the monarchic government in Rome, from Augustus on, in other words, to return to a more “archaic” structure, in which orders again became functionally significant, in which a broader spectrum of statuses gradually replaced the classical bunching into free men and slaves. There was, in effect, a reversal of the process that had transformed the archaic world into the classical. (*Id.*, 86-7)

Thus, as Finley continues later:

In Italy and elsewhere in the west, where for some centuries we found genuine slave societies, the effect was the more drastic one of the shift from slavery to the colonate. The decline of slavery, in other words, was a reversal of the process by which slavery took hold. Once upon a time the employers of labour in these regions imported slaves to meet their requirements. Now their own lower classes were available, as they had not been before, from compulsion, not from choice, and so there was no need for a sustained effort to keep up the slave supply, nor to introduce wage-labour. (93)

Thus, “[the] legal extension of corporal punishment and torture to the lower classes among the citizen population was not just another exception; it was a qualitative transformation in social values and behaviour.” [Finley and Shaw, 1980, p. 95]<sup>32</sup>

### 3.6.3 Slavery in Rome

Moses Finley spends a considerable effort in an essay entitled *Slavery and Humanity* on the ambiguity of the ancient conception of slavery. Greco-Roman manumission, which we return to again briefly when discussing the

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<sup>32</sup>In many ways, this shift is exemplified in Marx’s category of “Asiatic” modes of production. See both the *Grundrisse*, [Marx, 1974], as well as [Weber, 1972] and [Wittfogel, 1959]. Finley discusses the relevance of the *Grundrisse* in [Finley and Shaw, 1980, pp. 38-41].

Atlantic slave trade below, “reveals in the sharpest way the ambiguity inherent in slavery, in the reduction of human beings to the category of property.” [Finley and Shaw, 1980, p. 97] The ambiguity is revealed by the fact that a slave, “at a stroke [of a pen] ceased to be a property.” Thus, legally, slaves were treated in the same manner as cattle. However,

hav[ing] been branded like cattle; the Roman lawyers may have linked slaves and animals in noxal actions and in other property contexts; but no one could for a moment have forgotten that the differences were fundamental. Putting aside all psychological considerations, it was fundamental that a slave could think, could act deliberately, could make and respond to verbal suggestions, could flee, could join others in concerted actions, including rebellion, could carry out confidential or military assignments. (99)

This contradiction is clearest exemplified in the realm of *noxal actions*:

Because he lacked juristic personality in principle, a slave’s misdeeds were his master’s responsibility, whether or not the latter initiated the offending action or even had any knowledge of it. So at an early date there arose what the Romans called noxal actions, suits against a master for injuries or damages committed by his slave, by his son in potestate, or by one of his animals. That simple approach was, however, unworkable in many situations, in which the underlying principle clashed with other, equally basic conceptions. Noxal actions were private-law affairs, but what was the position when the action fell within the criminal law, a public-law affair? It was unthinkable for the state to punish a citizen who was in fact innocent of any crime or criminal intent; but to punish the offending slave meant damaging or destroying property, and protection of private property was a fundamental obligation of the ancient state. (98)

Interestingly, the solution Finley points out which Roman jurists devised was simply the return of the slave to the master for punishment, *servus sub poena vinculorum domino reddere*, “which he accomplished by ‘imprisoning’ the slave in his ergastulum while continuing to exploit his labour.” (id.) The solution reveals the paradox at the root of the classical conception of slavery, which combines what we will later see Hegel refers to as a “self reflecting consciousness” with property relations. Regarding tolerance of the ambiguity, Finley concludes that “[e]veryone, free and slave alike, simply accepted the ambiguity inherent in a property endowed with a soul. Societies, even civilized

ones, have repeatedly demonstrated their capacity to survive for long periods with such tensions and contradictions.” (117)

One can distinguish the difference in attitudes towards slavery in the Greek and Roman periods, e.g., by means of literary representations of the institution. Thus, [Cuffel, 1966, p. 325] remarks “Because of their association of it with tragic fate, slavery was no laughing matter to the Greeks of the Vth and IVth centuries [BCE]. Greek comedy had its Thracian guards but no true stock of slave characters, as Roman comedy did”. Thus, in principle, a slave could hold a tragic role in Greek theater (cf. Euripides’ *The Trojan Women*, whereas this was unthinkable in Roman theater.

### 3.6.4 Legal Legacy

A topic<sup>33</sup> to which we return to later in this chapter and again in Chapter 5 is the impact of Roman legal tradition on contemporary social dynamics. In particular, scholars like Otto von Gierke have argued that Roman jurisprudence had little room for recognizing the supremacy of personal rights over property rights. Thus, for instance, Finley comments that even “after the conversion of Constantine [to Christianity] and the rapid incorporation of the church into the imperial power structure, there is not a trace of legislation designed to turn away from slavery, not even by gradual steps. On the contrary, it was that most Christian of emperors, Justinian, whose codification of the Roman law in the sixth century not only included the most complete collection of laws about slavery ever assembled but also provided Christian Europe with a ready-made legal foundation for the slavery they introduced into the New World a thousand years later.” [Finley and Shaw, 1980, pp. 88-9]

Finley suggests that this change was due in part to “[t]he replacement of the city-state form of government, with its intense political activity, by a bureaucratic, authoritarian monarchy” (Id.). Citizens were no longer included in the selection of public officials and, as the army was professionalized, so here, too, the average citizen lost his place and status. Ergo, Cicero’s lament that “*rem publicam verbo retinemus.*”<sup>34</sup>

Additionally, Gierke emphasizes that Roman jurisprudence dealt poorly with associational or collective (“intermediate”) legal entities. We deal with this issue more fully in later chapters, but for the moment, it may suffice to reflect on Roman corporate law. Generally, in the empire, the creation of corporations was a tedious affair that was granted via tradition and required explicit approval of the Emperor, in most cases. Little is known of Republican

<sup>33</sup>Parts of this section is taken from unpublished history of legal personhood. Cf. Jerome Warren, *A History of Legal Personhood, with Special Focus on the Corporation*.

<sup>34</sup>[Cicero, 2014], cited in [Brooks, 2017, p. 178].

Roman statues concerning associations. It is largely believed that the creation of *collegias*, which were – generally – little else than social clubs, but could extend as far as trade associations (potentially a precursor to the guilds of medieval Europe), was relatively simple, and that one required three members to establish a *collegium*. The sole exception was the College of Consuls, which consisted of the two Consuls. In addition to this, there were a number of institutions, such as *societas*, *societas publicanorium* and *peculia* that consisted of collections of private citizens engaging in various private or public ventures. *Societas* resembled modern day partnerships[Gierke, 1900, p. xxii f.]; *societas publicanorium* conducted state-commissioned business, such as building roads and later aqueducts[Malmendier, 2002]; and *peculia* were the household units (essentially plantations) run by a *pater familias*[Weber, 1972, 36ff.]. The latter often had slaves. However, none of these were identical to the modern joint-stock corporation. While *societas publicanorium* did feature some form of limited liability, they more closely resemble “sleeping partnerships”.

[Mitteis, 1908, p. 396] suggests that it is likely that association was less restricted in the Republican era than during the imperial era initiated by Julius Caesar. After the Julian reforms were enacted, the Emperor played a more central role in facilitating the creation of associations. “The right of concession of associations in Rome, Italy and the Senatorial lands lay with the Senate, whereas with imperial provinces, they lay with the Emperor.[Mitteis, 1908, *ibid*]” Indeed, it was this system (of *concessions*) that was to extend largely into the Industrial Revolution.

### 3.6.5 Conclusion

The legacy of Rome on the democratic tradition is, as we see above, at best ambivalent. Through an opportunistic and limited conception of the state as a “public thing”, the facticity of political centralism and (economic, as well as political) stratification could be masked. This masking was not always effective, as the *secessio plebis* demonstrates. While it did achieve a manner of progressive reform, the fundamental despotism of unfree labor carried over beyond the existence of the Roman state. Its slave system degenerated into the *coloni* of the early Medieval period, which carried the Master-Slave logic into the modern era under the guise of Absolutism and was thereby allowed to under-gird the later Atlantic slave trade. Moreover, the decidedly individualistic character of Roman *collegias* was to negatively impact future developments regarding associations and left a strong mark on the nature and potential for cooperation, as Gierke later remarked. We will return to many of these points throughout the present work, but turn for now to the

form of city state that emerged from the ruins of the Roman empire in the 11th century.

### 3.7 Cooperation in the Middle Ages and Renaissance

Of course, the rule generally follows that the closer we travel to our own time, the more historical material remains available to examine. Thus, much is known about the Medieval and Renaissance Republics, such as Venice and Florence. And, while the last section closed with references to the extended legacy of the Roman *coloni*, their elaboration and development during and after the collapse of the Western Empire necessarily goes beyond the extent of this work.<sup>35</sup>

This section concerns the fate of cooperative forms of self-organization during the Medieval and Renaissance periods. It begins by recounting the phenomenon of the development of free cities in the Medieval period. Following this, we recounting the influence of Greek refugees on the Italian Renaissance, focusing later on Florence. After shortly reviewing the Venetian polity, we investigate the thesis that the introduction of the Swiss *Eidgenossenschaft* was influenced by the encounter with the civic republics of northern Italy. In two concluding sections, we hypothesize firstly on the rise of an “act-based” rationality in the guise of the banking networks of the Medieval and Renaissance period, and secondly on the continuing relevance of “norm-based” rationality, despite these incursions. We conclude, with Polanyi and Weber, that the social logic continued to dominate social life in this period.

#### 3.7.1 The Rise of Free Cities

In the wake of the collapse of the central power of Rome, free cities emerged, which began fortifying their walls to ward off invasions. Relations external to these towns were anything but stable: “Compared to the relative stability of Ancient Athens, with its long-lasting laws and structures, this period is characterised by rapid regime change, situations of dual power and factional turmoil.” [Dowlen, 2017, p. 67] These cities were, however, not just confronted by external problems. They faced many internal tensions as well, including “the need to forge a single unified political structure and the need to establish

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<sup>35</sup>Interested readers should refer to Marc Bloch’s excellent writings on the subject, e.g., [Bloch, 1961].

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authoritative institutions and procedures with which to govern.” (Id., p. 68)  
Writes Dowlen,

The revitalising of city life in feudal Europe between the eleventh and thirteenth centuries is of considerable political importance. Its driving force was a scale of mercantile and organised artisan activity not witnessed since the collapse of the Roman Empire. This meant that new legal and government institutions had to be forged to facilitate this activity. This was, above all a period of great political consolidation, and the leading agency in that consolidation was a new emerging mercantile class. [Dowlen, 2017, p. 69]

Dealing with the conflicts between and among various interest groups was not always a simple matter, and events like the *secessio plebis* occurred in numerous places and times. “The protracted animosity between the feudal nobility—mainly based in the countryside—and the developing burgher class of the towns is a constant theme during this period and took many forms.” (70) Therefore, the greater context was one of instability and flux: “In northern Europe the independent towns, for the most part, co-existed with the older nobility, and enjoyed the stability afforded by the strong monarchies. In northern Italy, however, direct control by the legal sovereigns of Pope and Empire was weak and the towns became, *de facto*, autonomous or self-governing. But this also meant that they became more vulnerable to hostile alliances of neighbouring states or the ambitions of feudal strongmen.” (Id.)

Thus, similar to the era of the Greek dark ages, the question of defense was again of central concern, as can be recognized by the fact that many Renaissance figures, including famously Machiavelli [Benner, 2009, p. 15, footnote 1], but also others like Leonardo da Vinci [Burckhardt, 1877, Chapter 108], spent considerable time contemplating questions of civic defenses. Thus, in addition to the building of walls, one witnesses in this time the common practice of oath swearing, which “was primarily aimed at ensuring the integrity of the new legal and political entity. But it also reveals how the major movers, the mercantile elite, relied on the co-operation of the body of citizens. In general this fostered a spirit of inclusiveness and a certain level of formal political equality.” (Id.) Again, as in classical Athens, the development of this spirit was not a linear progression: “[t]his was a gradual process and often involved periods of combined authority when the new communal laws and the older ecclesiastical laws would operate side by side.” (Id., p. 71)



## Il Popolo

The *popolo* is the Italian cognate for *demos*, a “popular political society” based on inclusive rule, often forming a parallel government to central communal authorities. As Koenig comments, “The final goal of the popolo was perforce to take control of the commune and to reconstitute it. As part of this offensive, the people [...] sought to have its laws recognised as communal laws.” (p. 73) It “can be described as the voice of the commoners, in contrast to that of the older nobility.” (p. 74) Generally, “the popolo movements supported equal application of the law, wide participation in electoral practices and a strong working relationship between government and guilds.” Thus, “In cities where the popolo had taken power, the supreme governing body was usually of twelve or so members, with an office rotation of between two and six months. These *Anziani*, or elders, resembled a modern political party, but “did not act in a pluralist electoral environment. In the context of factional ravages, lawless *milites*, and the constant threat of despotism, *popolo* societies saw themselves as the only party capable of delivering civic peace and inclusive non-partisan government.” (Id.)

Thus, as opposed to intra-city factions, in keeping with the concept of multi-level selection introduced in 2.6.8, it is considered more apt to divide Italian cities “between those under *popolo* governments, and those under the control of a single signore or a tightly-knit family dynasty. The popular regimes were, on the whole, committed to open, participatory government, often using guild structures to facilitate this.” (Id.) Dowlen concludes that

Their high level of citizen involvement, links with the guilds and their complete absence of anything resembling an official political party distinguishes them instantly from modern representative forms of government. While not usually referred to as ‘republican’, their championing of open inclusive government makes them more republican in spirit than many later regimes that bear that name.  
(75)

We will see in 3.7.5 that it is likely that contact with this ‘republican tradition’ influenced the development of the unique governance system that arose in Switzerland in this era.

## The Concept of Citizenship

We have continually reflected on the importance and shifting of notions of citizenship in various polities. Of the northern Italian city-states [Dowlen, 2017, p. 78] writes,

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The concept of citizenship in the commune was not as precisely developed as in the ancient Greek *polis*. Eligibility to the pool from which electors were drawn was probably limited to those who paid taxes, belonged to a recognised guild or owned property. It is unlikely that the poorest members of the community would have taken part since they would have been considered vulnerable to corruption. Servants were also regarded as unreliable because they were not independent of their masters. There is, however, some evidence that members of the artisan class served on high executive bodies such as consulates, *priorates* or *anziani*. Citizen participation in government and administration increased dramatically during this period, especially on a part-time, paid basis.

Thus, we see some similarities with the process of democratization in classical Athens, but also certain distinctions. For instance, in Florence, “there was no clear sense of a citizen’s entitlement [...] Unlike the Athenian category of citizenship, which was a vertical division including both rich and poor, nearly all political participation in Florence was organised in terms of the horizontal guild categories. This left many excluded”. (Id., p. 82) Thus, the return from status to order that accompanied the imperial Roman stage was, at best, only partially reversed in the Italian *civitas*.

#### 3.7.2 Re-encounter with Greeks

In fact, one of the most interesting theories about the popular republics of the Renaissance is the direct influence of Greek thought on the new regimes. It is a well-known fact that Greeks were streaming into the Italian peninsula centuries before the fall of Constantinople in 1453. As most of Greek Anatolia had fallen to the Ottomans much earlier (particularly beginning with the first sacking of Constantinople in 1206), refugees from many parts of the last remnants of the Roman Empire streamed in.<sup>36</sup> These refugees brought with them many writings, among them, the Greek classics that went on to inspire the Renaissance artists and intellectuals of Italy.

Jacob Burckhardt, in his monumental study of the culture of the Renaissance, reflects on the centrality of the re-encounter with the ancient world, and particularly the Greek world, in the buildup to the Italian Renaissance. In explaining the phenomenon of the Renaissance, [Burckhardt, 1877, p. 202] states, “Dieses Gesamt ereignis besteht darin, dass neben der Kirche, welche

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<sup>36</sup>Even from Albania. In parts of Italy today, Albanian is still the primary language in some villages in Calabria, for example.

bisher (und nicht mehr für lange) das Abendland zusammenhielt, ein neues geistiges Medium entsteht, welches, von Italien her sich ausbreitend, zur Lebensatmosphäre für alle höher gebildeten Europäer wird." This medium is the culture of the Renaissance. In many ways, it was a mixture of old and new:

Anders aber als im Norden wacht das Altertum in Italien wieder auf. Sobald hier die Barbarei aufhört, meldet sich bei dem noch halb antiken Volk die Erkenntnis seiner Vorzeit; es feiert sie und wünscht sie zu reproduzieren. Ausserhalb Italiens handelt es sich um eine gelehrte, reflektierte Benützung einzelner Elemente der Antike, in Italien um eine gelehrte und zugleich populäre sachliche Parteinahme für das Altertum überhaupt, weil dasselbe die Erinnerung an die eigene alte Grösse ist. Die leichte Verständlichkeit des Lateinischen, die Menge der noch vorhandenen Erinnerungen und Denkmäler befördert diese Entwicklung gewaltig. Aus ihr und aus der Gegenwirkung des inzwischen doch anders gewordenen Volksgeistes, der germanisch-langobardischen Staatseinrichtungen, des allgemein europäischen Rittertums, der übrigen Kultureinflüsse aus dem Norden und der Religion und Kirche erwächst darin das neue Ganze: der modern italienische Geist, welchem es bestimmt war, für den ganzen Okzident massgebendes Vorbild zu werden. (Id. p. 203)

However, this event did not occur all at once: "Die grosse, allgemeine Parteinahme der Italiener für das Altertum beginnt jedoch erst mit dem 14. Jahrhundert. Es war dazu eine Entwicklung des städtischen Lebens notwendig, wie sie nur in Italien und erst jetzt vorkam: Zusammenwohnen und tatsächliche Gleichheit von Adligen und Bürgern; Bildung einer allgemeinen Gesellschaft". (205) Thus, as urban life was renewed after the collapse of the Roman world, much of the artistic and intellectual endeavors of the period revolved around the "Suche nach einem neuen haltbaren Ideal" (Id., p. 206) Interestingly, this ideal was often found in the ruins of the past. As an example of such backwards-oriented awe, [Burckhardt, 1877, p. 213] describes the pilgrimage to the mummified corpse of Julia (daughter of Claudius): "Das Rührende an der Sache ist nicht der Tatbestand, sondern das feste Vorurteil, dass der antike Leib, den man endlich hier in Wirklichkeit vor sich zu sehen glaubte, notwendig herrlicher sein müsse als alles, was jetzt lebe." (Id., p. 213)

Burckhardt argues that the disciplines of archaeology and art history developed from this fascination with the relics of the past, an endeavor in part supported by the Church patriarchs. However, the deciding influence, so

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Burckhardt, came from the influence of Greeks: “Schon Boccaccio nennt die Ruinenwelt von Bajae ‘altes Gemäuer, und doch neu für moderne Gemüter’; seitdem galten sie als grösste Sehenswürdigkeit der Umgegend Neapels.” (Id. p. 212) However, the Greeks’ main influence was not in giving sightseeing advice. According to Burckhardt, “Unendlich wichtiger aber als die baulichen und überhaupt künstlerischen Reste des Altertums waren natürlich die schriftlichen, griechische sowohl als lateinische. Man hielt sie ja für die Quellen aller Erkenntnis im absolutesten Sinne.” (Id., p. 218)

Indeed, this “rediscovery” actually frequently involved a reminder rather than an authentic rediscovery: “So gross die Einwirkung der alten Schriftsteller seit langer Zeit und vorzüglich während des 14. Jahrhunderts in Italien erscheint, so war doch mehr das Längstbekannte in zahlreichere Hände verbreitet als Neues entdeckt worden.” Nevertheless, the period was marked by significant advances in the dissemination of the old classics. For example, “die erste lateinische Uebersetzung der *Ilias* und *Odyssee* hat Boccaccio mit Hülfe eines calabresischen Griechen, so gut es ging, zustande gebracht. Erst mit dem 15. Jahrhundert beginnt die grosse Reihe neuer Entdeckungen, die systematische Anlage von Bibliotheken durch Kopieren und der eifrigste Betrieb des Uebersetzens aus dem Griechischen” (Id.)

Private libraries were critical in this endeavor, particularly the efforts of Pope Nicholas V. One of the most famed Greek refugees, Bessarion, was one the central figures in these archiving efforts: “Aus antikem Patriotismus sammelte der berühmte Grieche Kardinal Bessarion 600 Codices, heidnischen wie christlichen Inhalts, mit ungeheuren Opfern, und suchte nun einen sichern Ort, wohin er sie stiften könne, damit seine unglückliche Heimat, wenn sie je wieder frei würde, ihre verlorene Literatur wieder finden möchte.” This treasure ultimately landed in library of St. Mark’s in Venice.

Along with the Medician library, another example was the enormous urbinical library, today housed in the Vatican. Of it, Burckhardt comments that “[u]nter den griechischen Codices überwogen sehr die Kirchenväter, doch heisst es bei den Klassikern u. a. in einem Zuge: alle Werke des Sophokles, alle Werke des Pindar, alle Werke des Menander” (221-2). The last of these, Burckhardt remarks, were lost.

This tedious work of Greek scholarship and translation “konzentriert sich wesentlich auf Florenz und auf das 15. und auf den Anfang des 16. Jahrhunderts.” (225) As pivotal as these efforts were in providing content to the *Gesamtereignis*, they dwindled as the flow of refugees from Constantinople and Byzantium dwindled. Burckhardt remarks that “[es] starb mit der Kolonie gelehrter griechischer Flüchtlinge auch das Studium des Griechischen in den

1520er Jahren weg.” (Id.)<sup>37</sup> It was the few remaining exceptions, among them Erasmus of Rotterdam, who maintained the study of Greek classics after this extraordinary period of cultural exchange. (Id.)

Nevertheless, while it lasted, Greek refugees were central in reintroducing Italian and European scholars to classical Greek scholarship. It is astounding to recall the pedigree of some of the scholars who contributed to the “Italian Renaissance”. So Burckhardt:

Jene Kolonie hatte begonnen mit Manuel Chrysoloras und seinem Verwandten Johannes, sowie mit Georg von Trapezunt, dann kamen um die Zeit der Eroberung Konstantinopels und nachher Johannes Argyropulos, Theodor Gaza, Demetrios Chalcondylas, der seine Söhne Theophilos und Basilios zu tüchtigen Griechen erzog, Andronikos Kallistos, Markos Musuros und die Familie der Lascaris, nebst andern mehr. Seit jedoch die Unterwerfung Griechenlands durch die Türken vollständig war, gab es keinen neuen gelehrten Nachwuchs mehr, ausgenommen die Söhne der Flüchtlinge und vielleicht ein paar Candioten und Cyprioten.

It is certain that many of the democratic and civic-minded ideas of the classical Greek era were also transported, a happy irony in the tragic fall from grace of Byzantium. A large literature has developed tracing out these influences.<sup>38</sup>

### 3.7.3 Florence

The Republic of Florence was established in 1115 and lasted, in name, until 1569, although it was effectively destroyed in 1530 [Najemy, 2008]. Its history was one of tumult and frequent conflict, itself interrupted and punctuated by autocratic rule on part of the Medici, who represented sectors of the aristocracy. However, historians agree that a strong democratic and republican tradition accompanied this era of Florence’s history. This tradition was mainly espoused by the so-called *popoli*, movements of craftsmen and artisans who sought to extend political participation continually beyond the old landed (feudal) aristocracy and the rising merchant guilds, or upper guilds. For instance,

<sup>37</sup>In a footnote, Burckhardt cites the Italian historian Paulus Jovius, who wrote of Germans “*quum literae non latinae modo cum pudore nostro, sed graecae et hebraicae in eorum terras fatali commigratione transierint.*” (“when the letters, not only of Latin with our shame, but of Greek and Hebrew, have passed through their lands by a fatal migration.”)

<sup>38</sup>Cf., e.g., [Loomis, 1908], [Tselos, 1956], [Geanakoplos, 1958], [Runciman, 1965], [Geanakoplos, 1989], [Wilson, 1992], [Monfasani, 1995], [Harris, 1995].

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rotation and consensus among the different factions of Florence's polity was present until the Medici putsch in 1434, and again after 1494.

Below, we trace out the unfolding of the democratic civic imaginary in the first Florentine Republic and follow this by a discussion of how the Republican tradition survived the Medici rule and then re-established its hegemony after 1494.

#### Democratic Practices in the First Florentine Republic

The Commune was founded in 1138, with a Council of 200 of the citizenry. Its first decades were marked by instability, due to factional struggles between two aristocratic families.<sup>39</sup> In 1216, a further split in the aristocratic factions of the Gibelline and Guef factions took place, which was to mark much of the rest of Florence's history. In 1292, a popular government, based on guild membership, was installed. This government "finally enabled the new mercantile elite to remove the factious and lawless remnants of the feudal aristocracy from the Florentine body politic." (81) The next centuries of Florence's history are "dominated by the rise of the *popolani*." (Id.)

Within this faction, "there was also a discernible tension between loyalty to the family—the basic unit of organisation of the mercantile elite—and loyalty to the wider political entity of the commune or city state." (81-2) This means that *dual oppositions* were in force throughout much of Florence's history:

[t]he general interest, exemplified in the governmental institutions and procedures, stood in opposition to the sectional interest of the major *popolani* families. At the same time those outside the select ruling group, many supporters of the ideals of the earlier *popolo*, constantly sought to take a greater share in the workings of the body politic. Thus we see in Florence during this period a vacillation between what we can describe as popular regimes, in which participation in public office reaches down into the middle guilds, and governments of a more oligarchic complexion in which the *patriciate* closed ranks. (82)

Much of the time, the power was concentrated among the higher *Popolani*, i.e., the merchants and banker class that increasingly inter-married with the traditional aristocratic elite. As Dowlen comments, there was "no [Florentine] Kleisthenes, no great rational plan to sweep out the old and replace it with the new", meaning the resulting institutions were a contradictory mix of eclectic

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<sup>39</sup>Cf. [Dowlen, 2017, p. 80].

and often *ad hoc* solutions that rarely lasted, “an unwieldy, ‘portmanteau’ organic form of government, often of intense complexity, that grew here and shrank there in response to the interests and aspirations of the groupings within the body politic.” (83)

**The *Brevia*** The *brevia* was first introduced in Florence in 1328. [Dowlen, 2017, p. 79] It was, in effect, a response to the shortcomings of the electoral system, which to date had been based on the *scrutiny*, in which the governing group chose worthy candidates for office and then selected from the shortlist by lot, which Dowlen refers to as a “weak use” of lot and an application of a *descending principle*, where those in power choose successors. The *brevia*, meanwhile, was a lottery following the *ascending principle*, meaning the general populace chose candidates, who were then selected by lot. The shortcomings of the *scrutiny*, which lay in “[t]he difficulty in holding open elections without intimidation or other forms of interference, however, meant that another form of selection, indirect elections with appointed electors, was then tried.” Therefore, “[b]y granting everyone in the pool a stake in the selection of electors, the *brevia* was a reflection of the inclusive ideals of the law-governed political community. It guaranteed the impartiality of the selection procedure itself. Not only was direct interference inhibited, but the process was simple, coherent and transparent.” (93) Dowlen suggests that this particular use of lot was “similar” to its use in Athens:

In all aspects it constitutes a strong application of lot because the arational qualities of the lottery process are used positively to achieve recognisable ends. The main purpose of sortition was to maintain the authority of the electoral process by protecting it from partisan interference. The process could then be understood as the impartial common property of all citizens. (Id.)

### Medici Rule

In 1434, Cosimo de Medici became the informal ruler of Florence [Assonitis and van Veen, 2021 p. 342]. He did so by opportunistic alliances, and partly by luck: the *brevia* drawn in September of that year contained a majority pro-Medici faction. His ascent was also facilitated by mistakes in the anti-Medici faction, which “left their patronage network largely intact.” [Najemy, 2008]. This meant that, “while the Medici (excepting only the line of Vieri di Cambio) were barred from communal office, their friends and allies remained eligible.” Thus, “the resumption of sortition soon proved fatal to the anti-Mediceans.” (Id.)

After regaining his position, Cosimo consolidated his position. For instance, “the Medici *balìa* of 1434 destroyed the pouches of the 1433 scrutiny.” (280)

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“eliminating the old lists and starting afresh allowed the regime to keep specific families and individuals out of the way and were meant to spare the Medici unpleasant surprises in the bimonthly extraction of name-tickets of the sort that had scuttled their opponents. ” (Id.) Thus, Cosimo and his allies used existing rules and practices to legitimate what was *de facto* a usurpation of power, revealing the importance of including *blind breaks* in critical areas of governance to prevent arbitrary rule.

About the instrumental use of legitimate policies to undermine checks to Medici rule, [Assonitis and van Veen, 2021, p. 105] remarks that “[t]he remarkable achievement of the rule of the Medici between 1434 and 1494 was that Cosimo, Piero or Lorenzo never regularly held high office, but used a mixture of patronage and intimidation to manipulate the entire governmental apparatus from the background. Part of their skill lay in their ability to maintain a veneer of public governance that was just substantial enough to hide the true arbitrary nature of their rule.”

#### Second Florentine Republic

While there was a short-lived attempt to re-institute a popular government in 1465-6 which is worth noting, it was not until 1494 that another republican government was able to be installed. After the fall of the Medici in 1494, a Second Republic was declared. Dowlen writes “Unlike the example of Ancient Athens, where we saw lot employed largely in a preventative capacity, here we see lot in action against well-defined threats to the political community.” [Dowlen, 2017, p.98] Thus, there was not a clear *democratic* prerogative to the new government, as “most *ottimati* welcomed the regime’s collapse in 1494 and anticipated the foundation of an aristocratic republic modeled on Venice.” [Najemy, 2008, p. 414]

However, “[a]lthough they were loath to acknowledge it, even before 1527 it was clear that the *ottimati* lacked the strength and unity to establish their Venice on the Arno and that Florence’s future was now in fact a contest between Medici rule and popular republicanism.” [Najemy, 2008, p. 415] In the end, Najemy suggests that while the Florentine aristocrats were not able to pick their own Constitution, they “did have the power to determine which of these alternatives would prevail.” (Id.) Thus, we can see the self-interest of the *ottimati* in a similar light to the patrician self-interest in the *secessio plebis*, or in the case of Pisistratus in Athens (see above). In any case, after Florence became a Grand Duchy in 1569, the flame of its popular civic tradition was finally put out.



### 3.7.4 Venice

*La Serrenissima* was always a contradictory polity, representing on the one hand strong mixing of rulers with the use of lotteries and at the same time restricting active political participation to an ever-shrinking subset of the aristocracy in the *Consiglio Grande*, the political center of Venice, with its head being referred to as the *Doge*. Writes [Dowlen, 2017, p. 99]:

Venice, for all its complex electoral systems, and despite its reputation as a model of Aristotelian mixed government, was essentially ruled by an aristocratic oligarchy. In terms of the wider picture of the use of sortition Venice is a major link between Italian and northern European republicanism: as republican ideas began to spread to northern Europe in the seventeenth century, it was Venice, rather than Florence that served as the major example.

Moreover, “while the *Consiglio* initially numbered around 1,200 and represented an increase in participation, it very soon created a closed group of citizens, differentiated from the vast majority of the residents of the city by their access to the body politic.” (100) Thus, “Unlike Florence, which had denied political participation to a number of its leading aristocratic families via the Ordinances of Justice of 1292, in Venice the aristocracy had found a constitutional means of retaining and exercising power.” (Id.) Thus,

The closing of the *Consiglio Grande* limited the electorate and this created much greater predictability and stability than in Florence where the make-up of the nominating and scrutiny committees was the subject of constant political friction. The Florentine system was, by the same token, more responsive to pressure from the lower guilds and artisan class and, in this respect, could be considered as having more democratic potential. (101)

Machiavelli described the Venetian case as one where “Guardianship of liberty has been put in the hands of the nobles just as in Rome it was in the hands of the people.” [Dowlen, 2017, p. 105] While we do not have time to delve into the history of Venetian political institutions, it is hoped that this short overview of its main contours shows how its unique structure was more responsible for facilitating accord among the nobility than it was between it and the *popolo*. The closed nature of Venice’s polity would continue to create frictions and problems between the roughly 80% of the population not actively participating in the political governing. [van Gelder and de Larivière, 2020, p. 1]. While Venice did not experience many (successful) popular uprisings, it was a place where “infrapolitical” criticism (Id., p. 2) and various nonviolent

(as well as some violent) forms of resistance occurred. Thus, future scholarship must both reevaluate Venice's status as "the most serene" and also its relationship to and distinction from the wider tradition of democracy.

### 3.7.5 Switzerland

[Economou and Kyriazis, 2019, p. 142] claims that after the dissolution of the Roman Republic by Octavian (later the emperor Augustus), "[o]ver the next 14 centuries, democracy remained a lost concept until, bit by bit, it began to reemerge toward the end of the 13th, early 14th centuries, during the Late Middle Ages." They describe the free cities just discussed as examples of this resurgence, but claim that "[t]he true rebirth of democracy, and indeed in its direct form, as in ancient Greece, occurred in a hitherto forgotten region of Europe – mountainous Switzerland." Certainly, as the authors correctly note, there were certain similarities between the two peoples, including the dependence on agriculture; additionally, "[t]heir military organisation resembled the Greek phalanx" in that "[t]he Swiss, free farmers and 'hoplites', paid for their own weapons, as did the ancient Greeks." (*Id.*, p. 143)

Importantly, the authors note that "[t]he dense, compact Swiss infantry phalanxes, armed with halberds, and pikes proved superior to the medieval feudal armies they faced. And within the framework of the phalanx, there were forged values similar to those of the Greeks which evolved into democratic values." (*Id.*)

The Swiss cantons of Schwyz, Uri and Unterwalden formed an alliance in 1291, referred to as the *Federal Charter* or *Letter of Alliance*, which proclaimed that "the people of the Valley Uri . . . , of the Valley of Schwyz and the commune of the people of Unterwalden nid dem Wald . . . have promised, to support each other . . . against all and everyone against whom a violent act, complaint or harassment is committed."<sup>40</sup> Together, the three cantons "rebelled against the Austrians and gained their first victory at Morgarten in 1315", which was followed by a number of other victories against the Austrians. These victories convinced other cantons to join the federation, dubbed the "Old Swiss Confederacy".

The document which forged the enlarged confederation in 1351 read "We . . . have sworn . . . to enter an eternal compact. We want to aid and advise each other faithfully . . . against all who intend to do harm to our person, possessions, honor, freedom . . ."<sup>41</sup> Interestingly enough, the document spells out that if a conflict should arise between two of the cantons or their citizens,

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<sup>40</sup>Source: Bunderbrief of 1291.

<sup>41</sup>Source: Letter attesting new Confederation from 1 Mai, 1351

“both sides should send two men into a tribunal. These four should decide the conflict, and whatever is decided will be binding on both sides. . .” The new confederation was also called the *Eidgenossenschaft des großen süddeutschen Bundes von Städten und Ländern*.

In terms of the origins of the particular democratic institutions that Switzerland developed, the facts are obscured, but one theory is that they were imported from the popular republics of northern Italy via Ticino, the last canton to be integrated into the Confederation (1402-1515). As [Economou and Kyriazis, 2019, p. 144] observe, “it is believed that the Italian-speaking inhabitants of Ticino were influenced by the participatory councils of northern Italy, and actually gradually transferred these organizational values to the rest of the Swiss people.”<sup>42</sup> Wherever they originated, “[a] primitive version of ‘proto-assembly’ of citizens at the cantonal level appeared in Uri in 1231”, with the formal institution appearing for the first time in Schwyz in 1294. ([Kobach, 1993], cited in [Economou and Kyriazis, 2019, p. 144])

### 3.7.6 The Rise of Banking and Act-Based Rationality

It is clear that with the rise of the northern Italian trade empires that a new form of rationality and a new social imaginary was ascendant. [Braudel, 1979] speaks of a distinction between *market economy* and *capitalism* and it is in this era that we see the slow and steady rise of this distinction. In part, the capitalist imaginary and the type of rationality associated with it, which has been described by Werner Sombart as *economic rationalization* (*ökonomischer Rationalismus*), Karl Marx (“commodity fetishism”) and others, arose at this time. We refer to it as *act-based rationality*, following [Aumann, 2019]. Nevertheless, societies weren’t torn asunder and in fact, the expansion and deepening of markets did not lead to the destruction of the body politic.<sup>43</sup> Later thinkers like Montesquieu and Hume spoke of the *deux commerces* function of markets in this regard. [Hirschman, 1982]

### 3.7.7 Continuing Role for Norm-Based Rationality

Weber interestingly questions “How is it historically possible to explain that in the then center of capitalist development, the Florence of the 14th and 15th centuries, the money and capital markets were considered morally

<sup>42</sup>The question is begged from this, how the cultural shift occurred from a province that was integrated so late in the history of the Confederacy.

<sup>43</sup>Polanyi argues that it was not long distance trade, like Venice’s, but national markets that were responsible for a shift to a *market society*.

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questionable, at most tolerable, while the same phenomenon was considered the ideal of a morally praiseworthy, necessary lifestyle in the backwoods of Pennsylvania in the 18th century. . . ?” It is apparent that, despite the growth of act-based rationality in the capitalist bulwarks of the Renaissance, not only was “economy embedded in society”, as Karl Polanyi has put it, but that the concomitant norm-based rationality, by whatever social or deliberative means, constrained the operation of act-based rationality in these societies.

Weber remarks,

[d]enn daß jene Auffassung des Gelderwerbs als eines den Menschen sich verpflichtenden Selbstzweckes, als „Beruf“, dem sittlichen Empfinden ganzer Epochen zuwiderlief, bedarf kaum des Beweises. In dem Satz „Deo placere non potest“, der von der Tätigkeit des Kaufmanns gebraucht wurde, lag, gegenüber den radikal antichrematistischen Ansichten breitester Kreise, schon ein hoher Grad von *Entgegenkommen* der katholischen Doktrin gegenüber den Interessen der mit der Kirche politisch so eng liierten Geldmächte der italienischen Städte.[Weber, 2015, p. 38]

Thus, Weber comments that wide swaths of society were convinced by the Catholic doctrine, founded on Aristotle’s ethical imperative against *chrematistic* (usury) [Aristoteles, 2014]. But such constraints appeared even in the more general populace, less swayed by merciful pleas of the Church patriarchy:

Und auch wo die Doktrin noch mehr sich akkommodierte, wie etwa bei Antonin von Florenz, schwand doch die Empfindung niemals ganz, daß es sich bei der auf Erwerb als Selbstzweck gerichteten Tätigkeit im Grunde um ein pudendum handle, welches nur die einmal vorhandenen Ordnungen des Lebens zu tolerieren nötigten. Eine „sittliche“ Anschauung wie die Benjamin Franklins wäre einfach undenkbar gewesen. (*Id.*)

Thus, even the religiously agnostic shared the general *ethos* of the reigning, Christian, morality. As Weber comments, “ganz erhebliche Summen flossen, wie die Quellen zeigen, beim Tode reicher Leute als ‘Gewissensgelder’ an kirchliche Institute, unter Umständen auch zurück an frühere Schuldner als zu Unrecht ihnen abgenommene ‘usura’.” (*Id.*) This ambivalence even carried to the more “skeptical and less churchly types”, who, according to Weber

pfl egten, weil es zur Versicherung gegen die Ungewißheiten des Zustandes nach dem Tode immerhin besser so war und weil ja (wenigstens nach der sehr verbreiteten laxeren Auffassung) die äußere Unterwerfung unter die Gebote der Kirche zur Seligkeit

genügte, sich durch solche Pauschsummen mit ihr für alle Fälle abzufinden.

As Weber shows, it is examples like this that show a deep and continuing role for norm-based rationality even within the framework of an ascendant “capitalist” logic, in the guise of the self-identification of merchant and banking activities as “extramoral” or even “amoral” (*Id.*). Thus, e.g.,

[...] there was no distinction between ethical and technical aspects in [early merchants’ manuals and guides to accounting practices]. This is the case of [Benedetto] Cotrugli’s book, where prescriptions for commercial practices are normally embedded in ethical considerations. For instance, he insists that a merchant has to be a good payer (p. 53) and has to promptly write down records of his transactions, in order to prevent mistakes. Indeed, one should not trust a merchant that acts otherwise (p. 54). For Cotrugli, best practices are also ethical practices. [Biggiero, 2022, p. 100]

Such observations might show that, to return to the language of Loet Leydesdorff, a *regime* of more socially-minded values, perhaps (but not necessarily) encased in law, may have a strong impact on shaping what people are willing to do. It may be the case that in a pluralistic world such as that of 2022, the logic of laws and jurisprudence are a necessary domain for instilling norm-based rationality, where the authority of tradition has waned. We return to this topic in Chapter 5.

## 3.8 The Age of Absolutism

The age of absolutism arose between the 15th and 17th centuries and involved the decline of the power of the church and the rise of independent nation states. [von Gierke, 1873, pp. 14ff.] Agreeing with Gierke, Dewey, Rucker and similar thinkers, we argue that the age of Absolutism entailed a large and substantive regression in terms of associational cooperation.

This section is organized as follows. We begin by addressing ideas on juridical personality, followed by a discussion of his discussion of absolutist rule and the idea of a “body politic”. After this, we discuss the Reformation and its consequences.

### 3.8.1 Sovereignty and the “Two Bodies of the King”

“Clearly, the emergence of the nation state in the Late Middle Ages offers an instrumental use for the notion of legal personhood. Central rulers in, e.g.,

in France and England, needed to raise taxes in order to wage wars, both on territorial borders and abroad (e.g., the Crusades). That the doctrine of *persona ficta* emerged in the Church is attributed by John Dewey to the fact that Innocent IV presided over the Church hierarchy just after the Papacy had exerted its absolute historical apex in terms of political power and influence<sup>44</sup>.<sup>45</sup>

“We should also state that this era saw the emergence of the doctrine of *body politic*, which derives from the notion of “a king’s two bodies”. As Gierke puts it,

[a]nd so it fell out that even in medieval theory we may already see that the single Personality of the State is torn asunder into two ‘subjects’ corresponding respectively to the Ruler and the Assembly of the People. Between them there is a conflict as to which has the higher and completer right; but they are thought of as two distinct Subjects each with rights of a contractual kind owed to the other; and in their connexion consists the Body Politic[Gierke, 1900, p. 70f.], cited in Warren, unpublished, (*Cf. footnote 45*)

Thus, as Skinner’s above cited work *The State*<sup>46</sup> argues, from the organic whole of the social cosmos emerged an abstract idea of an entity (the State) that stood over and against the citizenry, which had not delegated, but alienated its sovereign power to govern itself. It is no surprise then that social contract theory, with its abstract and purely conjectural hypothesizing, stipulates some figurative past in which “the people” agree to give up their sovereignty in order to receive security and individual freedoms. This was a concept which, as Gierke points out, legitimated the rising central bureaucracies.<sup>47</sup>

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<sup>44</sup>Dewey cites Dunning, who claims this occurred under Innocent III [1196-1216].[Dewey, 1926, p. 665ff., and especially note 13]. Interestingly, for context, Dewey points out the contemporaneous career of Thomas Aquinas, the architect of arguably the most grand exposition of Catholic dogma in human history. Additionally, it is worth noting that the construction of the Cologne Cathedral began under Innocent’s papacy, in 1248. The famed Beauvais Cathedral was begun a year earlier. Gimpel states unequivocally, “More stone was quarried for churches in medieval France than had been mined in ancient Egypt, where the Great Pyramid alone consumed 40.5 million cubic feet of stone” [Gimpel, 1977, p. 59]. If outward power is reflected in the ability to relocate large quantities of natural resources to construct grand objects, then certainly the argument could be made that the contemporaneous Church was powerful indeed.

<sup>45</sup>From an unpublished essay entitled Jerome Warren, *A History of Legal Personhood, with Special Focus on the Corporation*, pp. 6ff.]

<sup>46</sup>Cf. the discussion of *res publica* above.

<sup>47</sup>Cf. [von Gierke, 1873, p. 29].

“Ultimately, the link between “body politic” and various forms of contemporary legal personality is clear.<sup>48</sup> Indeed, the doctrine of *persona ficta* served the purpose of abstracting from individual rights and responsibilities and enshrined the existence of certain intermediary institutions in the law. In the case of Innocent’s addition to canon, it was monasteries and other Church institutions that could no longer face excommunication for the misbehavior of a rogue abbot or monk. In fact, [von Gierke, 1873, p. 280] refers to Innocent as “Vater des noch heute herrschenden Dogmas”. There is a clear ideational connection between Innocent IV’s concept of *persona ficta* and modern limited liability legislation<sup>49</sup>. As Dewey states, “Even if Pope Innocent had not included *populus et gens et hujus modi* along with ecclesiastical groups. . . , we may be sure that what applied to religious organizations applied *a fortiori* to civil.” (Dewey, (*op. cit.*, *Id.*))” (*Cf. footnote 45 above*)

“[Weber, 1972, pp. 709ff] (and he is not alone in this, cf. [Sombart, 1902]) sees the great credit societies and political dynasties (*Steuerpächtergesellschaften*, *Großkommanditgesellschaften* and *Gläubigerassoziationen*) of the Italian city-states (Genoa, Venice, Florence, among them) as the true pre-cursor to the modern investor-owned firm. For him, they mixed economic advantage with political interests and, in so doing, established a *de facto* institution that specialized in externalizing private interests<sup>50</sup>.” (*Cf. footnote 45 above*)

“Weber additionally proclaims a primary distinction between the *Hausgemeinschaften* of yore with the private entities exemplified by colonial joint-stock companies (*Kolonialgesellschaften*) as lying in the primary economic purpose of the unit (‘*oikos*’). In the former, the primary economic function lies in meeting of needs of the noble, *paterfamilias* or king, whereas the primary function of private market institutions like corporations have the profit motive (*Kapitalverwertung* and *Gelderwerb*). [Weber, 1972, p. 37]” (*Cf. footnote 45 above*)

### 3.8.2 The Role of the Enclosure of the Commons

The effect of the absolutist idea on the *polis* or *res publica* is clear. A central authority is also able to recognize (or fail to) claims to property. Thus, it was that the rise of Absolutist monarchs coincided with the enclosure of

<sup>48</sup>Cf. [Gierke, 1881, pp. 279ff.].

<sup>49</sup>It should be noted that the Pope was a lawyer.

<sup>50</sup>What I mean by this is specifically, Weber’s association that these dynasties and associations arose more or less in an organic manner by the act of noble families investing in the acquisition and maintenance of political offices, which offered both material gain (legal and illegal, according to Weber), in addition to non-material benefits (protection and representation, as with the Medici above). [Weber, 1972, p. 36]

the commons. This led to the dissipation of many traditional communes, agglomerations of a public that had grown together organically over centuries, into a multiplicity of varied structures and institutions, including “blose Wirtschaftsgemeinde” [Gierke, 1881, p. 586]. These municipalities began progressively losing their public character, as “the curtain which separated the growing army of labourers from utter proletarianization was torn down”. [Thompson, 2016, p. 239] Many continued a dilapidated and weakened existence, but many of their resources, such as the commons, were converted into “bloses Miteigentum”. Property titles were created and sold in an increasingly unregulated way, which facilitated further “demutualization” of the formerly publicly managed land.

[Gierke, 1881, p. 587] remarks that self-organized communities continued to be present in various densities (particularly strongly in the West: e.g., Westphalia, the Rhineland, etc.), but that these communities exerted no influence on the level of law and jurisprudence, which increasingly became a domain of specialists. Thus, autonomous communes eventually became “anomalies” and later largely disappeared, save for key exceptions. The role of enclosure was an accelerant. Thompson describes it as “the culmination of a long secular process by which men’s customary relations to the agrarian means of production were undermined.”<sup>51</sup> This process “involved [...] a rupture of the traditional integument of village custom and of right” which “had co-existed” for centuries.<sup>52</sup> Thompson concludes that this amounted to “a plain enough case of class robbery”<sup>53</sup>.

### 3.8.3 The (Incomplete) Role of the Protestant Reformation in Rekindling Free Association

As Gierke’s work on the history of cooperation in Germany is so extensive we restrict ourselves to a few key moments. One of these is the time of the Protestant Reformation and the Peasant Revolts of the 16th century. These have been associated with the printing press by none other than Marshall McLuhan<sup>54</sup>. Whether McLuhan’s theories are correct or not, what is true is that at the time, a great unrest was evident in large parts of Europe, and this unrest expressed itself in the call for increased secular and spiritual self-determination. [Rocker, 1999]

Gierke remarks that “Allein die große Reformation, welche endlich neue

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<sup>51</sup>Thompson, *supra*, Id.

<sup>52</sup>Id.

<sup>53</sup>Id., p. 239

<sup>54</sup>Cf. [McLuhan, 1963].



Kirchen schuf und mittelbar die alte verjüngte, war nicht unvorbereitet durch den Aufschwung der kirchlichen Selbstthätigkeit, sondern verdankte auch, ob sie gleich von Einzelnen Anstoß und Richtung erhielt, der Selbstbestimmung des Volkes ihre ersten Siege und erstrebte daher ursprünglich eine genossenschaftliche Organisation der religiösen Gemeinden.” [Gierke, 1881, p. 436] He argues that “Nicht nur die schweizerischen Reformatoren, sondern auch Luther wollten daher Anfangs die Kirche in die Gemeinde zurückverlegen. Lehrte doch auch Luther, daß die christlichen Gemeinden selbst das Recht hätten, über die Lehre zu urtheilen, Lehrer zu berufen und abzusetzen, und daß die weltliche Obrigkeit dies nicht verhindern dürfe.” (Id.)

Gierke speaks of “a powerful social movement, which simultaneous with the notion of religious freedom, desired to realize a civic constitution enabling a popular civil and churchly independence, companion of the Reformation.” However, Gierke comments that the Reformation was unconsummated and that after the defeat of the uprisings in 1525, the Reformation was intellectually debilitated:

An dem erstarkten Gedanken der Obrigkeit scheiterten die letzten Neubildungsversuche der mittelalterlichen Einung. Das Jahr 1525 — die Unterdrückung des Bauernkrieges — bildet somit auch in der Geschichte der Kirchenverfassung einen Epoche machen den Abschnitt. Von da an war es entschieden, daß die deutsche Reformation nur als Verbündete der Obrigkeitsidee zu siegen vermochte, daß die religiöse Befreiung und Erneuerung keine ‘kirchliche Selbstverwaltung der Gemeinden und Kirchengesellschaften bringen’ sondern eine obrigkeitliche Kirchenverfassung herstellen sollte.  
(437)

Thus, argues Gierke elsewhere in the text, churches, even the reformed churches, became integrated into the power structure of the growing absolutist state: they became “Anstalts” [von Gierke, 1868, p. 847]. Accordingly with the consummate idea of secular authority (*Obrigkeit*), they became “Staatsanstalten” (*Id.*) Ultimately, the traditional dualism between “spiritual” and “worldly” realms was incommensurable with the idea of the state developing at the time. The absolutist state “could only tolerate the Church as public institution in the form of a state institution” (*Staatsanstalt*).

Meanwhile, unaffiliated or “free” churches “were regarded as private associations”. [von Gierke, 1868, p. 848] Thus, while Calvin demanded independence of the Church in both worldly and spiritual matters, Luther & Zwingli accepted the worldly subordination of the Church to “a continually more worldly church government, a government of the state within the

church”. (*Id.*)<sup>55</sup> This process went so far as “to view even the spiritual offices of the received Church as state offices.” (*Id.*, p. 848) Gierke comments that the “privileged corporation” is considered to be “only a state institution with juridical personality and certain collegial rights.”

The situation for “free” or unaffiliated churches was the most precarious. As Gierke puts it, “they were everywhere organized as mere private societies, whose approval depended on the arbitrary grace of the ruler.” Legally, he comments, they were constrained by “old-fashioned laws of private association”. (850) In fact, no progress had been made in this regard in the absolutist states viz. the Medieval system. Writes Gierke,

Von einem Recht, sich zu *neuen* Religionsgesellschaften zu vereinigen konnte im obrigkeitlichen Staat so wenig die Rede sein als in der mittelalterlichen Hierarchie. Wenn die Reformation aus der Anerkennung des religiösen Selbstbestimmungsrechts und des darin enthaltenen Recht der Bekenner desselben Glaubens, Gemeinden zu bilden, hervorging, so trat sie bald selbst den von ihr für ketzerisch gehaltenen Sekten gegenüber.

Je mehr dann nach der Unterdrückung der Wiedertäufer und des Bauernaufstandes die neue Kirche eine obrigkeitliche wurde, desto entschiedener wurde auch von ihr die Bildung neuer Religionsgesellschaften neben den einmal recipierten oder geduldeten Kirchen bekämpft. Als das Recht, eine Kirchengesellschaft aufzunehmen, zu dulden oder zu verbieten, in dem landesherrlichen Religionsbann (*jus reformandi*) formell als ein wesentliches und ausschließliches Recht der Territorialobrigkeit anerkannt und zu Gunsten der Bekenner einer der Reichsreligionen nur in wenigen Punkten beschränkt wurde, da wurde doch die Duldung jener Religionsgesellschaften sogar der Obrigkeit von Reichswegen verboten. [Gierke, 1881, p. 851]

In fact, “one could not even remotely speak of the right to organize religious cooperatives *as subjects* (*Unterthanen*). The only options for such organizations, Gierke argues, was as *ecclesiola in ecclesia* (*Id.*):

Glaubens- und Gewissensfreiheit und das Recht der Hausandacht wurden gewährt;: jede Verbindung zu einer Religionsgenossenschaft blieb an Staatsgenehmigung gebunden und der Staat konnte diese Genehmigung an beliebige Bedingungen knüpfen und

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<sup>55</sup>One is reminded of the negative implications of this during the Nazi era, when German churches were “aligned” (*Gleichschaltung*) with the Nazi regime. On this, see, e.g., [Strohm, 2011].

beliebig zurücknehmen. Auch die freie Toleranzgesetzgebung gewährte so nur die passive Seite der religiösen Freiheit, während ihre aktive Seite versagt blieb. Es wurde auch auf religiösem Gebiet derselbe Gedanke wirksam, welcher im weltlichen Recht die Herbeiführung der Gleichheit der Stände unter Vernichtung der Landesverfassung, kurz die individuelle Freiheit ohne bürgerliche Freiheit herbeiführte.

Den absoluten Staat auch in Kirchensachen als einzige Allgemeinheit als alleinige öffentlichrechtliche Persönlichkeit herzustellen, das Individuum dagegen auch in religiösen Dingen hinsichtlich seiner rein individuellen Beziehungen, aber auch nur hinsichtlich dieser, zu befreien, das war der Inhalt der Toleranzbestrebungen, welche mit dem Beginn unseres Jahrhunderts zum inneren Abschluss kamen, wenn auch ihre Verwirklichung selbst heute nicht überall vollendet ist.(852)

Gierke thus speaks of a “pitiful existence” (*kümmertliches Dasein*), mostly reduced to dependency relations viz. the instituted churches or else to an existence as “mere care provider” (*bloße Versorgungsanstalt*) (*Id.*, p. 853). Older religious guilds, meanwhile, continued their existence under absolutism “as associations for the use of certain assets” (*Id.*), though in most cases, observes Gierke, “they dissolved following directives by the church, the state or of own initiative, and their assets were, as with the monasteries, distributed for churchly purposes, especially for the betterment of schools or the poor, with the living members receiving a compensation.”

### The Situation With the Catholic Church

This same process was not as successful with the Catholic church as it was with the Protestant. Comments Gierke,

Wenn unmittelbar nach der Reformation einzelne katholische Fürsten nach dem Muster ihrer evangelischen Nachbarn eine abhängige Landeskirche zu gründen suchten, so erfolgte bald durch das tridentische Konzil und die Macht der Jesuiten die Reaktion, welche die katholische Kirche als einen einheitlichen, für sich bestehenden geistlichen Staat schroffer denn je besonders den deutschen weltlichen Territorialstaaten gegenüberstellte. (849)

However, argues Gierke, this *interregnum* was not to last, and as the absolutist states increased their power, “the perspective spread farther and

farther that the Catholic church was also subsidiary to the state”, meaning that its assets would also be seen as state assets, etc.

At the same time, the church increasingly took on “the character of a privileged private corporation”. The church ossified into a quasi-state, and the absolute hierarchy became increasingly rigid, such that “for all of these associations the motto was imposed that is today still law that all new associations required the explicit accord of the Pope or Bishop.” (854) Thus, churchly cooperatives and associations belonging to the Catholic church grew increasingly dependent on the Roman See and those which were newly founded did so primarily in service of the Popes.” (855)

Gierke describes the Society of Jesus (a.k.a. the Jesuits) as the best example of this trend. The Jesuits were sanctioned by the Pope and quickly developed an international corporate presence, even extending overseas:

... indem sie endlich noch überschüssige Kraft genug behielt, um jenseits der Meere mächtige Missionsstaaten zu gründen und in ihnen eine Handelindustrie des Ordens zu entwickeln: dies Alles verdankte sie der von ihr vollzogenen denkbar größten Steigerung der romanischen Associationsidee. Der Untergang des Einzelnen in der Vereinsheit, diese Grundidee der romanischen Religionsgemeinde, welche in steigender Progression Benediktiner, Cisterzienser, Ritterorden, Bettelmönche realisiert hatten, wurde bei den Jesuiten bis zu der äußersten Konsequenz, bis zur Ertötung des Individuum (*ad perfectam uniuscuiusque*), bis zur Vernichtung jedes individuellen Denkens, Fühlens, Wollens und Handelns geboten und durchgeführt. (856)

Thus, the principle of free association was also asphyxiated in a Church seeking to realign itself in the new era of Absolutism, via the Anti-Reformation.

### Consummating the Reformation

Could one argue that the path that the Protestant Reformation took, to emphasize individual redemption and laying the groundwork for the era of capitalistic development documented, among others, by Weber [Weber, 2015], is at least partly the result of the external limitations put on the Protestants after 1525? That the natural tendency towards cooperation and association which was, from the beginning, associated with Protestantism, was restricted to a singular focus on individual salvation?<sup>56</sup> If this hypothesis, which we

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<sup>56</sup>Cf., for example, [Graf, 2011, p. 116] argues

Religionssoziologen wie Peter L. Berger und David Martin haben die protes-

cannot test, is true, then it would imply that this inward limitation created an *individual* boundary for the developing civic imaginary associated with the freedom of conscience. In order to move to rejuvenate this connection between spiritual and/or mental freedom and the freedom of association, it seems that its extension to political and economic association are desirable. In Chapter 5, we outline a possible path to “consummating” this ideal. *Res cogens* and *res extensa* must be brought in closer alignment! [Leydesdorff and Hoegl, 2020]

Many today hold up the Reformation as a major turning point on the road towards the modern, pluralistic world.<sup>57</sup> Others, however, hold it as an unfinished revolution, or as only one side of an ethical and political movement towards autonomy in the era of the Renaissance.<sup>58</sup> The concurrent economic side of the struggle was embodied by the Peasant War, brutally repressed by 1525, also interestingly a turning point in the history of the Reformation. As Luther condemned the rebelling farmers and encouraged the nobles to treat them “as dogs”, the scope of at least his brand of protest limited itself increasingly to the spiritual realm. To these second theorists, this limitation to the strictly spiritual undermined the spirit of the reforms the Reformation entailed, which Gierke correctly points out entailed a strengthening of communal autonomy and, concurrently, self-governing. In similar fashion to Galileo’s renunciations, the latter Reformationists abandoned the true consequences of their radical discoveries (beliefs) in fear of the consequences for failing to restrict their appeals.

Similar to Gierke, Rudolf Rocker also distinguished what he calls the “Reformation movement” (*Reformationsbewegung*) into two separate movements:

two different tendencies must be carefully distinguished; the mass revolution [*Volksrevolution*] of the peasants and of the lower sections of society in the cities, and the so-called Protestantism

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tante Glaubensrevolution in Lateinamerika als eine implizite Bestätigung von Grundelementen der ‚Weber-These‘, wissenschaftsgeschichtlich präziser wohl: der ‚Weber-Troeltsch-These‘, interpretiert. Jedenfalls deuten hier viele Fromme ihren Übergang aus der römisch-katholischen Kirche in eine protestantische Pfingstgemeinde selbst in Konzepten einer moralischen Ökonomie, die langfristige Gewinne durch starke innerweltliche Askese verspricht. Die strenge asketische Selbstdisziplin, die in den pfingstlerischen Gemeinden erfolgreich institutionalisiert ist, die Bereitschaft, mehr und härter zu arbeiten und weniger in den Tag hineinzuleben, führt auch dazu, daß viele der Pfingstchristen ihren neuen Gottesglauben durch wirtschaftliche Erfolge bestätigt sehen. Ihr sozialer Aufstieg, von anderen häufig als ein Zeichen wunderbarer Errettung durch Gott gedeutet, wird so zum Vehikel erfolgreicher Mission.

<sup>57</sup>Cf. [Howard and Noll, 2016].

<sup>58</sup>E.g., [Rocker, 1999], [Ellul, 1964] or [Baudrillard, 1987].

[*den sogenannten Protestantismus*], which in Bohemia as well as in England and in Germany and the Scandinavian countries worked toward a separation of the church and state and strove to concentrate all power in the hands of the state.[Rocker, 1999, p. 93]

Moreover, according to Rocker, “The revolutionary urge of the masses was directed not only against the Roman Papacy, but was meant to abolish social inequalities and the prerogatives of the rich and powerful.” (Id.)

### 3.8.4 Fox, Penn and the Quakers

The Quakers, a Protestant denomination, were founded by George Fox and associates during the aftermath of the English Civil War and have historically gone much farther than German Reformed churches in synthesizing religious liberty with a focus on political autonomy. For instance, the *Frame of Government* of Pennsylvania, drafted by William Penn in 1682, is considered an example of one of the first amendable written Constitutions. Moreover, in a practice that recalls both those of the ancient Athenians and the Haudenosaunee whom we come to speak of in the next section, the Quakers ostracized those who they felt threatened the community. Different from the other two communities, however, Quakers employed what became referred to as *penitentiaries*, where those who committed atrocities against the community were given the chance to reflect on their misdeeds, pray and seek reconciliation with God, in order to eventually rejoin the community. [Foucault, 2012]

### 3.8.5 Conclusion: *Dominium* as a Reaction to Absolutism

This short overview of the age of Absolutism has attempted to argue that absolutism resulted in a shift towards less organic forms of social organization, often disrupting patterns of life that had existed (relatively) unchanged for centuries. The dual nature of the body politic opened paths to viewing central authority no longer as a relation of delegation, but one of *concession*. The event of enclosures is a particularly stark one. The Reformation was in part a reaction to the impacts of these shifts. However, we argued that the Reformation was never consummated, and ended shifting power from the church to the absolutist state.

Therefore, the increasing focus on private property titles in the subsequent era can be seen to be a reaction to the perceived threat of powerful centralized

rulers. In many ways, modern contract law is still steeped in this *dominium* thinking, as Gierke argues. We return to this topic again when we discuss the rise of wage labor. But first, we take a short detour to discuss non-European forms of cooperation.

### 3.9 Non-European Forms of Cooperation

Before turning to developments in notions of cooperation during the European Enlightenment and the era of Industrialization, arguably a turning point in world history, we turn to a lesser-told story: discussing some key forms of cooperation from non-European traditions. We initiated this effort above in 3.4, which mainly focused on pre-historic examples of cooperation with examples like the Ukrainian pre-historic “circle cities”, many examples of which are non-European in nature. Therefore, the following examples should serve as an alternate tradition than that which we traced out above through the Greco-Roman influence on continental Europe.

As we will explore in more depth below in 3.12.3, there is a slight tendency, more pronounced the further back one travels in the literature, to associate democracy with European civilization. Even Cornelius Castoriadis, the polymath and advocate for a world of autonomous societies, refers to the “Greek-occidental” tradition [Castoriadis, 2005]. In order to counterbalance this one-sided view of things and in order to encourage more general exploration of certain general – possibly even universal – features of autonomous, self-governing societies in a more broad context, we wish to trace out the forms of cooperation which arose elsewhere.

Much of the reasoning for this is inspired by the recent concept of the *Indigenous Critique*<sup>59</sup> introduced above in 2.7.2 and further explored in 3.4. To remind the reader: this critique suggests that many of the ideas associated with the European Enlightenment – ideas like personal liberty, equality and human rights – were actually inspired by European encounters with the indigenous tribes of North America, frequently showing egalitarian societies.

We select four exemplars that appear particularly cogent: firstly, the Haudenosaunee Confederation (sometimes called the “Iroquois Confederation”) and the Five Nations of the American Southeast. These examples from the North American continent are followed by the Haitian Revolution and then the Chinese region of Shaosheng. Each of these shares the traits of an enlargement of the civic community, reform in the notion of citizenship and changes in governing structures, away from arbitrary or clan-based rule

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<sup>59</sup>Cf. [Graeber and Wengrow, 2021].

to a form of deliberation that provided ground for lasting peace. We begin with the earliest of these, the Haudenosaunee Confederation.

### 3.9.1 The Haudenosaunee Confederation

[Johansen and Grinde, 1991] argue that by the time of European colonial contact, Native American communities had formed numerous confederations and that “[e]ach had its own variations on the common theme of democracy in councils, but most were remarkably similar in broad outline.” [Johansen and Grinde, 1991, Chapter 2] “These systems”, write the authors, “had evolved to co-ordinate governance across geographic distances that seemed huge to European eyes at the time, and to permit maximum freedom to nations within confederations, and individuals within nations.” We again see similarities with the Greek conceptions of *euletheria* and *isotes*. Also similar to Greek notions of *isegoria* and *isonomia*, we see in Colden’s comment that leaders “never execute their Resolutions by Compulsion or Force Upon any of their People.”<sup>60</sup> We similarly see the importance of the imagination in the person of Deganawidah, who according to Haudenosaunee oral tradition was a visionary who helped Hiawatha to convince the reticent Onondagas to join the new confederation. (*Id.*)

Different from the Greek tradition, with its close guarding of citizenship and existence of clear distinctions between citizens and non-citizens, the Haudenosaunee (called “Iroquois” by the French) “recognize no bars to dual citizenship” (*Id.*) In fact, many Europeans, including Colden, were adopted into one of the Haudenosaunee tribes. Also different from the strict Greek system of patriarchy, which bestowed only men with rights of participation<sup>61</sup>, Haudenosaunee civilization was matrilineal, with men traveling to the tribe of their wives, each of which had its own council and council leaders called *sachems*, who “were nominated by the clan mothers of families holding hereditary rights to office titles.”

Moreover, “the women could remove (or impeach) a sachem who was found guilty of any of a number of abuses of office, from missing meetings, to murder.” In a passage that emphasizes the similarities to the Greek notion of *hypeuthynos*, we see that “an erring chief was summoned to face charges by the war chiefs, who acted in peacetime as the peoples’ eyes and ears in the council, somewhat as the role of the press was envisaged by Jefferson and other founders of the United States.” In the case of murder, the perpetrator’s family was prohibited from serving as *sachem* indefinitely. *Sachems* were “not

<sup>60</sup>[Colden, 2016, p. xx], cited in [Johansen and Grinde, 1991].

<sup>61</sup>Which also has the indirect consequence that very little is known about Athenian and Greek women, even prominent figures like Aspasia are hardly recorded, besides passing comments in texts by Plato and others.



allowed to name their successor”, neither were they able “to carry their titles to the grave.” All of these things remind one of the democratic traditions in Greece and elsewhere, as do provisions such as those “guaranteeing freedom of religion and the right of redress before the Grand Council” as well as those that “forbade unauthorized entry of homes”.

On the other hand, the Federation is described as “fundamentally a kinship state”, based on “*ottianer*”, which is akin to an extended family, “headed by a ‘clan mother’”. However, as mentioned, “titles... passed through the female side” meaning that,

[a]ll the sons and daughters of a particular clan were related through uterine families that lived far apart. In this system, a husband went to live with his wife’s family, and their children became members of the mother’s clan by right of birth.

Thus, “[t]hrough matrilineal descent, the Iroquois formed cohesive political groups that had little to do with where people lived or from what village the hearths originated.” Thus the question begs asking, whether this system of descent and allegiance secured a similar result as, e.g., the breakup of the traditional clans in Athens by Cleisthenes discussed above in 3.5.2. Moreover, returning to the distinction between “*concessio*” and “*translatio*”, we see that, according to [Johansen and Grinde, 1991], “[a]ll authority sprang from the people of the various clans that made up a nation.” The system of appointment and censure ensured accountability and transparency.

Looking at issues of the role and place of the individual within the collective, we saw above the strict respect for individual rights. If we turn the question around and ask what role the collective played for the individual tribes and their members, [Johansen and Grinde, 1991] suggest that “[t]he Iroquois believed that the spiritual power of one person is limited,”

but when combined with other individuals in a hearth, *ottianer*, or clan, spiritual power is enhanced. Whenever a person died either by natural causes or force, through murder or war, the “public” power was diminished. To maintain the strength of the group, the dead were replaced either by natural increase or by adopting captives of war. This practice of keeping clans at full strength through natural increase or adoption insured the power and durability of the matrilineal system as well as the kinship state.

In speaking of the normative values of the Haudenosaunee, it is worth mentioning that “[t]he ideal Iroquois personality was a person that had loyalty

to the group but was independent and autonomous.” Moreover, “Iroquois people were trained to enter a society that was equalitarian with power more equally distributed between male and female, young and old than in Euroamerican society.” Thus, “Iroquois children were trained to think for themselves and yet provide for others. The Iroquois did not respect people that cowed to authority and were submissive.” This appears very similar to other societies with an active democratic tradition, such as Greece, Switzerland, etc. Johanesen and Griste argue that such a “shame culture” was maintained via phenomena such as “common rituals”, which included, interestingly enough, the institution of *ostracism*, another commonality among democratic societies like Athens and Florence.

Also interesting to note, returning to our theme of *genealogy* as a combination of both *Herkunft* and *Entstehung*, “The origins of the League... arise out of the desire to resolve the problem of the blood feud.” As the authors argue, “[a]s long as justice and the monopoly on violence resided in the clans, there was no hope of peace and goodwill.” Thus, the new Federation’s fundamental laws “espoused peace and brotherhood, unity, balance of power, natural rights of all people, impeachment and removal and sharing of resources.” In particular, with regards to the blood feud: it “was outlawed and replaced by a Condolence ceremony. This ceremony is worth recounting in detail:

Under the new law when a person killed someone, the grieving family could forego the option of exacting clan revenge (the taking of the life of the murderer or a member of the murderer’s clan). Instead, the bereaved family could accept twenty strings of wampum (freshwater shells strung together) from the slayer’s family (ten for the dead person and ten for the life of the murderer himself). If a woman was killed, the price was thirty wampum strings. Through this ceremony, the monopoly on legally sanctioned violence was enlarged from the clan to the League.

It is interesting in the above to see simultaneously the strong motivation behind federation in the elimination of cycles of violence spawned by blood feuds and the extension of the matrilineal thinking to the increased fine in the case of killing a woman<sup>62</sup>.

Similar as in other democratic societies, the administration of peace and conflict necessitated some division of labor. In the Haudenosaunee Confederation, the Onondaga were tasked with maintaining the Great Council fire and for determining if an issue was important enough to summon the

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<sup>62</sup>This could also be justified because women also give birth, so to kill a woman is to kill all potential offspring.

Council. The Onondaga were also “charged with keeping the council area free from distractions.” Deliberations also saw a degree of division of labor:

The procedure for debating policies of the Confederacy begins with the Mohawks and Senecas (the Mohawks, Senecas and Onondagas are called the elder brothers). After being debated by the Keepers of the Eastern Door (Mohawks) and the Keepers of the Western Door (Senecas), the question is then thrown across the fire to the Oneida and Cayuga statesmen (the younger brothers) for discussion in much the same manner. Once consensus is achieved among the Oneidas and the Cayugas, the discussion is then given back to the Senecas and Mohawks for confirmation. Next, the question is laid before the Onondagas for their decision.

Here, we see glimmerings of a creative and imaginary process-based view of deliberation<sup>63</sup>, as “At this stage, the Onondagas have a power similar to judicial review”, meaning they can deliberate the consistency of the law with underlying values and the Confederation’s Constitution. It is worth recalling the procedural steps at length:

Essentially, the legislature can rewrite the proposed law on the spot so that it can be in accord with the Constitution of the Iroquois. When the Onondagas reach consensus, Tadodaho gives the decision to Honowireton (an Onondaga chief who presides over debates between the delegations) to confirm the decision if it is unanimously agreed upon by all of the Onondaga sachems. Finally, Honowireton or Tadodaho gives the decision of the Onondagas to the Mohawks and the Senecas so that the policy may be announced to the Grand Council as its will. [Johansen and Grinde, 1991, Id.]

We see here not merely a division of labor, but a strong emphasis on deliberation and consensus. Moreover, the Great Law of the Haudenosaunee continually reinforces the state of the people as sovereign: “The people of the League also can initiate impeachment proceedings, treason charges and alert the Council to public opinion on a specific matter. The Iroquois people also have the power to remove *sachems* of the League’s Council.” Also, in matters of grave seriousness, the Great Law stipulates that “the chiefs of the League must submit the matter to the decision.”<sup>64</sup> This sovereignty extends also to the nomination of new chiefs. Citizens may also propose new laws,

<sup>63</sup>Cf. [Graeber, 2009, Chapter 10].

<sup>64</sup>*Great Law, Section 93.*

if sachems fail to do so<sup>65</sup>. Johansen and Griste see here a clear example of social contract thinking.

We also see clear application of the principle of subsidiarity:

Iroquois *Sachems* were interested only in external matters such as war, peace and treaty-making. The Grand Council could not interfere with the internal affairs of the tribe. Each tribe had its own *sachems*, but they were limited in that they could only deal with their tribe's relations with other tribes and had no say in matters that were traditionally the concern of the clan.

The Haudenosaunee esteemed their peace chiefs and saw the primary roles of the Confederation as maintaining peace among the five (and later six) tribes, as well as providing for common defense. “The League was not able to centralize power in matters other than mutual defense, but it was effective in diminishing friction among the Five Nations.” [Johansen and Grinde, 1991] argue that the image of the longhouse was pivotal in achieving this consensus.

### 3.9.2 The Five Nations

The Five Nations, often referred to as the “Five Civilized Nations” (although this term has rightly been termed racist), consisted of the Creek, the Choctaw, the Cherokee, the Chickasaw and the Seminole. Frequently, one sees references to “Four Nations” in the literature, as the last of these, the Seminole, were considerably smaller than the other four and were originally part of the Creek nation.<sup>66</sup>

Below, we review arguments as to why the Five Nations developed along distinct trajectories, with the Cherokee creating a political order earlier than the other tribes. We thus draw the most attention to describing the Cherokee and differentiating them from the other Nations.

Linguistically, the Cherokee language resembles that of the Haudenosaunee, which speaks to a filial relation in the remote past. It is therefore possible that certain cooperative practices may be encoded in the shared linguistic heritage, though any such conclusions remain speculative at present.<sup>67</sup>

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<sup>65</sup> *Great Law, Section 16.*

<sup>66</sup> Cf. [Sturtevant and Cattelino, 2004].

<sup>67</sup> It is interesting to reflect on this connection as a potential explanation for the Cherokee precocity in developing strong political alliances early on. As regards any linguistic connection, anecdotal evidence exists in such remarks, “experiences of both the speaker and the recorder, suggests that Selukukigh Wohellengh seized on the faint but recognizable linguistic similarity of Cherokees and Haudenosaunee and their putatively shared ancestral Overhill homeland as a means to transcend town, region, and nation by renewing old

In terms of the institutional structures, the Five Nations shared generally democratic and egalitarian social structures. For example, among the Cherokee, James Mooney speaks of the overthrow of a corrupt political class, the Ani’Kuta’ni, ca. 300 years prior to Western contact. [Fogelson, 1984] Moreover, “[t]he Cherokees took public opinion so seriously that they usually split their villages when they became too large to permit each adult a voice in council.” [Johansen and Grinde, 1991, Chapter 2] The Creeks shared similar practices. “In Cherokee society, each adult was regarded as an equal in matters of politics.” (Id.) Women had an equal voice in councils and were present on councils, as well as serving as judges and politicians. [Stammel, 1989, p. 121] A Cherokee ruler “could not compel allegiance or obedience of others. The Cherokees made a conscious effort to keep government to a minimum, in the belief that personal freedom would be enhanced.” [Johansen and Grinde, 1991, Chapter 2] European travelers in the “eighteenth century [...] observed that” Subjugation is what they are unacquainted with . . . there being no such thing as coercive Power among them.” Another contemporary “commented at about the same time: ‘It is by native politeness alone . . . that the chiefs bind the hearts of their subjects, and carry them wherever they will.’” (Id.)

“Like the Iroquois, the Cherokees frowned on acquisition of material wealth.” This does not mean that they did not know personal property. As [Stammel, 1989, p. 121] writes, “[d]as Vermögen einer Familie war ihr Eigentum.” After the American war of independence, in which the Cherokee sided with the British, the Cherokees quickly united into a “Präsidialdemokratie mit einem Zweikammer-Legislativsystem” [Stammel, 1989, p. 122] “The Choctaws, like the Cherokees, elected leaders from each town or village, and sent them to a central council, a system that has been characterized as ‘amazingly efficient,’ combining ‘elected officials, unlimited debate, civilian rule, and local self-government.’” [Johansen and Grinde, 1991, Chapter 2] However, the Cherokees went much further than other nations in adapting to the new environment, a topic to which we return again shortly.

Thus, the Cherokees adopted “eine spezielle Cherokeeschrift und Grammatik” and even published a bilingual weekly newspaper [Stammel, 1989,

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ties at a crucial moment.” [Harvey, 2018, p. 669] Moreover, during the Iroquois-Cherokee Symposium of 1961, it was concluded that “Several institutions and ritual complexes were transmitted from the Cherokee to the Iroquois [during the war that ended in 1770], and other Southeastern traits, like the blowgun, which were present in northern Iroquois culture a century later, may be attributed to these contacts.” However, the report proved inconclusive regarding linguistic connections: “Whether some rather striking resemblances between the two peoples date back to an erstwhile linguistic connection remains to be seen.” [Fenton and Gulick, 1961, pp. 259-60] More recent scholarship like [Mithun, 2001] has suggested a common heritage for, e.g., Iroquoian, Siouan, and Caddoan languages in a “Macro-Siouan” family.

p. 122]. “Wie kein anderes Indianervolk nutzten sie den zivilisatorischen und technischen Fortschritt der Amerikaner und machten sich mit atemberaubender Schnelligkeit damit vertraut. Ihr ökonomischer Kommunismus war verfeinerter, durchdachter, perfekter als der der Creeks und Choctaws, ihr individuelles Freiheitsstreben differenzierter und diszipliniertes.” (Id.) They developed an advanced penal code and had a well-developed welfare state and system of social security, meaning “Arbeitslosigkeit, Hunger, Slums und Elend waren unbekannt.” (Id.) In addition to many useful crafts and industries (including the first porcelain manufacturing in the New World), the Cherokee practiced birth control and healthcare and had the highest life expectancy in North America (Id.)

Meanwhile, the Creeks “genossen bereits eine hohe Stufe eigener Zivilisation, als Hernando de Soto sie 1540 entdeckte.” [Stammel, 1989, p. 112] The around 16,000 citizens inhabited 60 *poleis* that formed “a confederation”. Generally, “boten die soliden Häuser ‘mehr Komfort und Sauberkeit, als vergleichsweise mittelalterliche europäische Dorfgemeinschaften.’” (Id.) Each city had an elected magistrate, with a “Mico” as executive. The Mico “verfügte über keine exekutive Macht” and had a limited role of giving recommendations. The magistrate, on the other hand, “bestand aus zwei Klassen Ratsmitgliedern: den “Micnggee” und den “Enchau ulgea”. Während die *Enchau ulgea* die Interessen gegenüber anderen Städten vertraten, waren die *Micnggee* für öffentliche Gebäude, Stadtplanung, Hausbau, Feldarbeit etc. zuständig, während eine dritte Klasse der “Istechaque” – retirierte ältere angesehene Micnggee’s – als Berater fungierten. (Id. pp. 112-3)

The Istechaque served as the collective memory, managing each city’s archives and being responsible for chronicling a city’s history, as well as being responsible for education. We see here a similar role to the Athenian *areopagus*.

Remarkable is also the presence of *concessio* rather than *translatio*. In this sense, a city’s representatives could not govern without the explicit authority of the citizens. Thus, “[b]evor über irgendwelche äußeren Angelegenheiten (Handel, Krieg oder Frieden) entschieden werden konnte, holte jeder ‘Volksvertreter’ die Meinung und Absichtserklärung der von ihm vertretenen Bürger ein” (113). The citizens again had to be consulted before any final decision was made. Before any such decision was made, again, a public plebiscite was required. Such democratic traditions inspired European merchants, missionaries and settlers, who spoke of “plebiscitary democracy” and “a people governed by the people”. One may even speak of Creek influences in the United States’ *Declaration of Independence*.<sup>68</sup> European settlers early

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<sup>68</sup>There is in any case a strong tradition of tying the particular American political

on intermarried with the Creeks. (Id.)

**Political Community** [Champagne, 1992] asks what about the Creeks it was that made them so precocious and adaptive to change in the external environment, concluding that “hegemonic political relations were not decisive in determining the formation of the differentiated polities” [Champagne, 1992, p. 241], as the Five Nations all faced similar conditions, but only the Cherokee “formed a differentiated polity”. Thus, “other variables and conditions are necessary” to explain the difference. The author begins by examining distinctions in class structure, determining that “during the fur trade period of the eighteenth century, economic classes did not arise, although the fur trade led to the increased commercialization of goods and labor and increased specialization of labor, most hunters remained subsistence-oriented. The rise of an entrepreneurial planter class was associated with the interpenetration of entrepreneurial and acquisitive values among the offspring of the European traders who lived and married among the southeastern nations.” (243)

However, this occurred in all Five Nations and so cannot explain the “difference that makes a difference”. At the same time, “in the eighteenth century the southeastern nations already had a form of democratic political organization, although institutional relations between polity, society, and/or culture were largely nondifferentiated.” (244) Thus, “since the four southeastern nations had similar democratic political cultures” (245), a variation here cannot account for the unique fate of the Cherokee.

What can account for the difference is the form of *political* community present in the different nations. Thus, [Champagne, 1992, p. 246] argues that “[t]he significant point [...] is not that the Cherokee conservatives were less traditionalistic than the Creek conservatives, but rather that the Cherokee cultural order specified more highly differentiated relations between polity and religion, between polity and institutions of social and political integration, and between polity and kinship.” This meant that there were “fewer institutional obstacles in the way of accepting a more differentiated polity.” Here it should be noted that “the Cherokee political nationality was not formed on the old cultural and normative principles but rather was legitimated by the new requirements of national defense and preservation.” (247)

Therefore, similar as the case of the Greeks under Cleisthenes, “[t]hrough the process of historical events, social-political solidarity and societal differentiation are negotiable and changeable. In more linearly positivist terms, because our dependent variable – differentiation of the polity – is an institu-

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institutions not just to European, but also to Native, traditions. For instance, on the role of the Iroquois, see [Graymont, 1975].

tion, it also acts as an independent variable [...] institutional orders are not merely outcomes but are part of the ongoing interaction that makes the stuff of historical process and social change.” (253-4)

### 3.9.3 China: Parochial Altruism in Shaosheng as Civic Imaginary

There is one region in China that has historically sent more boys to take the Imperial Exams than any other. That region is Shaosheng. When scientists traveled to the area to find out why they were sending so many more boys *per capita* than any other region, they discovered that the inhabitants practiced a very interesting form of parochial altruism. Residents of the city strongly invested in the education of boys to prepare them for the exams. Even childless families would sponsor tutors to neighborhood children to teach the Four Books. This is a form of *political community*, it appears, beyond inclusive fitness. The benefit occurs on the basis of mutual cooperation, not relatedness. [Cole, 1986]

While the basis of Confucian teaching did privilege “loyalty to kin and kin at the expense of strangers” [Cole, 1986], this loyalty often extended beyond even the extended family:

Only at the lineage level could a poor but bright child stand a chance of receiving sufficient investment in his education - an investment which his possible future entry into the administrative system would more than repay. [Therefore,] it was far preferable to be a poor member of a rich lineage than a poor member of a poor lineage. (Id., p. 4)

Cole suggests that lineages even “serve[d] to dampen down class conflict within each locale [by] split[ting] local society vertically, not horizontally.” (Id.) Nevertheless, “if and when a lineage did fail some of its members, they could look for protection to the horizontal ties of class.” (Id., p. 5) Cole concludes of this situation that

... competition and cooperation were by no means contradictory. Rather, they were complementary, each appropriate to its context within a larger strategy of survival. Challenged by threatening competition at a given level, people responded by cooperating at the next lower level. Thus when the context was competition at the level of the locale, they cooperated at the level of the lineage (*t'ung-tsu*). And, when, by the end of the nineteenth century, the new context was competition at the international arena, people



were beginning to appreciate the necessity of cooperating for the first time at the level of the empire-wide polity, the nation. *Like yin and yang, cooperation and competition defined themselves by reference to each other:* To survive against external competition, social groups at any given level required cooperation among their constituent parts. (Id., p. 10, own emphasis)

### Rotation in Officials in Han

It is well-known that Chinese statecraft relied for millennia on a complex system of examinations, promotions and rotations. This system was introduced by the Zhou dynasty in 165 BCE. [Teng, 1943, p. 270ff.] These were increasingly based on learning of the *Four Books*, which emphasized “that progress in the political and social affairs depended on prior progress in the inner sphere of moral self-cultivation. Only good men, only those with the right moral inclination in the first place, it was supposed, could truly bring about political and social reform that would benefit the people.” [Gardner, 2007, p. xxii-xxiii] Thus, Gardner argues, during the course of the 13th century, the “study of the classics became more philosophical—and less explicitly ‘results-oriented’”. (Id.)

The connection between leadership and moral competence will be drawn out later in Chapter 6. For the time being, we should suffice ourselves to observe that Western intellectuals were influenced by the Chinese imperial examination system. [Teng, 1943] In fact, the German philosopher Leibniz suggested that China “send missionaries to us to teach us the purpose and use of natural theology, in the same way as we send missionaries to them to instruct them in revealed theology.”<sup>69</sup> Thus, Leibniz was enamored by the strong use of rotation that prevented the imperial bureaucracy from becoming bogged down in opaque nepotism. Such nepotism reduces citizens’ willingness to contribute cooperatively to the public welfare.

### 3.9.4 The Haitian Revolution

The name “Haiti” comes from the Arawak, meaning “the land of the high mountains”. [Hazareesingh, 2020, p. 4] In addition to its high mountains and the history of its role in the Atlantic slave trade, a topic to which we return in the next section, it also hosted one of the most remarkable events in world history, and one that certainly bears on the subject of the present dissertation: commentators like CLR James and others have remarked on

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<sup>69</sup>Cf. [von Leibniz, 1994, p. 46].

the centrality of the Revolution in not only the Abolitionist cause, but also in realizing the ideals of the European Enlightenment. [Hazareesingh, 2020] even goes so far as to posit that the French Revolution should be seen as ancillary to the Haitian in terms of its world historical importance.

Nevertheless, for many years, one spoke of a trivialization of the legacy of the Haitian revolution.<sup>70</sup> For example, [Trouillot, 1995] speaks of the “erasure” of the event from historical debates and Susan Buck-Morse argues that “it is more invisible, due to the construction of disciplinary discourses through which knowledge of the past has been inherited.” [Buck-Morss, 2009, p. 50] In any case, the fact that the Haitian revolution was not merely an appendage or extension of the French one can be seen in such facts as that “in 1784 a royal ordinance prohibiting the ‘inhumane’ treatment of slaves was fiercely criticized by the planters, and the colony’s courts refused to apply it until it was watered down.” [Hazareesingh, 2020, p. 5] It was a locally organized, endemic event.

Indeed, while Europeans like Rousseau admonished slavery in theory<sup>71</sup>, “It took years of bloodshed before slavery—really-existing slavery, not merely its metaphorical analogy—was abolished in the French colonies, and even then the gains were only temporary.” [Buck-Morss, 2009, p. 35] Thus, the revolution was not a European product:

Although abolition of slavery was the only possible logical outcome of the ideal of universal freedom, it did not come about through the revolutionary ideas or even the revolutionary actions of the French; it came about through the actions of the slaves themselves. The epicenter of this struggle was the colony of Saint-Domingue. In 1791, while even the most ardent opponents of slavery within France dragged their feet, the half-million slaves in Saint-Domingue, the richest colony not only of France but of the entire colonial world, took the struggle for liberty into their own hands, not through petitions, but through violent, organized revolt.” (Id.)

Therefore, it was “[t]he black army under the leadership of Toussaint Louverture [that] defeated the British militarily in a struggle that strengthened the Abolitionist movement within Britain, setting the stage for the British suspension of the slave trade in 1807”, not some noble-minded or “civilized” attitudes on the part of the British that contributed to this shift in policy.” [Williamson, 2007] has commented similarly in a much-remarked book.

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<sup>70</sup>Cf. [Hazareesingh, 2020, p. 12].

<sup>71</sup>A excellent essay on the hypocrisy of some forms of European abolitionism is the title essay in [Finley and Shaw, 1980].

In the end, “[Louverture] wrote a constitution for the colony that was in advance of any such document in the world—if not in its premises of democracy, then surely in regard to the racial inclusiveness of its definition of the citizenry.” [Buck-Morss, 2009, p. 38] CLR James reflects that

The Constitution is Toussaint L’Ouverture from the first line to the last, and in it he enshrined his principles of government. Slavery was forever abolished. Every man, whatever his colour, was admissible to all employments, and there was to exist no other distinction than that of virtues and talents, and no other superiority than that which the law gives in the exercise of a public function. He incorporated in the Constitution an article which preserved their rights to all proprietors absent from the colony “for whatever reason” except if they were on the list of émigrés proscribed in France. For the rest, Toussaint concentrated all power in his own hands. [James, 2001, p. 263]

Later “Jean-Jacques Dessalines, took the final step of declaring independence from France, thus combining the end of slavery with the end of colonial status” [Buck-Morss, 2009, p. 38-9]

“Never before had a slave society successfully overthrown its ruling class.” [Richardson, 2013, p. 114], cited in [Buck-Morss, 2009, p. 39] This embarrassing historical fact forces moderns to re-examine received wisdom about the Enlightenment and offers another, dynamic, perspective to what was above called “the Indigenous Critique”. In fact, “Domingue surpassed the metropole in actively realizing the Enlightenment goal of human liberty, seeming to give proof that the French Revolution was not simply a European phenomenon but world-historical in its implications. If we have become accustomed to different narratives, ones that place colonial events on the margins of European history, we have been seriously misled.” (Id.)

Therefore, while the French revolution might have raised the question “who were to be included as citizens?”, Haiti presented and continues to present Europeans with a problem:

if Africans could in principle be included as citizens—if, that is, the implicitly racist assumptions that underlay the *Code Noir*<sup>72</sup> were not valid—then how could the continued legal enslavement of blacks be justified? And if it could not, how could the colonial system be maintained? The unfolding of the logic of freedom in the colonies threatened to unravel the total institutional framework

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<sup>72</sup>A civil law code established by the French authorities to deal with “Negres”, darker-skinned people.

of the slave economy that supported such a substantial part of the French bourgeoisie, whose political revolution, of course, this was. [Buck-Morss, 2009, p. 41]

Thus, “The Haitian Revolution was the crucible, the trial by fire for the ideals of the French Enlightenment. And every European who was part of the bourgeois reading public knew it.” (Id., p. 42) Newspapers throughout Europe (excepting, after 1803, France), covered the events and headlines like “The eyes of the world are now on St. Domingo” captured the public imagination. Rainsford, in his account of the period, wrote,

The rise of the Haytian Empire may powerfully affect the condition of the human race. . . . It will scarcely be credited in another age, that philosophers heard unmoved, of the ascertainment of a brilliant fact, hitherto unknown, or unmoved to the vague knowledge of those whose experience is not admitted within the pale of historical truth. . . . It is on ancient record, that negroes were capable of repelling their enemies, with vigour, in their own country; and a writer of modern date [...] has assured us of the talents and virtues of these people; but it remained for the close of the eighteenth century to realize the scene, from a state of abject degeneracy:— to exhibit, a horde of negroes emancipating themselves from the vilest slavery, and at once filling the relations of society, enacting laws, and commanding armies, in the colonies of Europe. The same period has witnessed a great and polished nation [France] . . . returning to the barbarism of the earliest periods.<sup>73</sup>

We again return to Haiti in the next chapter, when we discuss Hegel’s Master-Servant dialectic.

### 3.10 Enlightenment and Industrialization

Having demonstrated that associational cooperation is not merely a European phenomenon, we now return to the question of how the era of Enlightenment and industrialization influenced the development of notions of democracy and cooperation. We begin the section by reviewing some key points of the Atlantic slave trade. This is followed by an analysis of the impact of the rise of wage labor. After this, we survey three events that occurred throughout

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<sup>73</sup>[Rainsford, 2013, pp. x-xi] cited in [Buck-Morss, 2009, p. 43].

the 19th century: the Paris Commune, the birth of the modern cooperative movement and the development of large infantries in their potential impact on the public imagination.

### 3.10.1 The Atlantic Slave Trade and Abolitionism

Social institutions require legitimation. Thus, it is an intriguing question to ask, also in reference to the discussion of the Haitian revolution above, what the main legitimation for the Atlantic slave trade was. Its existence reshaped the world economically, as well as socially and demographically. And historians generally agree that the Atlantic slave trade should be distinguished from the form of slavery we described above in the ancient economy<sup>74</sup>. Nevertheless, Finley argues that there is a continuity between ancient and modern slavery: in particular, the legal code. Thus, Finley suggests that

[t]he one sphere in which the ancients could, and did, provide major assistance was the practical one of the law. Roman law offered unbroken continuity, first through the Germanic codes, then through the revival of Roman law in the later Middle Ages. The basic texts survived in more than sufficient quantity and there were learned commentaries. Hence the Europeans who peopled the New World with imported African slaves had a ready-made legal system at their disposal, which they adopted almost *in toto*, modifying it slowly to meet certain new conditions, for example, in the eventual restriction of manumission to a minimum. [Finley and Shaw, 1980, p. 19]

This exclusion and the *legalistic* manner in which slavery was justified in the colonies of the Western hemisphere bears some reflection. Discussing the ontological distinctions between ancient and modern slavery, Finley argues that

No matter how many conditions were attached to a slave's liberation and how much authority his 'patron' may have retained by law, at a stroke he ceased to be a property. In juristic terms, he was 'transformed from an object to a subject of rights, the most complete metamorphosis one can imagine'. He was now a human being unequivocally, in Rome even a citizen. Potentially he was also no longer kinless. That is to say, though his (or her) children born prior to the act of manumission might be, and often

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<sup>74</sup>Cf. [Finley and Shaw, 1980] or [Marx, 1974].

were, retained in slavery — a most significant qualification — any children born subsequently were free. That must be understood and registered in the fullest sense. Freedmen in the New World carried an external sign of their slave origin in their skin colour, even after many generations, with negative economic, social, political and psychological consequences of the gravest magnitude. Ancient freedmen simply melted into the total population within one or at the most two generations. [Finley and Shaw, 1980, pp. 96-7]

To this racial component of modern slavery, a sort of “scarlet letter” of unfreedom that carried on very much into the present day, came the heinous social logic of capital accumulation we introduced above, and which Sombart and Weber wrote voluminously of. Thus, it is important to address the connection between the particular blend of arcane property law and modern industrial techniques [Ellul, 1964] that drove the Atlantic slave trade.

### 3.10.2 Profits from Slavery

Conrad and Meyer<sup>75</sup> were pioneers in deriving statistical analysis of the profitability of the slave economy. Write Fogel and Engerman,

They first derived the average capital cost per slave, including not only the price of a slave, but also the average value of the land, animals, and equipment used by a slave. Estimates of gross annual earnings were then built up from data on the price of cotton and the physical productivity of slaves. The net figure was obtained by subtracting the maintenance and supervisory costs for slaves from gross earnings. The average length of the stream of net earnings was determined from mortality rates. [Fogel and Engerman, 1995, p. 91]

Conrad and Meyer wound up with upper and lower boundaries of 5-8 percent rate of return on male and 7.1 and 8.1 percent rates of return on female slaves<sup>76</sup>. Subsequent research has concluded that, if anything, Conrad and Meyer’s estimates were downwardly skewed, that the normal rate of profit of slave labor “remained high” during the decade prior to the Civil War, as

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<sup>75</sup>The discussion on the profitability of slave labor is in part taken from an unpublished essay by myself, entitled *On the Issue of Slavery in the Construction of American Capitalism*.

<sup>76</sup>They state that females had a higher rate of return because they matured more quickly, and in fact much work on plantations required agility rather than brute strength [Fogel and Engerman, 1995, p. 78ff.]

the demand for U.S. cotton grew internationally[Fogel and Engerman, 1995, p. 93ff.]. In fact, “most of the world eventually acquired clothes made in the industrial West from cotton picked in the US South.” [Baptist, 2016, p. 128] Slaveholders grew to be some of the most economically successful persons in the United States and in the world in the antebellum era. [Fogel, 1994, pp. 241-265] Indeed, there are two aspects of the profitability of the slave economy that we could address: the profitability of slave labor on the plantations and the profitability from the internal slave trade. We will deal with both briefly.

### 3.10.3 Profitability from the Slave Trade

Fogel cites Washington as being a pessimist on the development of the price of slaves. “George Washington’s apparent gloom was not generally shared by other slaveowners”, however[Fogel and Engerman, 1995, p. 88]. He continues, “[e]ven in 1796, when prices were at the lowest point of the post-Revolutionary era, the demand for slaves was over 50 percent higher than it had been in 1772.” The authors posit that fear based on the Haitian slave rebellion might have caused the brief dip in the price of slaves in the 1780s. In any case, Fogel rejects the notion that the long-time profitability of the slave trade was in doubt. Otherwise, he points out, “the United States would have turned from a net importer to a net exporter of slaves, as American planters strove to limit their losses by selling their chattel to areas where slavery was still profitable.” (*ibid*) Moreover, Fogel, et al, state that “neither the softening of prices during the early 1790s nor the brief plunge later in the decade necessarily implies that the demand for slaves was declining. It may only show that the supply of slaves was increasing more rapidly than the demand for them.” Again, as stressed above, subsequent studies have shown that Conrad and Meyer’s estimates are likely downwardly biased:

...we wish merely to stress that the net result of the various corrections has been to raise, not lower, the Conrad and Meyer estimate of the rate of return. On average, slaveowners earned about 10 percent on the market price of their bondsmen. Rates of return were approximately the same for investments in males and females. They were also approximately the same across geographic regions... over the period from 1820 through 1860, there was no secular trend in the level of profits away from the average.[Fogel and Engerman, 1995, p. 70]

That these (empirical) results damn the assertion that “no one but a few blacks in Africa profited from the slave trade” [McCloskey, 2010, p. 230] is clear. Or, as Fogel and Engerman state, “[t]he discovery of a high and persistent rate

of profit on slaves constitutes a serious, and probably irreparable, blow to the thesis that the price of slaves was largely attributable to conspicuous consumption.” They go on:

If conspicuous consumption had increased the market price of slaves over the level indicated by business considerations alone, the expected rate of return from an investment in slaves would have been below that earned on alternative investments. The corrected computations of Conrad and Meyer revealed no such profit deficit. Quite the contrary – the computations yielded average rates of return equal to, or in excess of, the averages which obtained in a variety of non-agricultural enterprises.<sup>77</sup>

Moreover, Fogel and Engerman argue that the facts described above not only cast doubt on the idea that the slave trade was unprofitable: “it also throws into doubt the contention that southern slaveholders were a “precapitalist,” “uncommercial” class which subordinated profit to considerations of power, life-style, and “patriarchal commitments.” (*ibid*, p. 71) As [Baptist, 2016]’s analysis of the Southern economy reveals, there is no fundamental difference between the form in which profit is extracted on a slave plantation and in a northern factory. Both involve rational calculation, management and certain forms of resource “optimization”.

#### 3.10.4 Profitability of Slave Labor

Much of the belief on the productivity of the Southern economy is based on racist misconceptions about the quality of black labor. [Fogel and Engerman, 1995] goes to great lengths to point out the discriminatory prejudices inherent in many Abolitionist arguments against slavery<sup>78</sup>. Even Olmsted is not spared the shame. His conclusions regarding the quality of Southern labor (both white and black) were tinged with an implicit racism regarding black labor quality. Says Fogel, “The conclusion that Olmsted drew from [reports of higher slave than white productivity] was not that slave labor in the plantation context was of a superior quality, but that southern free laborers

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<sup>77</sup>“For example, the average rate of return earned by nine of the most successful new England textile firms over the period from 1844 through 1853 was 10.1%. And a group of 12 Southern railroads averaged 8.5% of the decade 1850 to 1860” [Fogel and Engerman, 1995, p. 70]

<sup>78</sup>As cited above, [Finley and Shaw, 1980] also offers a critical appraisal of moralizing arguments of Abolitionists, who often held deterministic beliefs that the evils of slavery would spell its own end, etc.



must have been extremely lazy, inept, and of low quality compared to northern laborers [Fogel and Engerman, 1995, p. 205].” Indeed, the conclusion he should have reached was that the high level of interdependence and the tactics used in order to “drive” slaves to higher yields produced a highly mechanized system, employing “organizational methods which permitted southern planters to capture the potential benefits of economies of large-scale operation.” [Fogel and Engerman, 1995, p. 200] Fogel and Engerman go so far as to state that “[o]n plantations, the hands were as rigidly organized as in a factory.” In fact:

[f]ar from being “ordinary peasants” unused to “pre-industrial rhythms of work,” black plantation agriculturalists labored under a regimen that was more like a modern assembly line than was true of the routine in many of the factories of the antebellum era. It was often easier for factory workers to regulate the pace of machines to their accustomed rhythm than for slaves to regulate the pace set by drivers. [Fogel and Engerman, 1995, p. 208]

In reality, large plantations operated significantly more efficiently than northern free farms. Additionally, “[o]nly 30 percent of plantations with one hundred or more slaves employed white overseers. On smaller plantations the proportion was even lower. [Fogel and Engerman, 1995, p. 211]” In fact, blacks “were a vital part of the management of plantations and... of the economic successes of the plantation.” [Fogel and Engerman, 1995, p. 210] Indeed, black plantation managers were directed primarily to two tasks: drivers or gang foremen, or overseers or general managers. The notion that black labor was inferior to “free” or white labor is therefore not only deeply racist, it is also empirically false. If anything, reality seems to show the opposite being true:

Although Olmsted repeatedly reported that planters preferred slave labor to white labor because slaves “could be driven,” The significance of these statements completely eluded him. White men, said one planter, “are not used to study labor; they work reluctantly, and will not bear driving ; they cannot be worked to advantage with sleeves, and it is inconvenient to look after them, if you work them separately.” [Fogel and Engerman, 1995, p. 204]

Additionally, the notion that productivity gains in cotton production were the result merely of technological advance is thrown into severe doubt by empirical findings relayed by Baptist and Fogel. States Fogel, “The increase in production during [the 1850s] was greater than the increase over the entire

previous century. Moreover, the increase in cotton production accelerated as the decade went on. Between 1857 and 1860 alone, cotton production increased by 1,500,000 bales. This spectacular rise was more than had been achieved during the four decades stretching from the invention of the cotton gin to the close of the Jacksonian administration.” [Fogel and Engerman, 1995, p. 89] In a similar vein, Baptist states,

Almost as remarkable as this dramatic rise in productivity is the fact that the history of the modern world, of industrialization and great divergences, of escape from the Malthusian trap, has almost never noticed it. Or perhaps that should be no surprise. This increase confounds our expectation that dramatic, systematic gains in labor efficiency depend on new machine technologies, such as the continuous series of innovations in spinning and weaving machines that were increasing the productivity of Manchester’s textile workers. Some of the climb in cotton-picking efficiency may be attributable to a kind of “bioengineering”—new breeds of cotton, especially the “Petit Gulf” seed introduced from Mexico in the 1820s. Yet if heavy-yield and bigger cotton bolls of these breeds made picking individual bolls easier, the richer yield also meant more reaching and bending and moving and grabbing and lifting and carrying. And more expectations. [Baptist, 2016, p. 126f.]

Thus, much of the “innovation” leading to higher output on plantations can be attributed to what [Ellul, 1964] refers to as “human technique”, and not to technological (i.e., mechanical) progress.

### 3.10.5 The Rise of Wage Labor

David Montgomery in a fascinating study analyzes the decline of the traditional master-servant relation in the United States in the wake of industrialization. [Montgomery, 1995, p. 13] writes that “The rural and urban popular mobilizations of the late eighteenth and early nineteenth centuries, which democratized the American political system, also undermined the personal forms of subordination that had bound many working people for shorter or longer periods to masters, but that had also obligated both masters and municipal authorities to care for basic needs of working people and those who could not work.” One of Montgomery’s conclusions is that the social and ideational infrastructure that enabled and legitimated wage labor was largely a matter of juridical interpretation. Thus, he concludes that “[t]he law of

‘free labor’ was judge-made law.” (44) Therefore, Montgomery cites American labor leader Samuel Gompers:

To Samuel Gompers the libertarian side of the republican heritage, which allowed people to act for themselves, was far more important than formal rights to elect governmental officials. “It is ridiculous to imagine that the wage-workers can be slaves in employment and yet achieve control at the polls,” said Gompers in one of his most famous statements. “There never yet existed coincident with each other autocracy in the shop and democracy in political life.” [Montgomery, 1995, p. 159]

Thus, both political and economic issues are present in the question of “who should participate in the polity.” [Montgomery, 1995, p. 160] Montgomery concludes that “The most urgent question facing workers’ movements in both North America and Europe as the new century dawned, therefore, was whether democracy could be rescued by extending its scope into the forbidden gardens of the market itself”, citing American labor leader Henry Demarest Lloyd, who argued that

[t]he “mission of the labour movement,” he declared, was “to free mankind from the superstitions and sins of the market, and to abolish the poverty which is the fruit of those sins.” To achieve that goal, he argued in a clarion call to the 1893 AFL convention, was to extend the principles on which the polity was based to the direction of the economy as well. “It is by the people who do the work that the hours of labour, the conditions of employment, the division of the produce is to be determined,” Lloyd proclaimed. “It is by them the captains of industry are to be chosen, and chosen to be servants, not masters. It is for the welfare of all that the coordinated labour of all must be directed. . . . This is democracy.” [Montgomery, 1995, p. 162]

### **Continuation of Master-Slave Logic**

It is clear that the master-slave logic continued despite the encroachment of the modern wage contract. For instance, one objection against universal male suffrage was

“that agricultural interests needed to retain some constitutional defense against the growing voting power of the cities. This argument (interestingly) assumed that the urban poor would follow the political dictates of their employers. As Josiah Quincy

of Massachusetts explained, “There is nothing in the condition of our country, to prevent manufacturers from being absolutely dependent upon their employers, here as they are everywhere else. The whole body of every manufacturing establishment, therefore, are dead votes, counted by the head, by their employer.” (16)

Moreover, “Master-and-servant law in Britain and the United States shared the same roots in the labor legislation of Tudor England. The law imposed criminal sanctions against workers who left their employment without the master’s permission. Those sanctions applied to wage earners as well as to slaves, indentured servants, and apprentices.” Thus, the 1823 update of the UK law “renewed the law’s provision that abandoning work could lead to criminal prosecution before a justice of the peace and a sentence of up to three months at hard labor, after which the workers still owed their masters all contracted labor time.<sup>79</sup>” In the British law, this applied to waged labor and “Daphne Simon has calculated that during the 1860s an average of ten thousand men and women in England and Wales were prosecuted each year for leaving their jobs”. (25)

While this doctrine was not as prevalent in the United States<sup>80</sup>, “the doctrine of master and servant did appear in United States law as an innovation by commentators on the common law, which lent judicial sanction to the authority of industrial employers.” We return to the topic of “judge-made law” in the next section.

For the time being, we may conclude that “wage and bound labor [co-existed]” in many places, including, as Montgomery argues, in the early United States, but also elsewhere, like Germany. The nature of wage labor was influenced by the history and tradition of bound labor, and was deeply colored by the latter. Thus,

city magistrates continued to be deeply involved in enforcing the subordination of bondspeople, apprentices, and seamen to their particular masters, while the municipal almshouse provided the city’s first factory operatives, and vagrancy prosecutions threatened poor people who were simply too free - those who had no master of any kind. The disciplinary role of municipal authorities

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<sup>79</sup>Montgomery continues that “The new British law did, however, eliminate the magistrates’ powers of supervision over conditions of employment, which had been part of the Elizabethan law but had lapsed into disuse.” [Montgomery, 1995, p. 22].

<sup>80</sup>Sharon Salinger “contends that the practice was quietly and gradually terminated not by any legal process, but rather by the drying up of demand for white men and women bound to long-term contracts, when an abundant supply of workers who could be engaged and dismissed at the employers’ will became available.[Montgomery, 1995, p. 26]

cast a long shadow over working-class life. It was to be reduced by popular struggles, only to rise again by mid-century in new forms. (27)

We now come to the manner in which such “judge-made law” came about.

### “Judge-made law”

Records reveal the extent to which the “innovation[s] by commentators on the common law” contributed to the take-up of master-slave logic in wage labor. Thus, while “criminal sanctions against workers who quit were levied mostly in agriculture and in the more backward sectors of mining and manufacturing, and not in such technologically advanced sectors as textile factories, which relied for discipline, like their American counterparts, on monetary sanctions, dismissals, and blacklists”, “as late as 1833 [Pennsylvania] trial dockets revealed three men, all with Irish names, charged with absconding from their masters in the months of July and August alone.” (Id., p. 31) These were wage laborers, not indentured servants!

Moreover, in Maryland, Richard Morris describes a situation where “white absentee employees [on occasion] jailed without specifying whether they were apprentices, ordinary indentured servants, or hired hands”. Moreover, the Maryland legislature “[i]n 1854 [...] explicitly levied criminal sanctions against black workers who absconded from labor contracts.” (Id.)

In a routine resembling the application of *noxal law* in Rome, “[q]uite often offending servants were discharged into the custody of the master or mistress after ten days or two weeks in jail, by the same justice of the peace that had sent them to prison initially.” [Montgomery, 1995, p. 28]

A frequently cited case is that of Mary Clark:

When her suit for *habeas corpus* was denied by a lower court, Clark appealed to the state supreme court, which set her free with the resounding declaration that no one but apprentices, soldiers, and sailors could be subjected to criminal prosecution for deserting a job in violation of a contract. Because a contract for service “must be performed under the eye of the master” and might “require a number of years,” enforcement of such performance by law “would produce a state of servitude as degrading and demoralizing in its consequences, as a state of absolute slavery.” (p. 36)

Nevertheless, the decision was not generally applied, as cases above reveal. For Montgomery, the significance of the case lay in the fact that,

by the second quarter of the nineteenth century the paradigm for judicial consideration of labor was being recast to suit the new economic realities: It recognized workers, who were free to quit and whom employers could dismiss at will, and it recognized slaves, who were bound to servitude for life, as were their offspring. It was, therefore, the overthrow of slavery itself that produced the decisive final round of struggle against specific enforcement of labor contracts. (p. 37)

Thus, at least in the United States, the shift from bound to free labor was also colored by the additional dichotomy of black-white, as the post-Reconstruction “Black Codes” demonstrate. “Senator Henry Wilson of Massachusetts charged that the codes made ‘the freedmen servants . . . and the persons for whom they labor . . . their masters, [and] the relation between them shall be master and servant.’” (Id.)

Another important case in the “innovation” was *Stark v. Parker*:

The influential Massachusetts Supreme Judicial Court decision of 1824, *Stark v. Parker*, established the basis on which the legal status these workers was erected until the employment of day workers made it obsolete in many regions. Although neither the court nor the farmer’s attorney in this case charged the absconding laborer with a criminal offense, the justices ruled his claim to wages corresponding to the months he had actually worked a ‘monstrous absurdity’ and especially dangerous in ”this commonwealth . . . where the important business of husbandry leads to multiplied engagements of precisely this description.” Only “upon the performance of his contract, and as the reward of fidelity” was “the labourer worthy of his hire,” that is, legally entitled to payment for any of the work done. The court explained, “Nothing can be more unreasonable than that a man, who deliberately and wantonly violates an engagement, should be permitted to seek in a court of justice an indemnity from the consequences of his voluntary act.” (41)

On the other hand, employers were increasingly unbound for caring for infirm workers:

Court rulings and prestigious commentaries on the common law agreed that the employer had no obligation to retain or nurse an incapacitated farm laborer, and that no legal distinction existed between one type of hired worker and another. In the words of

Connecticut's supreme court: A hired servant is a hired servant, "whether that servant is employed in husbandry, in manufacturing business, or in any other manner." (Id.)

Clearly, there was a conflict between law and ethics here. Thus Samuel Slater claimed, "Probably the Common Law [enforcing entire contracts] is binding, but I think the law of Equity and Justice is not." (cited in [Montgomery, 1995, p. 42])

Moreover, in addition to legal interpretations of the nature of the employment relation, judicial opinion weighed heavily on declaring the legitimacy or illegitimacy of forms of "combination", a topic of central importance in Polanyi's *The Great Transformation*, which we return to again in the next chapter. For the time being, we refer to the plethora of so-called "conspiracy judgments" that abound during the 19th century. As one workingmen's group proclaimed about one such ruling, "The use of the common jail in enforcing the regulations of a factory, made without the consent of those employed, is an alarming abuse of power, which ought to be resisted."<sup>81</sup> Moreover, as reformer George McNeill wrote, "[a]n empty stomach can make no contracts," thus those who "must sell to-day's labor to-day, or never... *assent* but they do not *consent*, they submit but they do not agree."

Reformers like Giuseppe Mazzini called for "labor and capital in the same hands" (*capital e lavoro nelle stesse mani*), and similarly, "the National Labor Union [stated in 1867]: "Until capital and labor become organized into a system of mutual co-operation, the working-men must protect themselves by means of co-operation with one another." It is easy to see that these reformist appeals served as a reaction to the observation that, as Alexander Troup of New Haven, Connecticut, put it, "we are manufacturing paupers". Indeed, the increasingly brutal enforcement of vagrancy laws [Chambliss, 1964], the hoisting of company policy above legislation<sup>82</sup>, the reactions against "combinations"<sup>83</sup> and the reversal of any incursion on employers' will to terminate<sup>84</sup>

<sup>81</sup>[Commons et al., 1918], cited in [Montgomery, 1995, p. 47-8]

<sup>82</sup>Cf. [Montgomery, 1995, p. 43].

<sup>83</sup>These even went so far as to impugn the right to organize boycotts:

1886. "It is to the legitimate strike what rum is to the idler." A trial judge in Virginia agreed. If boycotts "can be perpetrated with impunity, by combinations of irresponsible cabals or cliques, there will be an end of government." The courts found a remedy for workers' interference with sales by updating common law doctrines of conspiracy to bar any interference with the "pecuniary interests" and "exchangeable value" of a company's business. *Supra, Id.*

<sup>84</sup>"A federal statute penalizing employers who threatened to fire workers if they voted

went far to underscore this observation.<sup>85</sup>

### From Criminal to Money Sanctions

Thus, the result was a situation in which

physical or criminal sanctions were replaced by monetary ones, and whatever remained of the reciprocal obligations the master, creditor, or dwelling owner had owed the worker died also. Inequality and coercive power that had rested, in Cornelius Blatchly's familiar words, on 'ancient usurpation, tyranny, and conquest' was replaced by that of the 'free market.' The triumphant legal principle was the one repeated by the Tennessee Supreme Court in 1884: 'Either party may terminate the service, for any cause, good or bad, or without cause, and the other cannot complain in law.' [Montgomery, 1995, p. 22]

This point brings us to a question we have continually asked, regarding the nature of membership in the polity. We see a shift "[d]uring the half-century following the Revolution [in which] a man's wage contract had taken its place alongside property ownership and race as a badge of participation in the polity." (Id.)

#### 3.10.6 The Paris Commune: Rekindling the Flames of the Democratic Imaginary

The Paris Commune has often been held up more as a symbol than a practical example of democratic practice. Thus, Tombs suggests that "[t]he list of [the Commune's] reforms is short." Marx at the time referred to "its own existence" as "the great social measure" the Commune offered to history. According to Marx,

Its other measures 'could only be such as were compatible with the state of a besieged town'. The survival of the Commune, even for only two months, demanded a vast and unceasing military and administrative effort which had to be improvised in a few days by men with little experience of exercising high authority. This is the context in which the social measures of the Commune, including that concerning workers' cooperatives, must be understood. [Tombs, 1984, p. 969]

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was ruled unconstitutional." *supra*, *Id.*.

<sup>85</sup>Cf. also [Tomlins, 1993].



Moreover, Arthur Arnaud remarked, the Commune “both had laid a foundation stone upon which sooner or later the final building would rise... In seventy-two days of continuous battle, the Commune could hardly do more than set out a principle, indicate one or two outlines.” (Id.)

On 16 April the Commune passed a decree – remarkably, without debate – that was described by the Jacobin paper *Le Vengeur* as ‘the most serious claim of the Commune to the gratitude of working men’, and by Marx and Engels as a stride towards communism. It aimed to hand over closed-down workshops or factories to ‘the cooperative association of the workers who were employed in them’. This indeed bore the mark of the French socialist tradition, which envisaged workers’ cooperative association, not state ownership, as the solution to ‘the social question’. Their advocates believed that the superiority of cooperatives under a supportive government would be such that they would displace capitalist industry. In the words of a Commune member, the Jacobin artist Billioray, the decree was ‘the first serious step taken on the road to socialism’. [Tombs, 1999, p. 93]

Under the Commune both political leaders and workers’ leaders wanted to seize the opportunity to expand cooperatives through loans and large orders from the War Delegation. ‘To favour the development of existing associations’, wrote a Commune official, ‘is to bring about the formation of new ones, and thereby release labour from exploitation by capital, and simultaneously release workers from the influence of monarchist capitalists.’ (93-4)

Interestingly, enterprise owners “were to be paid compensation” and “most members opposed general expropriation.” However, “The decree had little practical effect. Although various workers’ groups held meetings with a view to establishing associations, the number of operating cooperatives may have fallen during the Commune.” (94) One of the few exceptional cases demonstrates the potential of the idea, nevertheless: the Ironfounders Cooperative, which made shells for the Commune. Its workers “decided to set up an ironfounders’ cooperative society” before the decree was passed, on April 15. [Tombs, 1984, p. 971] The workers elected delegates, including Pierre Marc, to lead the new foundry. Marc, himself a failed entrepreneur had experience running a foundry. Tombs remarks that Marc’s “background was no liability in the Cooperative Society: on the contrary, he was chosen because he had been a patron and so knew how to run a business.” (Id.)

However, instead of requisitioning the factory,

[the cooperative] preferred to pay rent for its two factories rather than go through the requisitioning procedure. It ran its affairs on business lines, with strict discipline for its members, and it enjoyed good relations with private firms in the industry. Oddly, it tried to remain in business after the defeat of the Commune, and only stopped when the police arrested its managers, who were subsequently given excellent character references by private businessmen – including the owner of the factory they had taken over. (Id.)

Such good relations, Tombs comments elsewhere, “are reminiscent of those between the Commune itself and firms supplying it - an important and barely noticed phenomenon.” (971-2) The foundry, which soon expanded to other plants, employed upwards of 250 members, who brought their *livrets*<sup>86</sup> to a meeting to decide working hours. Of this, Tombs reflects, “It seems a reasonable inference that at the meeting to decide who could remain as members the employment records of the men registered in their *livrets* were a criterion. The Society, in other words, was judging its members in the same way and by the same methods as private employers.” (973)

In fact, after the collapse of the Commune, “the owners of the firms with which it dealt all spoke in the highest terms of Pierre Marc, even after the fall of the Commune when he was being prosecuted, and when to express such favourable opinions was a matter of some courage. Donzel found Marc ‘tres convenable’; Plichon said he behaved with ‘beaucoup de convenance’; and Guillot found all the members of the Society equally praiseworthy - they were ‘*les hommes les plus tranquilles et les plus laborieux... leur conduite ayant toujours ete convenable.*’ (972) When Marc and others were arrested, a month after the end of the Commune,

Marc and his partners had, in the words of a police report, ‘carried on their business in the Guillot factory, and they have the intention, if they have not already done so, of setting up a cooperative society’ - that is to say, legally. They still had a lot of shells on their hands, but they were able to pay Donzel for some of the material they had requisitioned, and they returned some of his other equipment, which apparently left him quite satisfied. As for Guillot, the owner of the Society’s main factory, he seems to have become almost a partner - an odd role for an expropriated expropriator. When the police eventually arrived to arrest Marc and the others, they discovered Guillot with them in the Society’s office. Guillot stated

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<sup>86</sup>A passport-like document in which French workers listed their occupational histories.

later that the members had been hoping to carry on normal trade - '[ils] auraient voulu continuer a l'travailler pour le commerce'. Marc himself protested that during the Commune he had only been doing the same as the other master ironfounders in Paris - that he was merely an 'entrepreneur', so to speak, not a 'harbinger'.

We see in the case of the Foundry the connection between democracy, economy and cooperation which will be drawn out theoretically in the following chapter. For now, it suffices to reflect that the productive relations in the foundry appear quite similar to other employment relations, save for the radical approach of workers electing their directors. This theme, of democratic leadership and social entrepreneurship, will continually resurface throughout the present work. It should remind us, moreover, of Kierkegaard's notion of a *qualitative shift*, a concept Kierkegaard uses in a religious sense, but which has clear pedagogical and developmental implications<sup>87</sup>.

### 3.10.7 The Birth of the Cooperative Movement

Indeed, as the preceding discussion has shown, a genealogical approach to cooperation historically reveals the importance of issues like contested exchange and the "struggle for rights" which [Bowles and Gintis, 1996] speak of. In the next chapter, we will learn of Polanyi's categories of "double movement" and contrast these with Schumpeter's attempt to develop a *dynamic* theory of economic development. For the moment, we restrict ourselves to these superficial observations and return again to the level of facts and historical events, the lowest rung on [Leydesdorff, 2021]'s hierarchy of communication.

Indeed, with the rise of wage labor and the political contest this involved increasingly in the 19th century, issues of inequality, inclusion and justice played a role in the social transformation that, e.g., [Polanyi, 1944] speaks of. One of the outcomes of these "struggles for rights" was the global cooperative movement, which can be traced back to the interacting and often conflicting logics of the enterprise and its constituent stakeholders, elements of what Polanyi calls the "market system", and that of what Schumpeter refers to as the "static" social order. Thus, "[t]he world's first industrial revolution was under way and vast wealth was beginning to be accumulated, but for every person who rose into the ranks of the new industrialists, there were many more who were falling into grim poverty." [Birchall, 1994, p. 1] Due to the loss of communal lands, many peasants "would no longer have the customary rights to gather firewood, graze animals, hunt game or build your house on

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<sup>87</sup>Cf. [McKinnon, 1993].

the common. . . the workingman's 'little perquisites, his right of common, his cow, his little piece of ground, fell off one by one: he was reduced to his mere wages, summer and winter.'" (*ibid*)

In this circumstance, phenomena like "the working class(es)" which Karl Marx and Friedrich Engels described were emergent. From this historical moment on, "[i]t is. . . no longer adequate to think merely about *the* wage labourer, because the working class is stratified according to both the status and the differential financial reward attached to the different functions required to constitute the despotism of a cooperative apparatus dedicated solely to the production of surplus-value" [Harvey, 2010, p. 176]. Thus, the form of cooperation occurring in factories could be labeled a "contested" one, which occurs provisionally as long as the market system is able to exert pressure on peasants to accept whatever conditions of work are imposed on them.

In this situation, cooperation is instrumentalized towards fulfilling an ambivalent agenda whose benefit in cheaper and more generally available goods (what Montesquieu referred to as "deux commerces"), but at the same time, whose costs include the degradation of (many of) those whose on whose cooperation the process depends on. This degradation involves de-skilling<sup>88</sup>. To this situation, the cooperative form asks the rather provocative question, whether the Prometheus of capital accumulation, the "genius" [Kant, 1798] which unleashed such uncertain and dangerous dynamics, can be bound [De Woot, 2017] while simultaneously still benefiting from the "highest form of economy: *cooperation*." [Marx, 1974, p. 21]

Thus, one finds at this time increasing examples of new visions and "views" of society and attempts to inculcate a new symbiotic relationship between labor and capital, expressed by the rise of Friendly and Mutual Societies and examples like the Davenport Union Mill, a wholesale bread supply company established by Plymouth dockworkers in 1817, which "bought its own mill and bakery in response to a boycott by local bakers." [Patmore and Balnave, 2018,

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<sup>88</sup>As I write in [Warren, 2019, p. 6] "the manufacturers were finding it cheaper to dispense with skilled men and replaced them with unskilled, even, in some trades, with women and children. They achieved what has more recently come to be called the 'de-skilling' of labour." The phenomenon of 'de-skilling' is of extreme significance, as it represents a systematic effort to eliminate – or largely reduce – the bargaining power of one of the factors of production: labor. Writes Birchall,

This was achieved partly through the use of machines, but, at this stage, more through the splitting up of skilled work into its constituent parts, and 'sweating' of the workforce – through paying wages by piecework and either enforcing the strict discipline of the factory or giving out work to people in their own homes. [Birchall, 1994, p. 6]

p. 29] King’s Brighton (*ibid.*, p. 33) and Robert Owen’s New Freedom colony in Ohio (*ibid.*, p. 38) and Giuseppe Mazzini’s call for “*lavoro e capitale nelle sesse mani*”, etc. It should be noted that such attempts were often thwarted, showing the fact that entrenched interests, even rising entrenched interests, are often resistant to change that impact their material interests, even when these interests require the disregard or trampling of the rights and interests of others.<sup>89</sup>

Early examples, like that of the Rochdale pioneers, grew slowly and intermittently, but soon, intellectuals, workers and entrepreneurs themselves coalesced into a loose confederation of international “cooperators”. Examples like the Schulze-Delitzsch and Raiffeisen cooperatives grew and spread, both within Europe and internationally. [Rhodes, 2012] Differing types of cooperatives emerged, from “consumer” and “producer”, to those providing housing, insurance and a range of other services and relationships. Principles by means of which cooperatives operated and interacted were developed and codified in 1895. [Patmore and Balnave, 2018] One of the critical moments in the development of the movement was the decision at the First Cooperative Congress to clearly delineate the types according to their patronage relations. This decision has been largely abandoned since the 1960s, but its impacts are still strong. We return again to this discussion in Chapter 7.

### 3.10.8 Development of Large Infantry

Bowles and Gintis discuss the role of the rise of large armies of infantry as a motivation for universal male suffrage. In fact, many states were increasingly reliant on large standing armies for defense. This led to many efforts to connect national defense with formal political equality. The reasoning was largely economical:

Perhaps the most decisive impulse for the expansion of personal rights arose because military realities of the nineteenth century required a strongly loyal citizenry. The development of the rifled percussion musket, breech-loaded artillery, and the machine gun made light infantry cost-effective. These changes in the design and manufacture of firearms, as well as the development of better methods of commanding large numbers of men on the battlefield

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<sup>89</sup>To emphasize such controversies, we note that a Woolwich mill was burned down, “and the local bakers were accused of arson.” [Birchall, 1994, p. 4] The example is also confirmed by the repeated passage of “Combination Laws”, which we introduced above and which play a central role in [Polanyi, 1944]’s analysis.

and lower military training costs, rendered war a highly labor-intensive undertaking. [Bowles and Gintis, 1996, p. 39]

Thus, one could even argue that the cheapened costs of having large-scale infantries forced a concomitant extension of political rights. Political scientist Samuel Finer remarked in his *State and Nation Building* that “The Prussian failures [against Napoleon] led Stein, Hardenburg, and Scharnost to realize that citizen participation was necessary if the Prussian army was to work.” [Finer Samuel, 1975, p. 153] Nevertheless, the extension of suffrage to the entire male population was still a struggle and had to wait till the 20th century in most countries, while a handful of European and South American countries extended universal male suffrage in the 19th century, mostly as a results of the tumults of 1848. [Hobsbawm, 2010]

However, the struggle for rights was not complete, providing evidence that even formal equality in *concessio* terms was not the fruition of the democratic project. In particular, as we saw in the above discussion on the Atlantic slave trade and the rise of wage labor, rights are often in conflict. As [Bowles and Gintis, 1996, p. 35] argue, “Nowhere is the endemic ambiguity concerning the appropriate range of application of a right more evident than where it has begun to encroach upon another right’s traditional, and doubtlessly well-defended, turf.” Therefore, the struggle for rights continued into the 20th century and beyond.

### 3.11 The Struggle for Rights Since the 20th Century

The 20th century was a century of crisis. [Hobsbawm and Cumming, 1995] speaks of an “age of extremes”. The crises were multifaceted and reflected political, ideological, economic and other dimensions. In many ways, the Great Depression was a turning point. Why? There had been other depressions, even other “Great Depressions”, like the one that began in 1877 and ushered in events like the Irish potato famine. Nevertheless, these events were likely not as critical in a *political* sense as there were no direct electoral threats. Moreover, as [Polanyi, 1944] argues, the “market system” had as of yet not been as fully developed. General suffrage meant accountability to the majority of citizens. It also meant danger, as the threat of fascism showed.

Nevertheless, the discovery of a consensus was difficult, due to numerous intersections (class, gender, race, nation, profession, ideology, etc.). This is because certain logics existed symbiotically, while others stood in contradiction, as we observed in the closing passages of the last section. An example

is Gandhi's struggle to overcome the caste system in India. In the end, the events of the 20th century revealed that it is impossible to extend political rights without consideration of the economic domain.

Polanyi's pathbreaking study of the development of the market system provides an excellent foundation for problematizing questions of cooperation, citizenship and rights moving from the 19th and into the 20th century. Scholars like Hobsbawm speak of a "long 19th century", referring to the ultimate collapse of the *ancient regime* in the wake of the First World War. It is in the period immediately after that the "contradictions", in the language of Marx, in European and other societies took on new dimensions. We return to Polanyi's analysis in the following chapter. For the time being, we cite [Bowles and Gintis, 1996]'s argument that "The low-cost production imperative has thus provided both a discipline for the individual members of the capitalist class and something akin to Darwin's natural selection for the evolution of social organization, systematically favoring some forms of production, some social innovations, and some family structures, while consigning others to extinction or marginality." (35)

The question that many scholars of the 20th century, including Polanyi, have asked is how one may find the tools – whether these be policies or institutions, norms or ideals – that may guide the development of a civic society, and in some cases, a civic economy. [Brown, 2010]

This section draws on more recent history, beginning with the wave of decolonization of the mid 20th century. This wave, though influenced by past events such as the Haitian and American revolutions, was arguably given new impetus by the movement around Mohandes K. Gandhi in India. We review a particular part of Gandhi's efforts, namely his attempt to subvert the caste system in India. Secondly, we review the context of FDR's "second bill of rights" and the UN Universal Declaration of Human Rights, followed by an overview of the tradition of self-management in Yugoslavia. We end this section with a review of the implications of the end of Apartheid in South Africa on this discourse around the struggle of rights.

### 3.11.1 India: Gandhi and the Caste System

As postcolonial studies grow and the economic power of Asian countries increases, there will likely continue to be increased interest in the cultural traditions of other parts of the globe than Europe. There are some authors that suggest democratic roots for India. This suggestion goes all the way back to the ancient Greek historian Diodorus, who suggests in his *Histories* that "... many years [after the death of Heracles] most of the cities had received a democratic form of government, although among certain tribes the kingship

endured until the time when Alexander crossed over into Asia.” Moreover, he writes that

the law has ordained that under no circumstances shall anyone among them be a slave, but that all shall be free and respect the principle of equality in all persons. For those, they think, who have learned neither to domineer over others nor to subject themselves to others will enjoy a manner of life best suited to all circumstances; since it is silly to make laws on the basis of equality for all persons, and yet to establish inequalities in social intercourse.[Siculus, , 2.39]

However, contemporary historians largely agree that by the time that Diodorus wrote, due to the “reforming” of democracy by limiting the rights of the lower classes directly or indirectly. . . ultimately [the concept of] *demokratia* was applied to any republican government.” [Larsen, 1973, pp. 45-6] Thus, the absence of any decisive evidence for the active participation on the part of poorer citizens, the existence of texts like the *Arthashastra*, with its advice on how to manipulate nobles yet no mention of matters dealing with the poor, as well as the historical ossifying of the caste system in India spell for a lack of an active democratic civic consciousness.

In fact, the evidence for the latter is present in the immense difficulties Mohandes K. Gandhi, otherwise known as Mahatma Gandhi, had in eliminating the strict divisions between the castes, especially the lowest rung, the so-called *Dalits* or *untouchables*. In an exchange rife with Kierkegaardian social irony,

E. Stanley Jones, the American missionary, asked Gandhi in Yeravda Jail: ‘Isn’t your fasting a species of coercion?’ ‘Yes,’ Gandhi replied, ‘the same kind of coercion which Jesus exercises upon you from the Cross’. The fast dramatized the issue at stake; ostensibly it suppressed reason, but in fact it was designed to free reason from that mixture of inertia and prejudice which had permitted a gross social injustice to be tolerated by the Hindu society for centuries.[Nanda, 1998, p. 22]

We will discover in later chapters a language to describe such shifts in “inertia and prejudice”. As B.R. Nanda comments, the fast was successful in eliminating separate electorates for the Dalits. Moreover, comments Nanda,

The insidious influence of this mode of representation as a wedge in Indian politics was to become fully visible in the next decade.



In 1909 the introduction of separate electorates in the Minto-Morley scheme of reforms had created an institutional base for the growth of Muslim separatism; twenty-three years later, a similar attempt to make a mighty hole in the nationalist front was foiled by Gandhi's fast.[Nanda, 1998, p. 22]

We see here an element of what we in the next section call a *natura naturandis*, which seeks to undo deterministic assignment of fate according to birth as a foundational element of a *political* reconfiguration of collective choice. Thus, the elimination of the ghettoization of particular status groups into subsidiary or inferior caucuses severely reduces frictions that can lend credence to association across religious or other fault lines. In fact, this inclusive reconfiguration was at the center of Gandhi's political tactics:

He arranged for the publication of a weekly paper, *Harijan*, to promote his campaign. 'Harijan' means 'children of God'; it was Gandhi's name for the outcastes, the untouchables. 'All the religions of the world [Gandhi wrote] describe God pre-eminently the friend of the friendless and help of the helpless, and the protector of the weak. Who can be more friendless, or helpless or weaker than the forty million or more Hindus of India, classified as untouchables?' Gandhi doubted whether there was any support for untouchability in the Hindu scriptures. But even if it were possible to cite a sanction for this tyranny from any ancient manuscript, Gandhi did not feel bound by it. Eternal truth, he asserted, could not be confined within the covers of a book, however sacred it might be. Every scripture had contained certain universal truths, but it also included injunctions relevant to the contemporary society: the latter, if they did violence to human dignity, could be ignored.[Nanda, 1998, p. 23-4]

Thus, we see here elements of a moral economy in the idea of the extension of membership beyond a privileged class or status group. We also see in the selective reading of Hindu scriptures on the part of Gandhi an example of the autonomy which Castoriadis attributes to the birth of democracy in Greece: namely, the idea of viewing laws and moral codes not as a *natura naturata*, a "received nature" beyond criticism, but a *natura naturans*, shaped and influenced by persons in according with their reason and their imagination. We return to this discussion in the next, closing, section of the chapter.

While Gandhi was not successful in excoriating Indian society from the prejudices associated with the conservative caste system,

The Congress ministries in 1937–9 removed some of the legal disabilities of the Harijans, and untouchability itself became illegal in the constitution of the Indian Republic which came into force in 1952. A social tyranny, which had deep roots, needed a continuous war for many years on all fronts—legal, social and economic—but there is no doubt that Gandhi’s campaign dealt it a heavy blow. (p. 25)

Gandhi advised in a letter in *Young India* to move towards a “fusion” of the castes, which he referred at the time as “sometimes a convenience, often a hindrance”<sup>90</sup> Moreover, in an appeal in his *Harijan*, he wrote that “the *varnashrama* [Caste system] of the *shastras* [scriptures] is to-day non-existent in practice. The present caste system is the very antithesis of *varnashrama*. The sooner public opinion abolishes it, the better”.<sup>91</sup> In order to achieve this abolition, Gandhi advocated for cross-caste solidarity. By compressing all castes into one via self-identification, the system could be abolished: “all Hindus should voluntarily call themselves *shudras*, who were supposed to be the lowest in the social scale.”<sup>92</sup>

Also, in this edition, Gandhi speaks of the importance of adhering to public opinion. After being asked whether admitting *Dalits* into Hindu temples “will not lead to these being abandoned”, Gandhi responds that his movement is seeking “the assistance of the Legislature. . . in order to make it possible to throw open temples where public opinion is ripe. It is impossible today even when public opinion desires it.” We see here the kernel of the democratic civic imaginary in viewing the law and convention as amenable to the changing proclivities of the citizenry, at large (even the proclivity to expand the citizenry to previous excluded groups, like the Harijan Gandhi speaks of).(*Id.*)

He also expressed his support for the right to inter-marry: “It must be left to the unfettered choice of the individual’, he wrote, ‘as to where he or she will marry or dine.”<sup>93</sup> Moreover, “[i]f India is one and indivisible, surely there should be no artificial divisions creating innumerable little groups, which would neither inter-dine nor intermarry.”<sup>94</sup>

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<sup>90</sup> *Young India*, 8 December 1920

<sup>91</sup> *Harijan*, 16 November 1935.

<sup>92</sup> *supra*, 25 March 1933, p. 7

<sup>93</sup> *Harijan*, 16 November 1935, cited in [Nanda, 1998, p. 9].

<sup>94</sup> *supra*, 25 July 1936.

### 3.11.2 “Second Bill of Rights” and the Universal Declaration of Human Rights

One of the consequences of the struggle for rights in the course of the 20th century was a contested terrain over what basic rights are. [Bowles and Gintis, 1996, p. 40] state that “[o]ur clash of rights perspective stresses the conflict *among* parties to the new industrial and commercial order, and thus breaks sharply with the standard account of the growth of rights as a contest *between* the new commitment to democracy and the old faith in robe, sword, and crown.” Thus, for the authors “[t]here is no question that once liberal democracy was forced upon a resistant liberalism and a reluctant capitalism it was touted by exponents of both as their bountiful contribution to social emancipation.”

We may interpret FDR’s January 11, 1944 speech in which he introduced the idea of a *Second Bill of Rights* in such a light. Among other things, he stated that “We cannot be content, no matter how high that general standard of living may be, if some fraction of our people — whether it be one-third or one-fifth or one-tenth — is ill-fed, ill-clothed, ill-housed, and insecure.” Moreover, he pointed to the limits the original “Bill of Rights” with respect to the nature of a modern and prosperous society: “As our nation has grown in size and stature, however — as our industrial economy expanded — these political rights proved inadequate to assure us equality in the pursuit of happiness. . . . We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence.[. . .] Necessitous men are not free men. People who are hungry and out of a job are the stuff of which dictatorships are made.”

Thus, the “Second Bill of Rights” outlined the following rights:

EVERY AMERICAN IS ENTITLED TO:

The right to a useful and remunerative job in the industries or shops or farms or mines of the nation;

The right to earn enough to provide adequate food and clothing and recreation;

The right of every farmer to raise and sell his products at a return which will give him and his family a decent living;

The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad;

The right of every family to a decent home;

The right to adequate medical care and the opportunity to achieve and enjoy good health;

The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment;

The right to a good education. [Sunstein, 2006]

On the one hand, it is clear that the war's end was approaching and the exceptional expansion of productive capacity had created wealth for many. With soldiers soon returning home, the status quo no longer allowed returning to the pre-war situation. Therefore, we do not have to agree with Sunstein when she writes that the Bill "represented Roosevelt's belief that the American Revolution was radically incomplete and that a new set of rights was necessary to finish it." (Id. p. 1) Moreover, Sunstein argues that "Rights are a product of wrongs, and after a period of massive unemployment and poverty, it seemed only natural to argue on behalf of a right to economic security." This does appear rather simplistic, again, in the face of the fact that the Great Depression was not the first of its kind. More reasonable is the new domain of contestation — the economy — emerged as a natural result of the extension of universal suffrage. In order to forestall further radicalization, there emerged a negotiated settlement between various logics and stakeholders.

"Although Roosevelt's second bill is largely unknown in the United States, it has had extraordinary influence internationally. It played a major role in the Universal Declaration of Human Rights, finalized in 1948 under the leadership of Eleanor Roosevelt and publicly endorsed by American officials at the time." (Id.) The Declaration emphasizes many of the same connections between political and economic rights and makes clear that the world of the present is one that is guided by multiple logics, in tussle with one another.

### 3.11.3 Self-Management in Yugoslavia

The Yugoslav model of worker self-management, a model currently seeing some resurgence in some of the former Yugoslav republics like Slovenia<sup>95</sup>, together with the Mondragon cooperative model in the Basque region, received scholarly attention in the 1960s and 70s, as much of the New Left was looking for alternatives to the traditional wage labor model. "The only genuinely new model [...] is the Yugoslav model", wrote Nuti (cited in [Ellerman, 2021a, p. 148]). The model was in many ways highly innovative and has inspired a recent tradition of "self-managed" enterprises, including in Italy and Argentina [Vieta, 2019].

Obviously, as an innovator in this regard, the Yugoslavian model was not perfect. As David Ellerman remarks, "Being a pioneer is not all glory;

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<sup>95</sup>Cf. [Gonza and Ellerman, 2022].

the pioneer may stumble many times like one who walks at night holding the lantern behind him-of no help to himself but illuminating the path for those who follow.” [Ellerman, 2021a, p. 149] The Yugoslav model also inspired a model derived from neoclassical foundations, known as the “Illyrian firm” or alternatively called the “WDV” model<sup>96</sup>, which has “not been observed in Yugoslavia or elsewhere.” (149) Below, we briefly outline the Yugoslavian model. The overview is largely taken from [Ellerman, 2021a] and [Greenberg, 1986].

Ellerman observes that, as opposed to the Soviet command economy,

“[i]n Yugoslavia, there is no centralized command planning over production. The enterprises are embedded in factor and output markets. The workers in each enterprise elect the workers’ council which, in turn, through a committee structure selects the enterprise director. Legally, the director is responsible to the workers’ council and the collectivity of workers, but there are strong indirect influences from the League of Communists (the party) and / or the various levels of government. The assets of the enterprise are considered to be “social property.” Even though the assets may have been built up by retained earnings (that could have been paid out as pay bonuses), the enterprise only has use rights over the assets and the workers have no individualized claim against the company for the value of those assets.” [Ellerman, 2021a, p. 149]

Moreover, the Yugoslav self-managed firms, members had two rights: “the control rights and the net income rights, are at least partially assigned as personal rights to the workers in the firm. [...] If the income is paid out in wages and bonuses then it accrues to the workers. If however, the income is retained in the firm, then it reverts to ‘social property’ and the workers lose any recoupable claim on it.” (Id.) Ellerman claims that the cooperatives financed investment largely from debt and redistributed earnings, which “fuel[ed] inflation.” (151) A related problem is captured by Nove, who writes of “two problems” the Yugoslav firms faced. Firstly, “the interest of the workers in not expanding the labour force, at a time of serious unemployment, because to do so would reduce their incomes.”<sup>97</sup> The other problem is “the lack of long-term interest of the workers in “their” enterprise, because it is in fact not theirs: they derive no benefit from working for it once they leave it, having no shares to sell.” (Id.)

<sup>96</sup>Named for Ward, Domar and Vanek, the three economists primarily responsible for developing the model. Cf. [Dow, 2018, pp. 35ff].

<sup>97</sup>(Nove, 1983, p. 217, cited in [Ellerman, 2021a, p. 151]).

Greenberg documents some of the other empirical outcomes of the Yugoslav experience: “[s]trikes in Yugoslavia [...] demonstrate that the actual state of the social relations of production are not as clear-cut” [Greenberg, 1986, p. 103] Moreover, he notes “the existence and the occasional use of the “recall” against management, the managing board, and the workers’ council. Second, the locus of many important decisions in recent years has been radically decentralized to the level of the work unit at which most point-of-production decisions are made. Third, members of the workers’ council continue to hold their production jobs in the plant, ensuring the existence of two-way communication.” (Id., p. 104)

At the same time, “participation in the self-management system is highly biased toward the educated, the skilled, and the white-collared.” and “the manager and the technical staff exercise more influence than any other institution or set of individuals in Yugoslav enterprises [...] Influence is from the top down, not the bottom up. Proposals originate at the management level. The workers’ council reacts to proposals. Discussion in meetings is dominated by the managerial and technical staff. [...] ‘results of research demonstrate that the distribution of influence is unconditionally oligarchical, even autocratic.’ “The relative powerlessness of workers is demonstrated by the members of the councils and the management board often joining the strikers.” [...] “work life is controlled by others” ... “the shortcomings of democratic decision making in Yugoslavia are apparent mainly in regard to workers’ own hopes and aspirations...” “the Yugoslavs themselves are acutely aware of the gap between ideal and reality and have been making serious efforts to narrow its size.” (105) Attempts to “dehierarchize” and devolve decision-making to “basic units of associated labor” were introduced in the 1970s (Id., pp. 105-6).

Mihailo Markovic remarks that “in Yugoslav society, we dream of developing productive forces, raising productivity, raising the national income *per capita*, assuring a higher standard of living, but hardly any thought is given to the humanization of work or, if you like, raising the quality of working life.” At the same time, Veljko Rus and Ellen Comisso observe that “[w]orkers’ councils were not established as an alternative to the division of labor. Rather than eliminating the highly specialized character of modern technology and labor, workers’ councils, in the eyes of Yugoslav leaders, were to be mechanisms through which the workers themselves were expected to adopt and perfect a more rationalized and narrower division of labor.” (Id., p. 108)

However, evidence also suggests that “Yugoslav workers are highly sensitive and attentive to the opinions of peers in the workplace [that] wage differentials in plants are very narrow and that Yugoslav workers evince strong support for an egalitarian reward structure [...] and underline] the sense of solidarity,

commitment, and community among Yugoslav workers, though falling far short of theoretical aspirations and expectations, is nevertheless impressive” (Id., p. 110)

The general empirical conclusion appears to be “very little difference in work satisfaction between Yugoslav workers and those in other industrial nations. [Meanwhile,] the patterning of work satisfaction in Yugoslavia is best explained in terms of opportunities ‘to use one’s ideas and skills, to learn new things and to set the pace of one’s work’, [while] “extensive work alienation in Yugoslavia [is] tied, in particular, to work in mechanized and automated industries.” Yugoslav workers “score surprisingly high on measures of depression, resentment and lack of self-esteem.” (Id., p. 111)

Further general conclusions of the research were that “Yugoslav workers, by a wide margin over workers in Italy, Austria, the United States, and Israel, feel the absence of such opportunities.” and that, ultimately, “self-management in [...] Yugoslavia has fewer beneficial effects on the diminution of alienation than in conventionally assumed by advocated of the democratic reform of the workplace.” (Id., p. 113)

We conclude from the above that merely extending ownership to workers is not a solution to society’s ails and does not lead necessarily to increased self-actualization. We return to potential reasons for this in Part II.

### 3.11.4 The Legacy of 1968

One of the most important legacies of the 1968 movement was a shift in many domains of the view of democratic participation. Both in terms of feminism, the postcolonial, Gay Pride, anti-Apartheid, etc. movements placed an integral value on the rights of the individual and also the rights of certain marginalized collectives. Traditional power relations were questioned in their legitimacy and new forms of direct community control were envisioned and realized. Events like the Prague Spring cast new light on democratic struggles [Leydesdorff, 2021, p. 1] and numerous protests in the West demonstrated that merely increasing standards of living was not a solution to society’s ails. [Marcuse, 2013] We return to these questions again, e.g., in our investigation of the notion of *multi-stakeholding* in Chapter 7.

**Return of Parliamentary Elections in Brazil** After the end of dictatorship in Brazil in 1985, the political project of participation had to begin anew, and many experimental ideas were adopted. One of these was participatory budgeting. Nearly 3,000 municipal governments worldwide have experimented with participatory budgeting (PB), which allows citizen input into the allocation of budgetary resources. In recent memory, the phenomenon

was first recorded in 1990 in the southern Brazilian city of Porto Alegre under the tutelage of Raul Pont, a Workers' Party mayor. Aimed to curb clientelism and include the poor and geographically isolated citizens (in 1990, more than 20% of the city's population lived in informal housing known locally as *villas*) into the budgeting process, the program was immensely popular. And with reason. The PB process included above-average rates of participation from the poor.<sup>98</sup> It managed to break the cycle of clientelism by pushing the budgeting process into the open and it offered tangible results: the city built roughly 900 km of sewage and storm drains (compared with 1,100 km from all previous governments); the rate of sewage connections nearly doubled between 1989 and 2003 and the city paved 300 km of roads in the same period.

Interesting to note is the origins of PB in *process-based thinking*:

In 1989, when it took office in Porto Alegre, the party lacked a clearly defined model of what a PT government would look like, beyond the general idea that it should fulfill two ideals: radically democratized public decision-making and inverting priorities towards the poor.[Abers et al., 2018, p. 7]

This brings us back to our synthetic lens: providing the ecosystem for autonomous behavior allows for the processes of social learning to transpire. Democracy is more akin to a railroad line than a destination: it is a means towards achieving socially harmonic goals.

**Economic Juries and “Planning Cells”** Peter Deniel of the Bergische University of Wuppertal and Ned Crosby in the U.S. simultaneously and independently developed the notion of *Planungszellen*, or of *economic juries* in the 1970s. Similar to PB committees, they involve citizens as decision-makers on issues ranging from investment in public health to University reform. Participants of these groups were generally “enthusiastic” and frequently changed their views on a range of policies over the course of the experience[Coote and Lenaghan, 1997, p. iv]. A significant empirical literature confirms this dynamic view that the juries are a testament to the hard-wired place which deliberative attributes take on in the human psyche. For instance, participants in Citizens' Juries in the UK who were originally opposed to increased public spending on the NHS later agreed to the need for increased funding[Coote and Lenaghan, 1997, p. 24]. The phenomenon of “planning cells” and Citizens' Juries offer an optimistic and hopeful view of the

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<sup>98</sup>“While only 11.4 percent of the city's population earned less than twice the minimum wage, 30.3 percent of regional and thematic assembly participants earned that little.”[Abers et al., 2018, p. 11]



potentiality of what Jürgen Habermas referred to as *deliberative rationality* and the positive results in past experiences serve as an argument that such phenomena should be more broadly employed, their use expanded to further domains of life in order for process-oriented deliberation and consensus to gain more broad appeal in society.

**The End of Apartheid in South Africa** The end of Apartheid should be also a key event we wish to end the broad historical overview with. The injustice of Apartheid, it must be recalled, occurred not in the distant past, but during recent memory. Thus, in an interview, Desmond Tutu commented that in 1994, “all [South Africans, including whites] voted for the first time *in a democracy*”.<sup>99</sup> Key again in that event was the connection between citizenship, participation and economic dependence.

### 3.11.5 Trilemma

[Berle and Means, 1932] speak of managerial capitalism, a situation wherein the dissolution of ownership of firm shares among a multitude of investors dilutes the power of ownership and creates an environment where managers are able to leverage their positions to increase their power and control of a small group over governance. In that regard, their work is pioneering. At the same time, it has been argued that the world has shifted again considerably with pension funds, sovereign wealth funds and other institutional investors now having large shares in multinational firms, thus reversing this historical process of dissolution and again shifting power away from managers to institutional investors. [Cheffins, 2018] [Lapavitsas, 2013]

The problem with this situation is that, similarly to the problems associated with managerial capitalism, such dominance of investment by a small group of entities entails a lack of accountability, equity (social justice) and inclusion of diverse stakeholders in governance. Thus current investment policies do not directly challenge the supremacy of shareholder value / instrumental rationality. This, at best, leads to ambivalent outcomes with respect to inequality, and at worst facilitates its further growth. Obviously, historical episodes like the French, Haitian, Russian, etc. Revolutions, the Paris Commune, *secessio plebis*, etc. have shown us that a situation of ever-growing inequality is not socially sustainable or desirable.

At the same time, the problem is double-headed, as the crisis of ecological sustainability increasingly draws our attention. For instance, according to a Pew report from September, 2021, 68% of Belgians are at least “somewhat

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<sup>99</sup>Archbishop Desmond Tutu in interview Nov. 2008 with Amy Goodman.

concerned” that climate change will affect them in a deleterious way. Yet 60% of Belgians are not confident that multilateral solutions can succeed in mitigating catastrophic climate change. At the same time, 72% of Belgians are willing to make at least “some changes” in their lifestyles to deal with the consequences of climate change. [Center, 2021] These results speak somewhat to what [Novy, 2022] refers to as a *political trilemma*, where the choice is between any two of the triad, *hyperglobalization*<sup>100</sup>, *democracy* and *national sovereignty*. According to Novy, one cannot have all three logics operating simultaneously. Novy’s assessment reminds of [Bateson, 2000]’s concept of a *Double bind*: the inability to resolve a choice at the current level of analysis, requiring a shift in focus up or down a level. Bateson urged system-level thinking as a solution.

## 3.12 The Democratic Imaginary

In concluding this chapter, we now attempt to move beyond a “mere” historical theory of cooperation and democracy, taking the events outlined in the preceding discussion and connecting them with elements of a normative theory. We base this progressive theory of association in particular on the contributions of four very different thinkers: Otto von Gierke, Cornelius Castoriadis, John Dewey and Judea Pearl. We proceed to elaborate in how far their conceptions of association are related, beginning with Gierke.

### 3.12.1 *Herrschaft* versus *Genossenschaft*

Gierke comments on the two distinct traditions of collective choice arising in the archaic period before the Carolingian Charlemagne. The first of these he refers to as *freie Genossenschaft des alten Rechts*, in which “as a peaceful and legal association based on natural cohesion embodies all law to the collective,” [von Gierke, 1868, p. 9]. On the other hand, the second collective choice tradition he refers to as *herrschaftlicher Verband*. This type is associated with a “patriarchal and personal design”. This second form of association “has, from the beginning, confronted” the *freie Genossenschaft* and “has historically and with unrelenting advancement continually displaced it.” (*Id.*) It is through this struggle that the patriarchal constitution of antiquity is supplanted by the patrimonial constitution developed in the Middle Ages, and which came to fruition in the age of absolutism.

In the second period covered by Gierke, he argues that the materiality of centralized rule “definitely won the day” over the idea of the sanctity of

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<sup>100</sup>I.e., the product of free market ideology.

individual personality, and of the principle of self-organization.<sup>101</sup> In the form of feudal and patrimonial right, this form of law reigned supreme: “an impressive edifice (*Bau*) of masters and slaves piles up unabashedly between Empire and Church and links up with Heaven itself; however, every relationship of mastery and slavery has become tangible, and therefore patrimonial.” (*Id.*) Gierke laments that “only in subsidiary form and only parts of the world left untouched by the great movements of the era” was the notion of free association able to sustain itself. “Only in the German spirit”<sup>102</sup> is the concept of free association so strong “that it even penetrates into the lordly association, in the end “dissolving” the later and paving the way for the *anhängige* or *fürstliche Genossenschaft*, “which in addition to the traditional unity of association’s representative as Lord develops a concept of *total law*. However, Gierke suggests that towards the end of this period, which stretches to around 1200 CE, “a younger and mightier principle” developed, which in turn would destroy the feudal state: the principle of free association.

The principle of free association, argues Gierke, was able in the course of the third, Medieval, era, to increasingly supplant the right of patrimony and feudal privileges, as the latter “continued to collapse”, leading to a situation in which “authentic forms of association [*gekorene Genossenschaften*] were developed from the bottom-up in all sectors into the most wonderful organizations.” (*Id.*) In this way, “associations and cooperative communities conglomerate in ever higher [i.e., more complex] levels”. In an important passage, Gierke reflects that in performing this role, the cooperative mode of free association “prepared, from scratch, the notion of the emancipation of the subject [*Persönlichkeit*], without at the same time sacrificing the hard-fought (*gewonnene*) sovereign right to property.” (*Id.*, pp. 9-10)

Gierke also develops ideas like “Gesamtpersönlichkeit” (“total personality”) that should be of use to modern theorists concerned with notions of multi-level governance or emergence. While the cooperative associations of the late Medieval era “were able to serve as state, commune (i.e., municipality) and corporation”, they were, according to Gierke unable to supplant the status orders or estates, such that the cooperative societies “began to ossify in their

<sup>101</sup>In other words, returning to Castoriadis in Chapter 3, heteronomy won over autonomy.

<sup>102</sup>It is not a particularity of Gierke that he speaks openly in terms of nation. He derives from an era in which *Nationalökonomie* (the particular German version of what in Scotland was called “political economy”); Gierke was a particularly Romantic manifestation of this trend, with a very “organic” [Schröder, 2021, p. 10] point of view in many ways similar to Nietzsche (e.g., Anthony Taylor has observed their similarity). In ways similar to Nietzsche, he can be read in multiple ways, which makes him a very “open” (to interpretation) writer. Thus, we do not interpret Gierke’s reference to a “German” type literally, but acknowledge the relevance of contrasting “Herrschaft” with “Genossenschaft” as a pragmatic paradigmatic lens.

contemporaneous structures and became, as such, unable to withstand the larger and concentrated power of centralized state authority, bringing with it a levelling of status orders, merging of town and country.”(10) We saw this above in the example of Florence.

The fourth period, lasting for Gierke into the 19th century, “saw the definitive victory of the notion of territorial sovereignty in the form of a central state authority, aided by forms of authority imported through Roman legal code.” In this new construct, cooperative associations lose all claim to represent the general or community interest, and “become mere elements of private law”. Cooperative associations become “peculiarities receiving preferential treatment”, and at the same time, “. . . [i]t is self-evident that the old freedoms were being destroyed. The state stands above and beyond the people, and all activities dealing with aspects of public law must be conducted by state institutions, i.e., as part of the state”. Even new phenomena like the so-called “dependent private law corporation” (“*abhängige Privatrechts Korporation*”) are unable to break out of the decline of self-organized forms of association: “the absolutist state and absolute individuality become the motto of the era.” (*Id.*)

Gierke sees the destruction of the guilds at the hands of the state ambivalently: on the one hand, the action “destroyed, in one fell swoop, both the privileges and inequalities of the old public law and for the first time in history accords to all individual freedom before the law in the form of subjects.” At the same time, through the construction of this new subject status, which Gierke intends to distinguish from the liberal freedoms many in the world know today, “all the political freedoms of the German man were mercilessly destroyed” by the shift.

The fifth period, which Gierke sees commencing during his own lifetime, is characterized by the idea of general citizenry and the representative state (Gierke is referring to the notion of *liberal democracy*), and in this era, Gierke sees the tradition of cooperative association “awake in a strengthened form after an extended death-like slumber, to find its culmination.” It is worth quoting Gierke at length here:

No longer bound by the restraints of estates and orders, no longer limited by exclusivity, limitlessly smooth and divisible in form, equally useful for the most and least privileged, for the most extensive and most limited ends, enriched by certain advantages of the Roman law, emptied, however, of the Roman template (*Schablone*) or mold, in whichever form it insinuates itself in theory or practice – this is the reborn ancient cooperative idea in German law, resuscitated in a panoply of new communal forms, in addition

to filling the old forms with new content.” [von Gierke, 1868, p. 11]

Gierke closes his introductory reflections on the then-contemporaneous state of the cooperative element in German society by suggesting that it “has played a role in the reform of German municipalities and the German state”, in particular by facilitating the latter’s culmination via free association through, e.g., both public and private associations.

Thus, to crystallize Gierke’s theories: Gierke sees much of the history of humanity, not as a struggle between classes, as *The Communist Manifesto* would have it, but as a struggle of different conceptions of association; on the one hand the notion of *Genossenschaft* and on the other, *Herrschaft*<sup>103</sup>. We will rediscover this contrast in Cornelius Castoriadis below.

### 3.12.2 Dewey: The Public and The Great Community

In this historical contest Gierke speaks of, and which he sees reflected in classical Greek theater, such as the tragedies of Euripides, we also see the emergence of what John Dewey refers to as “the public”. Dewey distinguishes between *private* and *public* acts on the one hand, claiming that this distinction “is... in no sense equivalent to the distinction between individual and social” on the other. In fact, he claims “The public consists of all those who are affected by the indirect consequences of transactions to such an extent that it is deemed necessary to have those consequences systematically cared for.” [Dewey, 1954, pp. 15f.s] This we should keep in mind in later chapters when discussing issues of social choice. However, we are concerned more at present with connecting Gierke’s notion of “Genossenschaft” with Dewey’s progressive notion of democracy. Dewey writes that “[t]he idea of democracy is a wider and fuller idea than can be exemplified in the state even at its best. To be realized it must affect all modes of human association, the family, the school, industry, religion.” [Dewey, 1954, p. 143]

Thus, Dewey advocates for the notion that “the cure for the ills of democracy is more democracy”, suggesting that “[this] phrase may... indicate the need of returning to the idea [of democracy] itself, of clarifying and deepening our apprehension of it, and of employing our sense of its meaning to criticize and re-make its political manifestations.” (*Id.*, p. 144) Thus, in wording anticipating what Polanyi would later call a “double movement”, he writes that “[t]he forms to which we are accustomed in democratic governments represent the cumulative effect of a multitude of events, unpremeditated as far as political effects were concerned and having unpredictable consequences.”

<sup>103</sup>Cf. [Schröder, 2021, pp. 113ff.] and [Schulz-Nieswandt, 2003].

Thus, for Dewey, “[t]here is no sanctity in universal suffrage, frequent elections, majority rule, congressional and cabinet government”, etc.. More so, each of these institutions “involved at the time of its impulsion *a minimum of departure* from antecedent custom and law.” (Id., own emphasis) Each mechanism served some purpose, “but the purpose was rather that of meeting existing needs which had become too intense to be ignored, than that of forwarding the democratic idea.” (Id., p. 145)

Ultimately, Dewey suggests “the current has set steadily in one direction: toward democratic forms.” Notions of accountability and sovereignty of the people are “not the whole of the democratic idea, but they express its political phase”. We see here clearly a progressive notion of democracy. As if to underline this notion, Dewey claims “We have every reason to think that whatever changes may take place in existing democratic machinery, they will be of a sort to make the interest of the public a more supreme guide and criterion of governmental activity, and to enable the public to form and manifest its purposes still more authoritatively.” (Id., p. 146). There are challenges in this realization, however, the main one being “that of discovering the means by which a scattered, mobile and manifold public may so recognize itself as to define and express its interests.”

Dewey refers to this process of discovery “the search for the conditions under which the Great Society may become the Great Community.” For Dewey, these concepts are coterminous: “Regarded as an idea, democracy is not an alternative to other principles of associated life. It is the idea of community life itself. It is an ideal in the only intelligible sense of an ideal: namely, the tendency and movement of some thing which exists carried to its final limit, viewed as completed, perfected.” Thus, for Dewey, “democracy in this sense is not a fact and never will be.” (Id., p.m 149) That this ideal needs only to be realized *consciously* and not in a mere reactive sense is the fruition of a *Deweyan* notion of democracy.

In order to move to a conscious cultivation of democracy, Dewey argues one needs to simultaneously incorporate two distinct perspectives: the standpoint of the individual and the standpoint of the group. So Dewey:

From the standpoint of the individual, it consists in having a responsible share according to capacity in forming and directing the activities of the groups to which one belongs and in participating according to need in the values which the groups sustain. From the standpoint of the groups, it demands liberation of the potentialities of members of a group in harmony with the interests and goods which are common. (Id., p. 147)

Thus, we see democratic social choice not merely as an aggregate of individ-

ual preferences, nor does the individual “lose all sense of their own distinctive identities” as in the fascist philosophy of Othmar Spann [Rogan, 2017a, p. 68]. Indeed, we see that the development of the “Great Community” as a progressive ideal is a complex, often arduous and contradictory process that can frequently move in fits and starts, and occasionally sees setbacks in its unfolding. Rhodes states that

States can change their constitutions for a variety of reasons, and they can change in more than one direction, so some of the changes [to the Athenian constitution] take Athens further in the direction of democracy, but others interrupt that development. [Rhodes et al., 1984, p. 17]

In order to forestall such backsliding, an appropriate balancing of individual and collective interests needs to be maintained, so Dewey.

### 3.12.3 Castoriadis: Civic Imaginary and Autonomy vs. Heteronomy

Castoriadis sees something special in Greek antiquity. Before laying out what he believes this something special to be, he warns, in many ways anticipating the discourse of Edward Said<sup>104</sup> and others decades later:

We have to distance ourselves from two complimentary conceptions, namely, on the one hand, that there existed at some point a society which remains to the present day an unattainable example; and, on the other hand, that history is in the main part homogeneous, that there are no significant distinctions between cultures, beyond mere descriptive differences. [Castoriadis, 2011a, p. 19 (own translation)]

Thus, for Castoriadis, “Greece is for us [moderns] a *germ* or *seed*, neither “ideal” nor interchangeable specimen, but a seed.” And what does this germinal seed consist of for Castoriadis? He begins his essay *La polis grecque et la creation de la democratie* with the observation that “Until the Greeks, and outside of the Greek-occidental tradition, societies were instituted on the principle of strict internal boundary: our view of the world is the only true and sensible one – the ‘others’ are strange, inferior, deviant, corrupt, treacherous, etc.” [Castoriadis, 2011a, pp. 17-8 (own translation)] Writes Castoriadis, “As Hannah Arendt has commented, impartiality entered the world with

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<sup>104</sup>Cf. [Said, 2014].

Homer, and this impartiality is not merely of an ‘affective’ sort, but concerns knowledge and understanding.” In short, asserts Castoriadis, “A pronounced interest in the Other begins with the Greeks.” (*Id.*) Thus, the Greeks began observing other civilizations with the same critical gaze with which they reflected upon their own institutions.

Castoriadis follows this observation with a question: “As we know that this standpoint cannot in any sense be described as universally disseminated, rather the absolute exception in the history of human societies, we have to ask *how and under what conditions and in what way* human society has shown itself as capable of breaking through the internal boundaries by means of which societies usually exist.” (own emphasis) Castoriadis attributes these conditions to *creativity*, in particular a notion of “society as self-creation” which sees “‘that which’ creates society [as] the instituting, rather than the instituted society.” For Castoriadis, this “instituting society is the civic imaginary in a radical sense.” This civic imaginary is connected to the search for “new policies, new norms, new laws” and is connected with the creation of the individual, “in whom society’s institutions are solidly anchored.” (*Id.*, p. 19)

This observation introduces a number of epistemic, ontological and ethical implications, which manifests itself mainly in the twin dilemmas of *judgment* and *choice*, issues with which we will be confronted through the remainder of the present text. Ultimately, Castoriadis suggests that “[t]he entirety of the Greek-occidental world can be interpreted as a struggle between autonomy and heteronomy.” For Castoriadis, this explains in no uncertain terms why “[j]udgement and choice in a radical sense were created in Greece”. For Castoriadis, “this is one of the meanings of the Greek creation of politics and philosophy.”:

under politics I don’t mean court intrigues or class or group conflict between groups defending their interests or positions (both of these things existed elsewhere), but *collective choice* directed at the institutions of society, *per se*. In Greece, we encounter the first example of a community explicitly deliberating on the subject of its laws and changing its laws. Elsewhere, laws are a heritage of the ancestors or given by God, otherwise by the One True God; but they are not considered to be established, meaning they are not considered to be created by people as a result of a confrontation and a collective discussion about good and bad laws.” [Castoriadis, 2011a, p. 36 (own translation)]

It is this instituting civic imaginary, which Castoriadis otherwise describes



with the contrasting terms *natura naturans* and *natura naturata*<sup>105</sup>, that he argues is responsible for the genesis of philosophy:

This standpoint leads to further questions that also find their origins in Greece – not only: is *this* law right or wrong?, but rather: What makes a law right or wrong, i.e., what is justice? And this question is directly connected with the creation of philosophy. Thus, as political choice in Greece for the first time questioned and changed existing social institutions, is Greek society also the first that explicitly question the instituted, collective worldview, i.e., the first that practices philosophy. (*Id.*)

Both politics and philosophy require judgments. Castoriadis speaks of the difficulty in grounding judgment. In particular, judgment on subjectively appraised events and phenomena are notoriously difficult to “prove”. In Castoriadis’ case, he marshals Kant’s discussion of judgment with respect to art to make the point, as, according to Kant, “judgments of taste are not universal, but general.” [Castoriadis et al., 2004, p. 45 (own translation)] While Castoriadis is careful to distinguish between art and social institution, claiming “I am not saying that the institution of a society is a work of art, I am saying there is one aspect by which they are comparable: the creation of a form, the position of an *eidōs*<sup>106</sup>, of an essence” and in this way “is comparable to a work of art.” [Castoriadis et al., 2004, p. 45]

This means that when Kant speaks of *judgments* as befalling objects whose creators “have created them not by means of calculation, nor reasonably or discursively, but rather, says Kant, like a natural force which we may refer to, after considering all the evidence, as the idea of a *natura naturans* rather than a *natura naturata*” [Castoriadis et al., 2004, p. 44], he is speaking of viewing the act of creation itself as process, thus rendering judgment ultimately incomplete and “fundamentally aporic” (*Id.*, *ff.*).

Thus, in closing, Castoriadis seems convinced that the advancement of self-governing autonomy came about through the critical self-reflection that saw the simultaneous creation of philosophy and democracy, and which sees its expression in the “indifferent” reflection of cross-cultural difference, the study of foreign culture and the elevation of The Other to the same level as the Self. This saw its manifestations in art, literature, theater, philosophy, and above all, in the daily practice of politics as collective. Before proceeding to Pearl’s contributions, we would be remiss to point out the somewhat dated language

<sup>105</sup>See [Castoriadis, 2005, p. 44].

<sup>106</sup>The Greek word for image. The word plays an important role in certain contexts, such as pedagogy. E.g., Mortimer Adler named his program for reform of pedagogy *The Eidos Project*.

that Castoriadis uses in discussing the *imaginary*: subsequent research, like that initiated by Edward Said in *Orientalism*, has called into question the strict distinction between classical categories like *Occident* and *Orient* and should serve in the least to relativize such categories. Moreover, we saw in the *genealogy* above that non-Western sources of the *civic imaginary* exist. Thus, the distinction we draw from Castoriadis is not “Greek-occidental” versus “Asiatic despotism”<sup>107</sup>, but rather *autonomy* versus *heteronomy*.

### 3.12.4 Pearl: Counterfactuals as Evidence of Imagination

Judea Pearl is one of the world’s top Artificial Intelligence experts. He has won the Turing Prize, for instance, the most prestigious prize in computer science. He, too, sees a distinguishing feature of humanity to lie in the *imagination*. [Pearl and Mackenzie, 2019] remarks that

[i]n his book *Sapiens*, historian Yuval Harari posits that our ancestors’ capacity to imagine nonexistent things was the key to everything, for it allowed them to communicate better. Before this change, they could only trust people from their immediate family or tribe. Afterward their trust extended to larger communities, bound by common fantasies (for example, belief in invisible yet imaginable deities, in the afterlife, and in the divinity of the leader) and expectations.

Pearl concludes that it is this ability to imagine what is not, but what could be, what he refers to as *counterfactuals*, that distinguishes humankind from other species. Counterfactual reasoning, for Pearl, involves planning, which “enabled [our ancestors] to do many things more efficiently”. In this vein, [Cockshott et al., 2009, p. 12-3] argue that,

An office block, stadium or station has, it is true, some sort of prior existence, but as a plan on paper rather than in the mind of the builders. If by collective labour civilized humans can put up structures more complex than bees, it is because they can read, write and draw. A plan – whether on paper or, as in earlier epochs, scribed on stone – coordinates the individual efforts of many humans into a collective effort.

What is really unique to humans here is, first, the social division of labour between the labour of conception by the architects and

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<sup>107</sup>A notion borrowed from Weber and Marx.

the work of execution by the builders, and second, the existence of *materialized plans* configurations of matter that can control and direct the labour of groups of humans.

Thus, “While insect societies may have a division of labour between ‘castes’ – for example between worker and soldier termites – they do not have a comparable division between conception and execution, between issuers and followers of orders. Nor do insects have technologies of record and writing.” The authors conclude that “paper remembers” and that “[o]ne might say that complex architecture rests on paper foundations.” [Cockshott et al., 2009, p. 14]

Pearl sets up what he calls a “ladder of causation”, a topic to which we return in Chapter 9. This ladder begins at the most basic level: *action* or association. This level of causation involves mere causation, allowing, e.g., a supermarket to establish how many of its customers that bought toothpaste also purchased a toothbrush, etc. This level of reasoning, which statistical probability applies, is very basic, so Pearl. At the next level, the level of *intervention*, we begin to ask “what happens if...?” This level of causation allows future orientation and is something that is shared by many vertebrae and some forms of machine learning.

At the highest level of causation lies the counterfactual, which asks “what would happen if I had done X instead of Y?” This is the most complex and sophisticated level of abstraction and it requires multiple models of the world to be compared. Pearl states that he “agree[s] with Yuval Harari that the depiction of imaginary creatures was a manifestation of a new ability, which he calls the Cognitive Revolution.” [Pearl and Mackenzie, 2019, p. 34]

An example of this ability is the famed “Lion Man”, a 40,000 year old sculpture found in a cave in Germany and today located in the city of Ulm. For Pearl, it “represents a break with any art or craft that had gone before” [Pearl and Mackenzie, 2019, p. 34] in that it represents “a creature of pure imagination”. The ability to conceive of such creatures “is the precursor of every philosophical theory, scientific discovery, and technological innovation, from microscopes to airplanes to computers. Every one of these had to take shape in someone’s imagination before it was realized in the physical world.” (Id., p. 35)

We argue that imagination is not only the prerequisite for technical innovations, but that it also enables – and, in fact, demands – social innovations like the “Great Community”, “Genossenschaft” or the “civic imaginary” of the above authors. The ability to imagine things differently forces us to ask questions about the *legitimacy* of existing relationships. It is in fact an insult to human intelligence that this discourse has largely been kept out of the

“hidden veil of production”, to date. We can see that, since adult human beings exist largely on the third, counterfactual rung on the ladder of causation, that they can imagine that cooperation and participatory, inclusive governing regimes are more desirable than arbitrary ones. Thus, the inherently human sense of justice can be attributed back to our intelligence and imagination: if we can imagine a better world, why can’t we also live in one?

### 3.13 Conclusion



Figure 3.1: A depiction of the “Lion Man” found in Stadel cave a 40,000 year old sculpture of a fantastic creature combining human and lion features. Located in Ulm’s city museum; what Castoridis refers to as “democratic civic imaginary” is continuous [Pearl and Mackenzie, 2019, p. 35].

This chapter has attempted to lay the ground for the remainder of the present work. It has taken up [Buchstein, 2009]’s framework of *democratic theories* to first outline a *historical* and *empirical* theory of cooperation, thus providing us with an *archive* and *arsenal* of democratic events and concepts, which we supplement in the next chapters with both normative and analytical (formal) tools.

One of the main lessons of the chapter is that, as civilizations have developed and as citizens have become more vital to the body politic, either by the need for self-defense, as in ancient Greece, or as security situation required the active assent of every citizen, as in Florence, or as the need for large standing armies grew in the modern era, the aspirations of citizens to speak with (“Parliament”) has grown. As such, we have attempted to establish that the human element forms a particular ingredient

Moreover, as we have attempted to show by demonstration via repeated example, the unfolding of “democratic civic imaginary” is continuous

ally accompanied by economic issues. One cannot fashion “only” a political theory of democracy. From the “throwing off of burdens” in the Athens of the 6th century BCE to the end of Apartheid in South Africa, we repeatedly see the interweaving of political, economic and ethical logics in the course of the progress towards more inclusive forms of governance.

We saw, moreover, that much of the ideational advance of the Renaissance was due to a re-encounter with the same democratic thinking of classical Greek antiquity, brought about by a refugee crisis from the collapsing Byzantine world. The question we should ask ourselves in the present world of crises: crises of inequality and of climate catastrophe, is whether a new Renaissance, a new rediscovery of democratic values and traditions, is not the path that would set humanity towards a sustainable future.

One of the remaining contradictions is that between slavery and democracy. How is it, we repeatedly asked, that societies like democratic Athens and republican America could be places of brutal slave economies? We have attempted to show that this contradiction was a continually recurring theme and was not solved by the introduction of a market system – in particular, as the application of Roman property law allowed the archaic world to continue unabated into the nineteenth century –, and that much more so, the market system begs reforms of the political economy of modern nations, away from property relations and towards what Marvin T. Brown calls an *civic relations*.

Achieving such a future appears to require a shift away from instrumental theories and views of democracy, and towards a full-throated integration of the social and the economic. The following chapter attempts to trace out how such a shift can come about and, on the basis of the tradition of the moral economy, attempts furthermore to point to a potential future for the theory of the moral economy within the newly developing domain of *relational economics*.

# Chapter 4

## Moral Economy

“without a paradigm, creativity has no meaning.”<sup>1</sup>

### 4.1 Moral Economy: From Concept to Framework

It will be the task of this chapter to expand and deepen an understanding of the concepts and phenomena introduced in the prior chapter. It introduces a normative framework for interpreting, substantively, the latter. It develops more advanced ideas and concepts, and ultimately begins to formalize concepts. Our task is to move from an idea of moral economy as concept to a framework in which related ideas can be productively discussed and analyzed. We will advocate the rising framework of *relational economics* as such a suitable framework. We begin, so to speak, “at the beginning”, by first going back to some key milestones in Greek philosophy, such as Aristotle’s *Eudomian Ethics*, which lay the conceptual foundations for the later developments.

We then trace out this lineage in a – necessarily condensed – form, looking at historical examples in ancient and Medieval and Renaissance thinking, emphasizing milestones like Machiavelli. Following the trajectory of social thought not covered in the prior chapters, we attempt to trace out the move from static to dynamic social thinking, emphasizing the contribution, in particular, of thinkers like Kant and Hegel, before summarizing Marx and Schumpeter’s contributions to the study of moral economy. We argue that Polanyi serves as a bridge between many of these traditions and attempt to formalize concepts of the moral economy. We conclude the chapter by arguing for a synthesis of many of these research strands within the newly developing

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<sup>1</sup>[Frago, 1980, p. 208], cited in [Pistor, 2020].

domain of *relational economics*.

## 4.2 The Civic Moral Tradition from Aristotle to Machiavelli

In this section, we trace out the tradition of moral economy from arguably its progenitor, Aristotle, through to the progressive republicanism of Machiavelli, demonstrating the presence of static master-slave thinking in much of this tradition, yet distinguishing its connections with later thinking.

### 4.2.1 Aristotle, *The Eudemian Ethics*

Aristotle's *Eudemian Ethics* is an important and oft-overlooked text in the domain of ethics. While for many centuries, it was considered the superior of Aristotle's contributions on ethics, its prominence waned in the course of the Middle Ages and today, most scholars who read Aristotle's ethics read the *Nicomachean Ethics*. While the two works share three books, the *Eudemian Ethics* (hereafter, *EE*) contain very insightful and important discussions about human sociality that any cooperative science must recognize as a vital milestone. We recall these important discussions presently.

Book VII of the *EE* refers, among others, to "friendship, justice and partnership". Here, Aristotle argues in the following manner: "Justice is regarded as a kind of equality". [Aristotle, 2011, p. 129 (1241b)] His use of the term *equality* here is interesting, as he later defines more specifically what he means by it, reminding the reader that "there are two sorts of equality: *arithmetical* and *proportional*." Accordingly, he asserts, "there will be corresponding sorts of justice, friendship, and partnership." (Id., 1241b) It is important to follow Aristotle's argument here. He refers to one set of relationships as "civic" or "democratic friendships" (δημοκρατική κοινωνία) and the other as "monarchical" or "aristocratic friendships" (ἀριστοκρατική ἢ ἀρίστη κοινωνία).

### Proportionality and Aristotle's View on Master-Slave Relations

The "democratic" or "civic" friendship is for Aristotle "based on arithmetical equality", meaning that "both [partners] are measured by the same standard". Examples of such friendships are "friendships between comrades" or siblings (φιλίας καὶ τῆς κοινωνίας). On the other hand, "aristocratic" friendship "are based on proportional equality", because, as Aristotle argues, "what is just is not the same for superior and inferior, but should be in proportion.",

comparing this type of “friendship” with patriarchal relationships. We see here and elsewhere in Aristotle a tendency to define human relations via teleological metaphor. This static, metaphorical thinking therefore permeates his view of justice<sup>2</sup>. Thus, “All constitutions exhibit particular forms of justice, for a constitution is a partnership and every partnership is founded on justice.”

He continues, in a revealing passage: “There is a common relationship that links soul and body, craftsman and tool, and master and slave. Between these pairs there is no partnership, because they are *not two different things* the first term in each is unified, but the second belongs to the first and has no unity of its own.” (Id.) Moreover, he regards the relation between master and slave as “the same as that of craft and tools, and of soul and body: such relationships are not friendships or forms of justice, but something analogous”.<sup>3</sup> Thus, Aristotle immediately disregards the humanity of the slave, displaying a “master-slave” ontology that was very influential in the history of Western philosophy, and which was to remain, relatively unchanged, until Hegel.

### Civic Friendship

Besides friendships, Aristotle describes *civic partnerships* (πόλεως κοινωνιῶν), which he says can be found in “fraternities, religious orders, or business associations”. (Id.) “Civic friendship, more than any other, is based on utility, for it is the lack of self-sufficiency that brings people together, even if they would have come together simply for the sake of company. Civic friendship—plus its corrupt forms—are the only ones that are *not merely friendships*, but *partnerships between friends*.” While for Aristotle, “[o]ther kinds of friendship are based on superiority, the justice on which a friendship of utility is based is justice *par excellence*, because it is *civic justice*.”

It is at this point that Aristotle makes one of his most important – and least regarded – observations. While contemporary scholars and even laypersons are aware that Aristotle refers to human beings as “political animals”, in a passage following his description of “civic friendship” and “civic justice”, he comments in the following way. We cite him at length:

Indeed, all justice is about relations towards a friend. For justice concerns individuals who are partners, and a friend is a partner either in one’s family or in one’s way of life. For human beings are not just political animals, but also domestic animals

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<sup>2</sup>Cf. Id., 1241b, 30., 1242a, 12-19.

<sup>3</sup>Id., 1242a 28-30



(μόνον οικονομικόν) [literally “homo economicus”]; they are not like other animals who copulate in season with any chance female or male. No, humans are not solitary animals (μόνον μοναδικόν), but gregarious (μόνον κοινωνικόν) [literally “homo socialis”] in a special way, forming partnerships with their natural kinsfolk. Accordingly, *even if there were no such thing as the state, there would be partnership and justice of a sort.* (1242a 20-26)

This is important, because it gives us insight into the central categories of Aristotle’s anthropological, sociological, political and economic thinking. Such passages reveal that he had a quite developed (what we would nowadays call “interdisciplinary”) view of human sociality. We return again to these overlapping and yet distinct arenas of human sociality later in the chapter.

### Morality and Esteem

For now, we return to the types of friendships Aristotle describes. He suggests that there are three types of friendships. Those based on virtue, those based on utility and those based on pleasure. Within these three types, “there are two varieties of each kind, one on a basis of superiority and the other on a basis of equality.” Those based on superiority are based ultimately on status. Interesting here, and in keeping with the analysis by [Brennan et al., 2004], when proportional equality between unequals is impossible, Aristotle recommends achieving proportionality “by some other means. This other means is honour, which is due to a natural ruler or god in relation to a subject. But the profit and the honour have to be made equal.” (1242b, 19-20)

Aristotle continues, “The friendship that is based on equality is civic friendship. Civic friendship is based on utility, and citizens of one state are friends with citizens of another to the extent that their states are friends.” He furthermore divides the utility friendship into two kinds, those based on contract and those based on morality. We will return to this distinction again throughout the present volume. Aristotle writes that “Civic friendship looks to equality and to the object in the way that buyers and sellers do; hence the saying ‘fair wages make good friends’. So when it is based on a contract, a friendship is civic and legal; but *when they leave the recompense to each other, it is a moral friendship between comrades.*” He refers to the utility friendship as “contrary to nature” and accuses many with such relationships of “want[ing] to have things both ways: they associate for the sake of utility but as if they were decent people; they represent their friendship as a moral rather than a legal one, as if they were trusting each other.” (1243a, 1)

Thus, Aristotle seems to be aware of the dual, and often contradictory, nature of moral, civic relations and appears quite skeptical of their success, in

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keeping with his general dour attitude towards such matters. Demonstrating their opposing natures, he states that “Discharging a legal obligation is simply a matter of money (that is how the equality is measured), whereas discharging a moral obligation depends on voluntary consent.” (ff.) He concludes that within the moral, civic domain, “what grounds of complaint can either have when their trust rested not on the law but on the other’s moral character?” This observation appears to preface later notions of *non-separable preferences*, which we return to in 4.5.5.

### 4.2.2 Cicero, *De Officiis*

In *De Officiis*, an important work on ethics and deontology, Cicero is concerned with defining *duty*. Remarkable for modern ears may be his apparent failure to distinguish the public and private spheres, as he argues that “no part of life, neither public affairs nor private, neither in the forum nor at home neither when acting on your own nor in dealings with another, can be free from duty. Everything that is honourable in a life depends upon its cultivation, and everything dishonourable upon its neglect.” [Cicero, 1991, Book 1.4] which he defines as at the same time the “highest good” and certain rules that derive “for a life that is shared”. (1.7) In this manner, Cicero then cites the Stoic Penaitios, who defined an action with reference to uncertainty with respect to three domains: 1) *whether the action is honorable?*, 2) *whether it’s useful?* and 3) *whether there there is a conflict between its honorableness and utility?*

To these three criteria of Penaitios, Cicero reflects that what matters is “not only whether a thing is honourable or dishonourable, but also which of two proposed courses that are honourable is the more honourable, or of two that are beneficial the more beneficial.” Thus, he adds the qualifiers 4) *to what extent is it honorable?* and 5) *to what extent is it useful?* (1.9-10)

Moreover, the particularly human quality is, according to Cicero, defined by the fact that, while animals adapt “only in responding to the senses, and only to something that is present and at hand, scarcely aware of the past or future [...] Man, however, is a sharer in reason; this enables him to perceive consequences, to comprehend the causes of things, their precursors and their antecedents, so to speak; to compare similarities and to link and combine future with present events; and by seeing with ease the whole course of life to prepare whatever is necessary for living it” (a reference to knowledge of *counterfactuals?*). This characteristic disposes human beings “to desire that men should meet together and congregate”, yet also autonomous, in the sense that human beings will “not be willing to obey for its own benefit someone whose advice, teaching and commands are not just and lawful.” (1.11-13)

It also disposes humanity to seek harmony, which can be found in the four

virtues: *wisdom* (1.18-19), *justice* (1.20-60), *bravery* (1.61-92) and *temperance* (1.93-151).

Injustice exists both in exacting injury to others, and in failing to act against injustice enacted against others. (1.23) The main motives for injustice are, according to Cicero, fear and avarice. In the former case, “the one who is thinking of harming someone else is afraid that if he does not do so, he himself will be affected by some disadvantage.” (24) In the second case, “the desire for money has become unlimited.” (25) However, so Cicero, wealth should largely be used as an “opportunity to gratify others.” (Id.)

Cicero claims that justice is also to be maintained “even towards the lowliest”. As “The lowliest condition and fortune is that of slaves”, one should “treat them as if they were employees [*mercennariis*]”. (41) However, it must be said that elsewhere, Cicero emphasizes that “all those workers who are paid for their labour (*quorum operae*) and not for their skill have servile and demeaning employment; for in their case the very wage is a contract to servitude.” (150) Again, we see here a similar static social ontology to Aristotle’s: while Cicero’s words about treating “slaves as employees” reads as gracious to modern ears, it says more about his disdain for employees than it says about his respect for the humanity of slaves.

### 4.2.3 Guicciardini

Guicciardini was a historian in the time of the Second Florentine Republic. While a supporter of the Medici (a “creature of the Medici”, [Dowlen, 2017, p. 129, footnote 105]) and an opponent of democracy, his dialogue, *Del Modo di Eleggere gli Uffici nel Consiglio Grande*, offers a unique perspective on the arguments for extending participation. Oliver Dowlen suggests that particularly the second speaker offers “four main themes which we can usefully examine: the implications of the voting scheme on the unity of the citizen body, the practical impact of class on the proposals for ‘rule by the best’, the idea of moderation or compromise, and the question of whether the citizens are self-confident enough to participate in government.” [Dowlen, 2017, p. 127] Thus, Guicciardini’s speaker argues,

“‘If advantages and honours were not open to all’, he explains, ‘we would have a part of the city in charge of power, and the other in a permanent state of servitude. The tendency for election to split the citizen body is presented in equally direct terms later in the speech:

Therefore, I think it would be more honest to tolerate the small amount of disorder that this procedure might engender, rather

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than exclude us and our peers for ever, as if we were enemies or citizens of another city, or as if we were donkeys, whose task is always to carry wine and to drink nothing but water.

... not only would the excluded be deprived of something that reasonably belongs to them, but also the very securities and equalities, granted by the fact of being all subject to the same laws and officers, and for the sake of which liberties were invented, would thus be altered and weakened.” (Id., p. 128)

“Those who oppose this provision say that, when officers are elected by majority vote, the offices are assigned to those who most deserve it, because it is reasonable to think so if the majority has the same opinion about them.” (p. 129)

Oliver Dowlen claims that Guicciardini turns the aristocratic “meritocratic argument on its head, [claiming] that once the rich hold office, they will accrue the credibility that will keep them there. In this they will be aided by the deference of the lower classes. Luck and sharp practice, rather than any specific virtue, have given the rich their electoral advantage, and they maintain their power by lobbies, slates and coalitions.” (Id.)

Guicciardini’s speaker speaks of “real liberty”:

I talk about *real liberty*, (*vera liberta*), because they have only showed us liberty so far, without really granting it to us: on the one hand, they gave us the power to vote and they convinced us that we could all equally take part in all honours and advantages; on the other, they managed to set up things in such a way that they can still enjoy all advantages with our own consent, with no violence and no explicit oppression, and we are, therefore, still their servants in many respects. Therefore, we go to Council meetings with the same curiosity with which bears look for honey, and we do not realise that it is just useless effort and servitude, and that, if we make a balance at the end of each year, it always turns out that we have not gained anything really relevant. (Id.)

Dowlen states that this contribution “reveals how his own class manoeuvres to give freedom with one hand and take it with the other. He also suggests how the concept of consent, the centrepiece of later social contract theory, is used to disguise what is essentially the loss of the right to office.” (Id., p. 129-30) Moreover, “Given that the rich will not change their ways, the popular party are left with two options, either to use their majority to vote in a permanent government of the lower classes—which would cause dangerous

divisions—or use sortition—which would give all an equal chance of holding office. In this way Guicciardini presents lot as an alternative to the arbitrary rule of the poor and thus as a means of establishing a genuine polity in the Aristotelian sense of the term.” (p. 130)

#### 4.2.4 Machiavelli

Erica Benner argues in a monumental book that Machiavelli’s thought has “since his death in 1527 [...] been subject to widely different interpretations.” [Benner, 2009, p. 1] Apart from what many later authors have interpolated into the legacy of Machiavelli (Benner speaks of the tradition of “Machiavellian realism”), she argues that a correct reading of Machiavelli should emphasize the historical context in which he wrote and concludes that the reading of Machiavelli as moral philosopher in the republican tradition is the most accurate. Thus, she argues that “Machiavelli’s ethics may be described as an ethics of self-legislation. A basic premise of all his political works is that human beings have no choice but to establish their own laws and orders, *leggi* and *ordini*, through their own corruptible powers of reasoning. They should expect little help from nature, God, or the natural sciences, but must exercise their free will—always under severe constraints—to impose and uphold fully human orders.” [Benner, 2009, p. 7]

These constraints can be, but are not always, man-made. We return to the issue again below. For the time being, we underline the fact that Machiavelli perceived that *moral development* is a distinctly human trait. This moral development takes the form of self-imposed constraints on free agency:

The ethical value of free agency is fundamental for Machiavelli’s arguments. He treats it as an innate capacity that explains the possibility of human *virtú*, and thus deserves respect (*rispetto*, *rispetto*) regardless of the specific ways in which agents exercise it. At the same time, he argues that ordered civil life is impossible unless free agents impose constraints on their own movements, consistent with respect for the freedom of others. Political orders acquire stability when citizens see their own self-imposed constraints as having the quality of *necessità*, a word that has the sense of an ethical imperative” (Id.)

What are we to make, then, of the idea that Machiavelli was a, to put it most crudely, a “Machiavellian”?

**Role of rhetoric, understanding** [Benner, 2009, p. 28] argues that. opposed to a reading of Machiavelli as a servile opportunist, placing his flag

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with whatever ruler currently sat enthroned, his “basic criterion [with respect to rhetoric] is not whether acts of persuasion secure a name or reputation for greatness, a vast groundswell of popular support, or even a semblance of civil order for a time. It is how much stable order is achieved as a result of persuasions; or to put it negatively, whether certain persuasions tended to intensify partisan conflicts, undermine standards of public transparency, and create a legacy of disorder.”

Thus, she argues

He treated political theory as “a rhetorical practice based upon historical knowledge which aims at verisimilitude rather than truth, and endeavors to impel passion and commitment, in addition to conquering reason’s consent. Machiavelli is said to have added two essential supplements to bolster republican defenses. One is an infusion of “passions” to compensate for motivational shortcomings of *ragionare*. The other is the replacement of “verisimilitude” for truth as standard of knowledge needed for political action. More efficacious “rhetoric” is the main instrument for arousing passions and creating verisimilitudes. (29)

Thus, Machiavelli outlines the importance of opposing “wrong” rhetoric with “right” rhetoric. This does not address the question of where criteria for establishing the veracity of a particular point of view can be derived from. To this, Benner argues that

in the *Histories* and elsewhere, “verisimilitudes” constructed without any concern “to identify political or moral truths” are treated as an unstable basis for better political ordering. Rhetorical verisimilitudes may inspire people to support men and policies, often with great passion. But even if they are meant to serve good ends, they can only have lasting success if they are based on sound analyses of the causes of disorders, and sound practical judgments about how to address them. In fact, [...] well-meaning republican rhetoric is often part of the problem as Machiavelli describes it, not the spearhead of a well-considered solution. [Thus the Florentines] are not a uniquely freedom-loving, tyranny-hating people, as their inspirational rhetoric says they are, but a population that has the same ambitious, envious, and suspicious “humors” as every other, and that often brings tyranny on itself by failing to reflect prudently on how to regulate these humors. Inspiring rhetoric may cover up these uninspiring “political and moral truths” for a time; but this can hardly help citizens to reflect on what might

constitute more solid defenses. Simply arming citizens with better rhetoric for a better cause does not help them to become better judges of what is needed to establish good orders. (30)

Thus, some criterion for truth (*verita*) is required, and Machiavelli appears to find this in the process of accountable public discourse: “To search for what is true is to look for the best possible account, based on reasons that are not arbitrary, partisan, or private, but general and open to continuous critical scrutiny. Rhetorical appeals are not likely to be useful for founding” such an order. (Id.) Thus, the standard of truth is the people (*il popolo*) themselves. Of course, this process-oriented focus requires a shared sense of agency, which can only be achieved by the event and process of cooperation:

Machiavelli’s *popolo* is an agency that takes shape or disintegrates through the actions of its constituents. The *Histories* speaks of the “people” when different “parties” or mutually suspicious sections of the population put their differences aside to cooperate in a common enterprise. To constitute a people in any reflective sense of the word, Machiavelli implies, diverse parties and social groups must demonstrate the will to share power, and “the desire to live according to the laws” instead of by partisan interests. Only demonstrative acts of this kind can turn what Machiavelli calls a mere “multitude not tempered by any check” into a stably ordered people. Conversely, a people once formed may dissolve again into a multitude or into various divisions based on class or status or party. This usage implies that it is up to each generation of citizens to earn the good name of *popolo*. They cannot rest on the laurels and hard work of their ancestors, since complacency may corrupt even the greatest historical achievements. (32-33)

**The Role of Virtù** Thus, an inclusive and accountable polity is a precarious process, requiring continual renewal and active effort on the part of individuals and the collective. In particular, this process requires an inclusive process of developing virtue. In a sense anticipating developmental psychology, Machiavelli emphasizes the connections between autonomy, “made” laws (i.e., amendable and accountable laws) and development of *virtu*:

lawmaking capacities are essential to Machiavelli’s conception of *virtú*. I propose that the connection between *virtú*, human laws, and self-imposed necessity is fundamental to Machiavelli’s ethics. The connection is made clearly in first chapter of the *Discourses* and developed systematically throughout that work.

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In the first chapter the main necessities imposed by *virtuoso* agents are described as “orders” or as “laws”: what *virtuoso* agents should order include, very importantly, necessities that take the form of laws. (162)

Benner makes clear here that Machiavelli was therefore not merely concerned with placing the entire focus on *process*. There is an outcome, however unstable, to the process, which Machiavelli refers to in different places as *legge* (law) and/or *ordini* (order). However, as opposed to juxtaposing this process and outcome as two distinct domains, they inherently bleed over and mutually determine another:

When the products of *virtú* are orders framed as laws [...] this allows human beings—whether considered as individuals, cities, or species—to exercise a degree of autonomy in relation to the constraints that always bear on them. Through the responsible exercise of *virtú*, individuals and cities can avoid being dominated by forces that they perceive as external to their own. Indeed, Machiavelli implies that the exercise of self-legislating and self-ordering *virtú* offers the only means human beings have to escape such domination. It must be exercised constantly or, whenever an agent fails to reflect prudently before acting or to take full responsibility for his own actions, external pressures will enter the vacuum and begin to govern agents more than they govern them. (163)

We already see a great advancement over the static ontology of Aristotle and Cicero here. Machiavelli introduces a notion of *self-management* that reminds of the *ideal* of the Yugoslavian enterprises. In particular, Benner makes clear that Machiavelli saw the *dynamic* quality of what we will in later chapters refer to as “moral competence”: people become virtuous by means of having opportunities to exercise virtue. Or, as [Benner, 2009, p. 163] puts it,

Because *virtuoso* agents make extensive, reflectively prudent use of their powers of authorization, they are able to achieve a high degree of autonomy in relation to other causalities. *Virtú*-deficient agents, on the other hand, depend too much on other causalities—fortune, fate, the heavens, or the arms of others—to achieve autonomy or secure political *libertà*. Since they fail to impose necessitating constraints—laws and orders—on themselves, and only recognize constraints forced on them from without, they remain at the



mercy of causalities that are more violent or better-ordered than themselves.”

**The Role of Fortuna** The point is that self-management or self-governance is vital for social stability. There is no static or “natural order”, in the sense of Quesnay: “Self-imposed laws are thus the paradigm of freedom-conducive necessity for Machiavelli. [...] Laws for Machiavelli are always the product of human ordering activity; not even the most ‘natural and ordinary’ or ‘ordinary and reasonable’ regularities in human conduct are grounded in natural laws.” [Benner, 2009, p. 164] This framing also grounds Machiavelli’s frequent references to “fortune” (*fortuna*). For Machiavelli, *fortuna* stands opposite to *virtu*, constraining and limiting what individuals are able to achieve, even with the best intentions. It is thus an ethical term “to characterize a causality that human beings experience as independent of their own best or worst efforts, and which produces results that appear indifferent to those efforts.” (Id., p. 170)

Machiavelli alludes to this in *Il Principe* when he writes “Nevertheless, so that our free will not be eliminated [*il nostro libero arbitrio non sia spento*], I judge that it might be true that fortune is arbiter of half our actions, but also that she leaves the other half, or close to it, for us to govern.”<sup>4</sup> We see in Benner’s reading of Machiavelli a both a reference to Popper’s call for “epistemic patience and tolerance”, as well as a manifestation of a dialectical relationship, a cybernetic pairing [Bateson, 2000], between free agency and the operations of *fortuna*:

Epistemic modesty, not arrogance, suggests that fortune cannot control all. Epistemic modesty also suggests that reasonable people must acknowledge limits set by chance, accidents, and other unforeseeable factors on their own choices. If we do not know how far fortune can govern us, we also cannot know how far we are able to govern it. Because human agents cannot completely predict or control fortune, ‘They should indeed never give up’ [*non si abbandonare*] [...] (p. 172)

In the end, returning the question of governance, Machiavelli, different from Aristotle and Cicero, appeals to a clear orientation of the *civitas* toward either democracy or monarchy: both are not possible simultaneously: “He starts by arguing that no government is stable (*stabile*) unless it is a true principality or a true republic (*vero principato, vera repubblica*). All hybrid

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<sup>4</sup>[Machiavelli, 2009, Chapter 25], cited in [Benner, 2009, p. 171].

forms of government tend either to “rise” toward *principato* or descend to *repubblica*. The only way to stabilize government, then, is to settle firmly on the one or the other, and order it for a long life.” (Id., p. 57)

## 4.3 Disrupting the Master-Slave Dialectic

In this section, we attempt to move closer to the “moral economy” concept by discussing modern social theory on cooperation in production, beginning with Kant. While Kant argued for general freedom, he maintained the veil of formal contracts, thus sharing in Cicero’s static ontology. We then introduce Hegel’s path-breaking observations, made during the Haitian and French revolutions. We supplement Hegel’s position with Chapter 11 of *Das Kapital*, which explores the role of cooperation in economic development. We close this discussion by juxtaposing this position with Schumpeter’s dynamic view of entrepreneurship.

### 4.3.1 Kant

“every man has inalienable rights which he cannot give up even if he would. . .” –Kant<sup>5</sup>

Kant’s contradictory position on the freedom of all is revealed in reflecting on his exposition of contract law in the *Metaphysik der Sitten*, in particular in the separate foreword, the *Metaphysischen Anfangsgründe der Rechtslehre*. Here, he first says that the transfer of a right to something (“der Besitz der Willkür eines anderen”) can be acquired “allein durch Übertragung (*translatio*), welche nur durch einen gemeinschaftlichen Willen möglich ist”. [Kant, 1983, Vol. IV, p. 383] The means to go about this is a contract (*der Vertrag*). Such a “communal will”, for Kant, applies for property and even most personal rights, but strangely, not all. In a section entitled *Von dem auf dingliche Art persönlichen Recht*, Kant speaks of rights to “Besitz[. . .] eines äußeren Gegenstandes als einer Sache und des Gebrauchs desselben *als einer Person*.”

He comments that such a right “geschieht weder durch eigenmächtige Tat (*facto*), noch durch bloßen Vertrag (*pacto*), sondern durchs Gesetz (*lege*), welches, weil es *kein Recht in einer Sache, auch nicht ein bloßes Recht* gegen eine Person, sondern auch ein Besitz derselben zugleich ist, ein über alles Sachen- und persönliche hinausliegendes Recht, nämlich das Recht der Menschheit in unserer eigenen Person sein muß”. (389)

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<sup>5</sup>[Kant, 1983, Vol. 4, p. 161], cited in [Ellerman, 2021b, p. 29].

Thus, Kant concludes that “Die Erwerbung nach diesem Gesetz ist dem Gegenstände nach dreierlei: Der *Mann* erwirbt ein *Weib*, das *Paar* erwirbt *Kinder* und die *Familie Gesinde*. – Alles dieses Erwerbliche ist zugleich unveräußerlich und das Recht des Besitzers dieser Gegenstände das *allerpersönlichste*.” A servant is thus the *property* of their employer: with the contract,

[gehört d]as Gesinde [...] nun zu dem Seinen des Hausherrn, und zwar, was die Form (den Besitzstand) betrifft, gleich als nach einem Sachenrecht; denn der Hausherr kann, wenn es ihm entläuft, es durch einseitige Willkür in seine Gewalt bringen (396)

So much for Kantian liberalism! Kant even goes to far as to disqualify the servant’s humanity: “ein Vertrag aber, durch den ein Teil zum Vorteil des anderen auf seine ganze Freiheit Verzicht tut, mithin aufhört, eine Person zu sein, folglich auch keine Pflicht hat, einen Vertrag zu halten, sondern nur Gewalt anerkennt, in sich selbst widersprechend [...] ist” (Id.) A servant is thus property and not able to enter into contractual agreements. Kant’s salve for this circumstance is to assert that such relationships may extend “nicht auf lebenslängliche, sondern allenfalls nur auf *unbestimmte Zeit*” (Id.)

If there was any doubt about Kant’s beliefs about the emancipation of slaves, in a following passage, he comments on the duty of a slave’s owner to provide for the education of his or her children: “der Besitzer des Sklaven tritt also, bei dieses seinem Unvermögen, in die Stelle seiner Verbindlichkeit.” (Id.)

Thus, we argue that Kant is not the appropriate interlocutor for a moral economy perspective.

### 4.3.2 Hegel

Hegel arguably offers one side of a hinge by which laborers begin to historically be viewed with agency. While, for Kant, there still remained an ontological inner limitation in his liberal view of human freedom (in particular, as regards its *legal* aspect), in that the worker is considered for Kant to be an object *in as far as s/he works*, Hegel began a process, arguably continued by Marx, of viewing the relations of productivity *dialectically*, i.e., in a sense we would refer to in modern terms as *emergent*. This is clear to see in the famous discussion in section A of Book IV of the *Phenomenology of Spirit*. Here, Hegel comments firstly that “Das Selbstbewußtsein ist an und für sich, indem, und dadurch, daß es für ein Anderes an und für sich ist” [Hegel, 2017, p. 127], meaning that, for Hegel, what we term “self consciousness” is characterized by “das Gegenteil der Bestimmtheit” (Id., ff.), i.e., *indeterminacy* and *interdependence*.

Thus, in a rather obscure language typical for 18th/19th century romanticism (Hegel was, after all, good friends with Hölderlin), he describes the *process* of self-consciousness similarly to a journey:<sup>6</sup>

Es ist für das Selbstbewußtsein ein anderes Selbstbewußtsein; es ist außer sich gekommen. Dies hat die gedoppelte Bedeutung, erstlich, es hat sich selbst verloren, denn es findet sich als ein anderes Wesen; zweitens, es hat damit das Andere aufgehoben, denn es sieht auch nicht das Andere als Wesen, sondern sich selbst im Andern.

Es muß dies sein Anderssein aufheben; dies ist das Aufheben des ersten Doppelsinnes, und darum selbst ein zweiter Doppelsinn; erstlich, es muß darauf gehen, das andere selbstständige Wesen aufzuheben, um dadurch seiner als des Wesens gewiß zu werden; zweitens geht es hiermit darauf, sich selbst aufzuheben, denn dies Andere ist es selbst.

Dies doppelsinnige Aufheben seines doppelsinnigen Andersseins ist ebenso eine doppelsinnige Rückkehr in sich selbst; denn erstlich erhält es durch das Aufheben sich selbst zurück; denn es wird sich wieder gleich durch das Aufheben seines Andersseins; zweitens aber gibt es das andere Selbstbewußtsein ihm wieder ebenso zurück, denn es war sich im Andern, es hebt dies sein Sein im Andern auf, entläßt also das andere wieder frei. (128)

The fascinating and prophetic aspect of Hegel's analysis is his recognition of the quality of the metamorphosis that occurs in, e.g., productive relations, which was again picked up and developed by Marx. Writes Hegel of the "return" part of the process: "die beiden geben und empfangen sich nicht gegenseitig voneinander durch das Bewußtsein zurück, sondern *lassen einander nur gleichgültig, als Dinge, frei.*" Hegel refers to this process as *abstrakte Negation*. (131) This "double movement of double movement" results in what Hegel refers to as "two moments", "unequal and contradictory", one of which he calls the "Für-sich-sein" and the other "für-ein-anderes-sein". These are described "als zwei entgegengesetzte Gestalten des Bewußtseins; die eine das selbstständige, welchem das Für-sich-sein, die andere das unselbstständige, dem das Leben oder das Sein für ein Anderes das Wesen ist; jenes ist der Herr, dies der Knecht." (132)

While the master is "das für sich seiende Bewußtsein, aber nicht mehr nur der Begriff desselben, sondern für sich seiendes Bewußtsein, welches durch ein

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<sup>6</sup>For more on this "journey" metaphor, see, e.g., Ludwig Siep's contribution in on [Köhler and Pöggeler, 1998, pp. 109ff.].

anderes Bewußtsein mit sich vermittelt ist,” while the servant is described as “Selbstbewusstsein überhaupt” or “das einfache Ich”. About the relations between the two, Hegel states that

Der Herr bezieht sich auf den Knecht mittelbar durch das selbstständige Sein; denn eben hieran ist der Knecht gehalten; es ist seine Kette, von der er im Kampfe nicht abstrahieren konnte, und darum sich als unselbstständig, seine Selbstständigkeit in der Dingheit zu haben, erwies. (Id.)

Both stand in relation to each other, as Hegel states above, as objects, meaning their relationship remains forever unconsummated and mediated via object relations; in the servant, in his labor, in the master, in his enjoyment (*Genuss*), i.e., consumption. At the same time, the enjoyment of the master is limited by the delegation of self-conscious activity to the servant: “derr Herr [...], der den Knecht zwischen es und sich eingeschoben, schließt sich dadurch nur mit der Unselbstständigkeit des Dinges zusammen, und genießt es rein; die Seite der Selbstständigkeit aber überläßt er dem Knechte, der es bearbeitet. (133)

Thus, in this *practical autonomy*, which Hegel describes as “reine negative Macht”, everything which the servant does can be considered an extension of the master (“was der Knecht tut, ist eigentlich Tun des Herrn” Id. p. 133), resulting in “ein einseitiges und ungleiches Anerkennen” (Id.) However, Hegel argues, herein lies the dialectic, as the “unwesentliche Tun” of the servant is that which defines the master’s identity:

Das unwesentliche Bewußtsein ist hierin für den Herrn der Gegenstand, welcher die Wahrheit der Gewißheit seiner selbst ausmacht. Aber es erhellt, daß dieser Gegenstand seinem Begriffe nicht entspricht, sondern daß darin, worin der Herr sich vollbracht hat, ihm vielmehr ganz etwas anderes geworden als ein selbstständiges Bewußtsein. Nicht ein solches ist für ihn, sondern vielmehr ein unselbstständiges; er ist also nicht des Für-sich-seins, als der Wahrheit gewiß, sondern seine Wahrheit ist vielmehr das unwesentliche Bewußtsein, und das unwesentliche Tun desselben. (134)

While the self-consciousness of the master therefore appears as marginal, the servant, in the course of his or her labors, develops a “knechtische Bewusstsein”<sup>7</sup>:

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<sup>7</sup>This could be translated as a “servile consciousness”.

wie die Herrschaft zeigte, daß ihr Wesen das Verkehrte dessen ist, was sie sein will, so wird auch wohl die Knechtschaft vielmehr in ihrer Vollbringung zum Gegenteile dessen werden, was sie unmittelbar ist; sie wird als in sich zurückgedrängtes Bewußtsein in sich gehen, und zur wahren Selbstständigkeit sich umkehren. (Id.)

This process of realization, what Marx later went on to refer to as “class consciousness”<sup>8</sup>, occurs, according to Hegel, through the *experience* of working under the tutelage of another. It is worth quoting Hegel at length here:

Das Gefühl der absoluten Macht aber überhaupt, und im einzelnen des Dienstes ist nur die Auflösung an sich, und obzwar die Furcht des Herrn der Anfang der Weisheit ist, so ist das Bewußtsein darin *für es selbst*, nicht das *Für-sich-sein*. Durch die Arbeit kommt es aber zu sich selbst. In dem Momente, welches der Begierde im Bewußtsein des Herrn entspricht, schien dem dienenden Bewußtsein zwar die Seite der unwesentlichen Beziehung auf das Ding zugefallen zu sein, indem das Ding darin seine Selbstständigkeit behält. Die Begierde hat sich das reine Negieren des Gegenstandes, und dadurch das unvermischte Selbstgefühl vorbehalten. Diese Befriedigung ist aber deswegen selbst nur ein Verschwinden, denn es fehlt ihr die gegenständliche Seite oder das Bestehen. Die Arbeit hingegen ist *gehemmte Begierde*, aufgehaltenes Verschwinden, oder sie bildet. Die negative Beziehung auf den Gegenstand wird zur Form desselben, und zu einem *bleibenden*; weil eben dem arbeitenden der Gegenstand Selbstständigkeit hat. Diese negative Mitte oder das formierende Tun ist zugleich die Einzelheit oder das reine Für-sich-sein des Bewußtseins, welches nun in der Arbeit außer es in das Element des Bleibens tritt; das arbeitende Bewußtsein kommt also hiedurch zur Anschauung des selbstständigen Seins, *als seiner selbst*.

Thus, the labor process has a pedagogical function, according to Hegel: “Ohne die Zucht des Dienstes und Gehorsams bleibt die Furcht beim Formellen stehen, und verbreitet sich nicht über die bewußte Wirklichkeit des Daseins. Ohne das Bilden bleibt die Furcht innerlich und stumm, und das Bewußtsein wird nicht für es selbst.” (136)

We see here both a continuity with the static Aristotelian ontology of status and consciousness, but also clear fissures and cracks in this worldview.

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<sup>8</sup>Cf. [Lukács, 1972].

With Hegel we find perhaps the clearest explication, from a point of view lodged in classical philosophy, of the limitations of Aristotle's ethics. At the same time, it is important to ask how Hegel came to these dialectical positions. A long tradition of authors has reflected on Hegel's cultural and intellectual background, from Kojève to Avineri. It is not our intention, nor do we have time in this overview, to depict the genealogy of Hegel's thinking. We will therefore restrict our analysis to two areas: Hegel's influence through political economy and his inspiration through the Haitian revolution, which was already alluded to in the prior chapter.

### Hegel and Political Economy

Hegel's worldview had been influenced by the Scottish Enlightenment and reading of authors like Adam Smith<sup>9</sup>. Nevertheless, "According to Z. A. Pelczynski, in the 1805-1806 [Jena] Lectures, 'Hegel tries hard to theorize, but although he describes the effects of industrial society on human powers in vivid terms reminiscent of Marx, he is not yet able to produce a systematic theory of civil society, still less to integrate it into a more comprehensive social and political philosophy'"<sup>10</sup>. Hegel himself practices political economy (*National- or Staatökonomie*), of which he wrote, "Die Staatsökonomie ist die Wissenschaft, die von diesen Gesichtspunkten ihren Ausgang hat, dann aber das Verhältnis und die Bewegung der Massen in ihrer qualitativen und quantitativen Bestimmtheit und Verwicklung darzulegen hat." [Hegel, 1911, Book III, Chapter 2, §183 (Anm.)]

In particular, of note is the *distinction* between Hegel's and Smith's thinking on market society as self-regulating. Here, Hegel is much less "libertarian" than is Smith. [Henderson and Davis, 1991] describes three main distinctions between Smith and Hegel in this regard: firstly, the authors argue that Hegel did not share "Smith's more complacent late Renaissance thinking", emphasizing instead "the violence of Reason's development in history"<sup>11</sup>. Therefore, they argue that Hegel's notion of *die List der Vernunft* ("the cunning of reason"), often compared with Smith's "invisible hand", is in fact a much more ambivalent concept.

Secondly, the authors argue that Hegel's views of the relation between transcendence and imminence, i.e., between public purpose and individual interests, is equally more ambivalent than Smith's: "For Smith, that is, self-

<sup>9</sup>Cf. [Henderson and Davis, 1991, p. 186, footnote].

<sup>10</sup>[Pelczynski, 1984, p. 5], cited in [Henderson and Davis, 1991, p. 186].

<sup>11</sup>For Hegel, "history is 'the slaughter-bench at which the happiness of peoples, the wisdom of States, and the virtue of individuals have been victimized'" cited in [Henderson and Davis, 1991, p. 201].

seeking preserves the individual integrity of the economic agent; while for Hegel, individuals' "subjective self-seeking" as often as not leads to their destruction." (Id.) Moreover, Hegel is more explicit in "embedding" self-interest in a schema of public purpose, from which, he emphasizes, it cannot be divorced. Thus, while he writes, "ein Zweck, für welchen ich tätig sein soll, muß auf irgendeine Weise auch mein Zweck sein [...]" and "[d]ies ist das unendliche Recht des Subjekts, daß es sich selbst *in* seiner Tätigkeit und Arbeit befriedigt findet [...]" [w]enn die Menschen sich für etwas interessieren sollen, so müssen sie sich selbst darin haben und ihr eigenes Selbstgefühl darin befriedigt finden", he at the same time ensures that a civic order cannot arise merely in such a way:

Man muß einen Mißverstand hierbei vermeiden: man tadelt es und sagt in einem üblen Sinne mit Recht von einem Individuum, es sei überhaupt interessiert, das heißt, es suche nur seinen *Privatvorteil*. Wenn wir dieses tadeln, so meinen wir, es suche diesen Privatvorteil ohne Gesinnung für den allgemeinen Zweck, bei dessen Gelegenheit es sich um jenen abmüht, oder gar, indem es das Allgemeine aufopfert; aber wer tätig für eine Sache ist, der ist nicht nur interessiert überhaupt, sondern interessiert dabei. Die Sprache drückt diesen *Unterschied* richtig aus. Es geschieht daher nichts, wird nichts vollbracht, ohne daß die Individuen, die dabei tätig sind, auch sich befriedigen; sie sind partikuläre Menschen, das heißt, sie haben besondere, ihnen eigentümliche Bedürfnisse, Triebe, Interessen überhaupt [...]" [Hegel, 1961, pp. 65-6]

Lastly, Hegel was not an ontological individualist. While Smith only saw individuals and abstract "nations", Hegel's use of "die Vernunft in sich" distinguishes him as an early prefigurer of systems thinking. Nevertheless, Hegel's proto-systems thinking did adapt much of Smith's notion of self-interest. Thus, "[w]hile the individual must discover and address the self-interest of other individuals in the marketplace, nonetheless it specifically remains a matter of the individual's self-interest to do so. Thus a higher form of sociality emerges via the contradictory activities of self-interested individuals, though that social harmony the Invisible Hand creates still preserves the play of self-interest." [Henderson and Davis, 1991, p. 201]

Thus, while Smith places the emphasis on the individual, Hegel's individual is always embedded in a totalizing process of "dialectical movement":

In dieser Abhängigkeit und Gegenseitigkeit der Arbeit und der Befriedigung der Bedürfnisse schlägt die subjektive Selbstsucht in den Beitrag zur Befriedigung der Bedürfnisse aller anderen



um, - in die Vermittlung des Besonderen durch das Allgemeine als dialektische Bewegung, so daß, indem jeder für sich erwirbt, produziert und genießt, er eben damit für den Genuß der Übrigen produziert und erwirbt. Diese Notwendigkeit, die in der allseitigen Verschlingung der Abhängigkeit aller liegt, ist nunmehr für jeden das allgemeine, bleibende Vermögen [...], das für ihn die Möglichkeit enthält, durch seine Bildung und Geschicklichkeit daran teilzunehmen, um für seine Subsistenz gesichert zu sein, - so wie dieser durch seine Arbeit vermittelte Erwerb das allgemeine Vermögen erhält und vermehrt. [Hegel, 1911, Chapter III, Section A, part c, §199]

Thus, Hegel's "invisible hand" is not quite as invisible as Smith's: "Dadurch, daß ich mich nach dem anderen richten muß, kommt hier die Form der Allgemeinheit herein. [...] Alles Partikuläre wird insofern ein Gesellschaftliches"<sup>12</sup> Thus, Hegel anticipates productive relations taking on an increasingly *social* character.

This preference for an entity beyond mere market actors likely reflects Hegel's German (or "Continental") mentality, as expressed in the writings of Gierke cited previously and discussed in further detail in 5.3. At the same time, it is likely more acutely due to Hegel's active contemplation of slavery, which Smith only marginally discusses in his economic writings. [Brown, 2010] We address this topic next.

### Hegel and Haiti

Recent decades have seen renewed interest in particularly the younger Hegel's connection to the Revolution in Haiti. This was in part spawned by work by Williams and James, but came to a direct head with Susan Buck-Morss's path-breaking essay, *Hegel and Haiti*. This essay answers the question "Where did Hegel's idea of the relation between lordship and bondage originate?" with the definite answer that it was Hegel's active reflections on the ongoing Haitian revolution that inspired the development in Hegel's thinking, first crystallized in his *Jenaer Systementwürfe*<sup>13</sup>.

Buck-Morss argues on the basis of circumstantial evidence and personal acquaintance that Hegel read the German political journal *Minerva*, which frequently offered commentary on events in Haiti. Thus, she comments that

<sup>12</sup>Id., Chapter III, Sec.A, part a, §192 (Zu.).

<sup>13</sup>Also known as the *Jenaer Realphilosophie*, lectures given between 1803 and 1806 (Hegel left Jena in 1806 as Napoleon conquered the city, apparently having seen the general himself).

“[t]he fact that this spirit [of freedom] *could* be catching, crossing the line not only between races but between slaves and freemen, was precisely what made it possible to argue, without reverting to an abstract ontology of ‘nature,’ that the desire for freedom was truly universal, an event of world history and, indeed, the paradigm-breaking example.” [Buck-Morss, 2009, p. 51] Therefore, while Hegel had prior to his observations of the Haitian events restricted his commentary to Kantian categories like *Sittlichkeit*,

[...] now this young lecturer, still only in his early thirties, made the audacious move to reject these earlier versions (more acceptable to the established philosophical discourse) and to inaugurate, as the central metaphor of his work, *not slavery versus some mythical state of nature (as those from Hobbes to Rousseau had done earlier), but slaves versus masters*, thus bringing into his text the present, historical realities that surrounded it like invisible ink. (Id., p. 52, own emphasis)

Buck-Morss, agreeing with [Henderson and Davis, 1991], surmises that it was the reading of Smith that inspired a shift in Hegel’s thinking. Thus, “in the first *Jena Systementwürfe* (1803–4) Hegel thematizes the ‘battle for recognition’ in a way that marks a break from both the classical concept of ethical community (*Sittlichkeit*) and the Hobbesian concept of individual self-preservation (the state of nature).” [Buck-Morss, 2009, p. 52, footnote] comments that “[t]he crucial, final ‘fragment 22’ [...] begins with a discussion of the ‘absolute necessity’” of “gegenseitigem Anerkennen überhaupt” [Hegel, 1975, p. 217].

It is here that Hegel’s criticism of slavery is most pertinent. And it is here where Hegel truly moves beyond the ontological individualism of Smith in his direct use of notions like classes. Thus, “[o]ne has only to collectivize” the dependency of the master in his Jenaer lectures, which became the *Phänomenologie des Geistes* described above, “in order to see the descriptive pertinence of Hegel’s analysis: the slave-holding class is indeed totally dependent on the institution of slavery for the ‘overabundance’ that constitutes its wealth. This class is thus incapable of being the agent of historical progress without annihilating its own existence.” [Buck-Morss, 2009, p. 54] Buck-Morss asks, after considering the evidence,

Why should Hegel have been a modernist in two senses only: adopting Adam Smith’s theory of the economy and adopting the French Revolution as the model for politics. And, yet, when it came to slavery, the most burning social issue of his time, with slave rebellions throughout the colonies and a successful slave

revolution in the wealthiest of them—why should—how could Hegel have stayed somehow mired in Aristotle? (59)

Thus, Hegel full-throatedly adopts an abolitionist framework, especially during the years directly following the Haitian revolution. While he moderated his stance somewhat in later years (Buck-Morss speaks of Hegel becoming “dumber”), he nevertheless continued this strain of abolition into his 1819 lectures on the Philosophy of Right, where he argues again dually, that both, “[d]ie Forderung, keinen als Sklaven zu behandeln, ist ganz richtig [. . .] Aber ebenso gültig ist die Forderung, selbst nicht Sklave zu sein”. [Hegel, 1983, p. 74] Nevertheless, “ein Mensch, der zum Sklaven gemacht ist oder sich selbst dazu gemacht hat, hat unmittelbar das Recht, seine Freiheit zu nehmen. Ein dergleichen Vertrag ist an und für sich nichtig.” (78)

It is here that one can in fact read a neo-abolitionist *ethos* (cf. 2.5.4. We again return to neo-abolitionism in 5.2) into Hegel’s contemporary writings at the time of the Haitian revolution. In fact, his *Jenaer Systementwürfe* offered many elements synthesizing Hegel’s developing phenomenological approach and various entries from political economy, including those described above. What connects these with the neo-abolitionist strain that Buck-Morss has distilled is their direct reference to industrial and wage labor. Thus, in passages echoing later writings by Marx, Hegel argues for the need to regulate the productive apparatus:

Das Bedürfnis und die Arbeit, in diese Allgemeinheit erhoben, bildet so für sich in einem großen Volk ein ungeheures System von Gemeinschaftlichkeit und gegenseitiger Abhängigkeit, ein sich in sich bewegendes Leben des Toten, das in seiner Bewegung blind und elementarisch sich hin und her bewegt und als ein wildes Tier einer beständigen strengen Beherrschung und Bezähmung bedarf. [Hegel, 1975, p. 239]

Moreover, Hegel is clear in voicing his concern with the alienating qualities of industrial wage labor: “Das Allgemeine ist [. . .] reine Nothwendigkeit am einzelnen Arbeitenden; - er hat seine bewußtlose Existenz in dem Allgemeinen, die Gesellschaft ist seine Natur, von deren elementarischer blinder Bewegung er abhängt, die ihn geistig und physisch erhält oder aufhebt.” [Petry et al., 1977, p. 243] Moreover, “Er arbeitet eine abstracte Arbeit, er gewinnt der Natur um so viel ab; aber diß verkehrt sich nur in eine andre Form des Zufalls [. . .] er kann mehr verarbeiten; aber diß vermindert den Werth seiner Arbeit, er tritt damit nicht aus dem allgemeinen Verhältnisse heraus.” There is a *dialectical movement* towards what Marx would later refer to as *Entfremdung* occurring here. According to Hegel, the worker

wird gebildet als natürlich geniessendes aber ebenso durch die Abstraction der Arbeit mechanischer, abgestumpfter, geistloser. - Das Geistige, diß erfüllte selbstbewußte Leben wird ein leeres Thun, die Krafft des Selbsts besteht in dem reichen Umfassen, diese geht verloren. - Er kann einige Arbeit als Maschine frey-lassen, um so formaler wird sein eignes Thun. - Sein stumpfes Arbeiten beschränkt ihn auf einen Punkt; -und die Arbeit ist um so vollkommner, je einseitiger sie ist [...] (Id.)

What becomes clear in reading such passages, which were published posthumously and which later students of Hegel, such as Nietzsche, Marx, Kierkegaard and Freud were unfamiliar with, is that for Hegel, like for Aristotle, political economy was both “economic” as well as ethical. But, apart from the canon of Western philosophy from Aristotle to Kant, Hegel, at least in his younger years, did not counterbalance this ethical dictum with legalistic justifications for bondage. For him, the human personality *quo* self-conscious intelligence is free and is absolutely so. Any doubts should be dispelled by the following extended quote from Hegel’s Heidelberg lectures on the philosophy of law:

Es gibt also unveräußerliche und unverjähnbare Dinge, deren ich mich, insofern ich im Besitz bin, nicht entäußern kann und bei denen kein Besitz des andern mich abhält, sowie ich will, mich wieder in Besitz zu setzen. Dahin gehören alle Güter, die zu meiner Persönlichkeit gehören, zu der allgemeinen Freiheit meines Willens. Dies ist der Fall, daß ich mich nicht freiwillig zum Sklaven machen kann; denn dieser von mir einem anderen eingeräumte Besitz hört, sowie ich es will, auf. *Wenn ich auch als Sklave geboren und vom Herrn ernährt und erzogen bin und wenn meine Eltern und Voreltern alle Sklaven waren, so bin ich frei im Augenblick, wo ich es will, wo ich zum Bewußtsein meiner Freiheit komme.* Denn die Persönlichkeit und Freiheit meines Willens sind wesentliche Teile meiner selbst, meiner Persönlichkeit. Alles, was ich bin, bin ich nur in meiner Persönlichkeit. Alle diese Güter meiner Persönlichkeit sind ebenso unverjähbar und unbeschränkbar, und [ein] *justus titulus* und [eine] *bona fides* des Besitzers eines Sklaven hilft ihm nichts. *Der Willkür aber kann und soll ich mich entäußern, und sie soll beschränkt werden.* [Hegel, 1983, p. 55, own emphasis].

### 4.3.3 Marx

An overlooked aspect of Marx's analysis is his observation, e.g., in the *Grundrisse*, that *cooperation* is "the highest form of economy" [Marx, 1974, p. 21]. Marx observes that, *prima facie*, the new mode of production arising through industrialization begins at first with a "quantitative difference", namely "durch die größere Zahl der gleichzeitig von demselben Kapital beschäftigten Arbeiter." [Marx, 1867, p. 362] At the same time, a qualitative transformation occurs through this quantitative aggregation: "In jedem Industriezweig weicht der individuelle Arbeiter, Peter oder Paul, mehr oder minder vom Durchschnittsarbeiter ab. Diese individuellen Abweichungen, welche mathematisch 'Fehler' heißen, kompensieren sich und verschwinden, sobald man eine größere Anzahl Arbeiter zusammennimmt." Thus, an emergent phenomenon can be seen. In particular, "es ist klar, daß der *Gesamtarbeitstag* einer größten Anzahl gleichzeitig beschäftigter Arbeiter, dividiert durch die Anzahl der Arbeiter, an und für sich ein *Tag gesellschaftlicher Durchschnittsarbeit* ist."

It is in this new form of "average labor time" that the productive benefit of modern industrial labor is realized: "Auch bei *gleichbleibender* Arbeitsweise bewirkt die gleichzeitige Anwendung einer größten Arbeiteranzahl eine Revolution in *den gegenständlichen Bedingungen des Arbeitsprozesses*." To what does Marx attribute this revolution? His answer is clear in the following passage:

Die Form der Arbeit vieler, die in demselben Produktionsprozeß oder in verschiedenen, aber zusammenhängenden Produktionsprozessen planmäßig neben- und miteinander arbeiten, heißt *Kooperation*.  
(366)

Thus, capital as a social relation organizes labor in a manner similar to what Hegel described above. However, apart from Hegel, Marx finds the qualitative changeover in the emergence of a specific *form* of cooperation:

Wie die Angriffskraft einer Kavallerieschwadron oder die Widerstandskraft eines Infanterieregiments wesentlich verschieden ist von der Summe der von jedem Kavalleristen und Infanteristen vereinzelt entwickelten Angriffs- und Widerstandskräfte, so die mechanische Kraftsumme vereinzelter Arbeiter von der gesellschaftlichen Kraftpotenz, die sich entwickelt, wenn viele Hände gleichzeitig in derselben ungeteilten Operation zusammenwirken, z.B. wenn es gilt, eine Last zu heben, eine Kurbel zu drehn oder einen Widerstand aus dem Weg zu räumen. Die Wirkung der kombinierten Arbeit könnte hier von der vereinzelter gar nicht oder

nur in viel längren Zeiträumen oder nur auf einem Zwergmaßstab hervorgebracht werden. (366-7)

Thus, Marx underlines the emergent nature of this phenomenon with reference to John Bellers:

Es handelt sich hier nicht nur um Erhöhung der individuellen Produktivkraft durch die Kooperation, sondern um die Schöpfung einer Produktivkraft, die an und für sich *Massenkraft* sein muß.

To underline this point, Marx states that this surplus in productivity is not solely due to the aggregation of individual labor, but “erzeugt bei den meisten produktiven Arbeiten der bloße gesellschaftliche Kontakt einen Wettstreit und eine eigne Erregung der Lebensgeister (animal spirits), welche die individuelle Leistungsfähigkeit der einzelnen erhöhen”, so that, as Marx argues, “ein Dutzend Personen zusammen in einem gleichzeitigen Arbeitstag von 144 Stunden ein viel größeres Gesamtprodukt liefern als zwölf vereinzelte Arbeiter, von denen jeder 12 Stunden, oder als ein Arbeiter, der 12 Tage nacheinander arbeitet.” To this social function of cooperation come multiple other benefits, including Smithian division of labor (“Z.B. wenn Maurer eine Reihe von Händen bilden, um Bausteine vom Fuß eines Gestells bis zu seiner Spitze zu befördern” p. 368)

Another, distinct, characteristic of cooperation is the scaling of qualitatively identical labor (as distinct from the division of labor). Marx writes, “daß die vielen, die einander ergänzen, *dasselbe* oder *Gleichartiges* tun, weil *diese einfachste Form* gemeinsamer Arbeit auch in der ausgebildetsten Gestalt *der Kooperation* eine große Rolle spielt. ” (369) Thus,

Der kombinierte Arbeitstag von 144 Stunden, der den Arbeitsgegenstand vielseitig im Raum angreift, weil der kombinierte Arbeiter oder *Gesamtarbeiter* vorn und hinten Augen und Hände hat und in gewissem Grad Allgegenwart besitzt, fördert das Gesamtprodukt rascher als 12 zwölfstündige Arbeitstage mehr oder minder einzelner Arbeiter, die ihr Werk einseitiger angreifen müssen. *In derselben Zeit reifen verschiedene Raumteile des Produkts.* (Id.)

A third aspect of cooperation involves what Marx refers to as “kritische Momente” and refers to domains of labor that are temporally limited (he refers to the sheering of sheep as such an example). Here, “[kann d]er einzelne [...] aus einem Tag nur einen Arbeitstag herausschneiden, sage von 12 Stunden, aber die Kooperation von 100 z. B. erweitert einen zwölfstündigen Tag zu einem Arbeitstag von 1.200 Stunden.” (369-70)

Lastly, cooperation also has *spatial* implications for Marx, implications which to which he attributes two main operations. On the one hand, “erlaubt die Kooperation *die Raumsphäre der Arbeit* auszurecken”. At the same time, he says, “ermöglicht sie, verhältnismäßig zur Stufenleiter der Produktion, *räumliche Verengung des Produktionsgebietes*”, saving costs. (370-1)

In the end, says Marx,

Ob er im gegebenen Fall diese gesteigerte Produktivkraft erhält, weil er die mechanische Kraftpotenz der Arbeit erhöht oder ihre räumliche Wirkungssphäre ausdehnt oder das räumliche Produktionsfeld im Verhältnis zur Stufenleiter der Produktion verengt oder im kritischen Moment viel Arbeit in wenig Zeit flüssig macht oder den Wetteifer der einzelnen erregt und ihre Lebensgeister spannt oder den gleichartigen Vorrichtungen vieler den Stempel der Kontinuität und Vielseitigkeit aufdrückt, oder verschiedene Operationen gleichzeitig verrichtet oder die Produktionsmittel durch ihren gemeinschaftlichen Gebrauch ökonomisiert oder der individuellen Arbeit den Charakter gesellschaftlicher Durchschnittsarbeit verleiht, *unter allen Umständen ist die spezifische Produktivkraft des kombinierten Arbeitstags gesellschaftliche Produktivkraft der Arbeit oder Produktivkraft gesellschaftlicher Arbeit. Sie entspringt aus der Kooperation selbst.* (371, own emphasis)

This *cooperative rent*, as [Wieland, 2018] refers to it as, does not come automatically from the conjoining of social forces. According to Marx, it is the process of capital valorization in the context of industrial production that is the necessary condition (“the difference that makes the difference”, cf. [Bateson, 2000]) for the development of such a degree of cooperation: “Konzentration größerer Massen von Produktionsmitteln in der Hand einzelner Kapitalisten ist also materielle Bedingung für die Kooperation von Lohnarbeitern, und der Umfang der Kooperation, oder die Stufenleiter der Produktion, hängt ab vom Umfang dieser Konzentration.” (373) This requirement is due to the need for *leadership*: “Alle unmittelbar gesellschaftliche oder gemeinschaftliche Arbeit auf größtem Maßstab bedarf mehr oder minder einer Direktion, welche die Harmonie der individuellen Tätigkeiten vermittelt und die allgemeinen Funktionen vollzieht, die aus der Bewegung des produktiven Gesamtkörpers im Unterschied von der Bewegung seiner selbständigen Organe entspringen.” (Id.)

Marx uses the metaphor of an orchestra, which “bedarf des Musikdirektors.” Marx refers to this organizational function as the “Produktivkraft des Kapitals”, (377) which he compares with the “sporadic” forms of *cooperatio* found in prior eras, which “beruht auf unmittelbaren Herrschafts-

und Knechtschaftsverhältnissen, zumeist auf der Sklaverei.” (378) Compared with these arcane forms of cooperation, the form Marx attributes to modern industrial production appears “nicht *als eine besondere historische Form der Kooperation*, sondern die Kooperation selbst *als eine dem kapitalistischen Produktionsprozeß eigentümliche und ihn spezifisch unterscheidende historische Form*” (379). Again, in a later passage, he reiterates, “Die Kooperation bleibt die Grundform der kapitalistischen Produktionsweise”. (380)

#### 4.3.4 Schumpeter

One of the most useful discussions Schumpeter leads in his acclaimed *Theory of Economic Development* was actually removed from the English translation. While the German original edition contains seven chapters, the last entitled *Das Gesamtbild der Volkswirtschaft*, this chapter was removed in later editions, like the 1924 one that was translated into English. This chapter attempts to contribute to a reevaluation of economic theory by juxtaposing the roles of static versus dynamic concepts. The chapter is ingenious and it is a pity it was lost in later editions and never printed in English. A concise overview of the chapter’s main contributions can be found in [Peukert, 2002].

Schumpeter suggests “halten wir den Standpunkt des Unternehmers” [Schumpeter, 2006, p. 516]. These he contrasts with workers and landlords, whom he refers *in toto* to as “quasistatische Wirtschaftssubjekte”, as these have no “Unternehmercharakter”<sup>14</sup>. What is the entrepreneur for Schumpeter and what is “Unternehmercharakter”? Well, he never defines these characteristics explicitly, but he refers to “persönlichen Leistungen”. Further, he argues

Sie beruhen nicht notwendig auf Arbeit im engsten und technischen Sinne. Aber sie beruhen auch nicht darauf, daß ein auch sonst vorhandenes Produktionsmittel okkupiert worden wäre. Der Unternehmer setzt *seine Persönlichkeit ein und nichts anderes als seine Persönlichkeit*. Seine Stellung als Unternehmer ist an seine Leistung geknüpft und überlebt seine Tatkraft nicht. Sie ist essentiell nur temporär, namentlich auch nicht vererbbar: Die soziale Stellung entgleitet dem Nachfolger, der mit der Beute nicht auch die Klaue des Löwen geerbt hat. Der Betrieb, die darin

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<sup>14</sup>As he comments, “Außer Unternehmern und Kapitalisten sind alle Wirtschaftssubjekte als Arbeiter und “Grundherren” – Besitzer natürlicher Produktionsmittel – zu qualifizieren. Die letztern sind, soweit sie sich auf ihre Rolle als Arbeiter oder Grundherren beschränken, essentiell statisch-hedonisch und wirtschaftlich ein passives Element. Wirtschaftlich schieben sie nicht, sondern werden sie geschoben” (516).



vorhandenen Güter sind nur eine tote Hülle der treibenden Kraft.  
(529)

It is to this “Persönlichkeit” that Schumpeter attributes the great dynamic increase in wealth: “Unternehmertätigkeit von bestimmter Art und Intensität nötig. Davon, daß Unternehmer auftreten und davon, daß sie sich die nötige Kaufkraft verschaffen können, endlich davon, zu welchen konkreten Produktionsplänen sie sich entschließen, hängt wirklich die Existenz und die Größe jener Zuwächse ab” (521) For Schumpeter, everything depends on “seiner Persönlichkeit” (525): “Von ihm hängt so viel und hängen so viele ab.” Even capital is secondary, is “ein Renten- und Lohnfonds.” (521)

Schumpeter even suggests that selling an enterprise “überträgt keine dauernde Ertragsquelle, denn das Gehirn des Schöpfers des Betriebs kann man nicht mitverstaatlichen.” This fact means that one can’t even speak of a static “entrepreneurial class”: “Das ändert die ganze soziale Natur der Unternehmerstellung. Wir finden immer neue Leute in ihr, einen steten sozialen Auftrieb und ein stetes Herabsinken. Man kann von einer Unternehmerklasse nicht in demselben Sinne sprechen und von ihr nicht ganz dieselben sozialen Erscheinungen aussagen, wie von jenen Gruppen, in denen dieselben Leute und ihre Nachkommen durch lange Zeit bleiben.” (529) Moreover, “Die vorhandenen Güter, die Gebäude und Maschinen in den Betrieben, sind nur die Schalen der Industrie.” (531)

Schumpeter does not seem to realize, or chooses not to see, that his vacillating means that entrepreneurial activities concern a *social relation*, and not the personality of a particular individual. To return to the language of network theory introduced in Chapter 2, Schumpeter sees only agents, not edges. His theory might have truly been revolutionary had he gone the extra step as to “depersonalize” (or, as we speak of later in the chapter, “relationalize”) the role of the entrepreneur, his theories would still have relevance today. Mariana Mazzucato and others have attempted to correct for this grievous error [Mazzucato, 2011].

He appears to realize that it is relationships that matter in passages like this: “Viel mehr bedeutet die Hierarchie, das System von Über- und Unterordnung der Angehörigen einer Volkswirtschaft, ihre Dispositionen zum Handeln und dessen Energie und Ziele”; (530) or here: “vom ökonomischen Standpunkte allein kann man die Parteistellungen im sozialen Kampfe nicht bestimmen. Es kann oft ebensogut die eine Beziehung wie eine andre entscheidend werden, ebensogut eine freundliche wie eine feindliche.” (532) However, this passage is immediately followed by a war metaphor: “wie eine Hügelkette, um die sich zwei Heeren Streiten”

He again makes an allusion to the social function of the entrepreneur in

passages like “Sowenig ein Souverän hinter jeden Untertan einen Gendarmen stellen kann, sowenig kann der Unternehmer einen jeden, dessen Kooperation im sozialen und politischen Leben er braucht, bezahlen.” (527) Or the following passage: “Nicht nur ein wirtschaftlicher, auch ein sozialer Reorganisationsprozeß geht von ihm aus. Im Allgemeinen entspricht jedoch nicht jedem Teile unsres Schemas des Produktionsprozesses einfach ein sozialer Kreis. Die soziale Pyramide besteht nicht aus ökonomischen Bausteinen.” (528) In the end, Schumpeter never fully realizes that he is on to something in terms of relationships. Again, it peeks out in the following passage: “An sich haben die ökonomischen Gegensätze überhaupt nicht Klassencharakter.” (532)

Another passage approaching a (not quite) revolutionary observation: “Und doch sahen wir, daß der ökonomische Interessengegensatz zwischen beiden keineswegs so sehr scharf ist. Er besteht. Aber er ist nur von der Natur des Interessengegensatzes zwischen zwei Tauschenden. *Und die reale Interessengemeinschaft ist daneben nicht zu übersehen. Beide sind typische Feinde der gegebenen Besitzverhältnisse an den vorhandenen Gütern. Beide gewinnen und verlieren in sehr vielen Fällen gemeinsam. Die Unternehmer sind die besten Kunden der Arbeiter.*” (533)

Here again, he almost makes the connection: “Aber wir können unmittelbar sehen, woher die Schärfe, des Gegensatzes zwischen Unternehmern und Arbeitern kommt. Sie kommt aus dem Verhältnis der Über- und Unterordnung, aus den täglichen Reibungen, die dasselbe mit sich bringt. Die Arbeiterbewegung richtet sich viel weniger gegen die wirtschaftliche Funktion des Unternehmers als gegen den absoluten Monarchen des Betriebs, der dem einzelnen Arbeiter nach Gefallen übel mitspielen konnte und ihm einen Teil seiner persönlichen Freiheit entzog.” (534) He even speaks of profits as “unearned income” “ohne persönliches ‘Verdienst’” (494)

What is blocking Schumpeter from connecting his notion of *dynamism* with his explicit observation of “allgemeine Interdependenz” (541) and even more explicitly and of entrepreneurship as “Funktion”<sup>15</sup>? While we may never know what caused the failure to make the connections he was himself spelling out, we can adduce that he was at least subconsciously aware, as the conclusions in his *Capitalism, Socialism and Democracy* [Schumpeter, 1976] suggest.

Moreover, we may look at his discussion of leader-follower relations for further insight. [Schumpeter, 2006, p. 543] writes

Auf jedem Gebiete gibt es statisch, disponierte Individuen und

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<sup>15</sup>Specifically, “diese Funktion ist wesentlich für die Entwicklung auf allen Gebieten” (p. 544)

Führer. Die erstern sind dadurch charakterisiert, daß sie im Wesen das tun, was sie lernten, daß sie sich im überkommenen Rahmen bewegen und in ihren Anschauungen, ihren Dispositionen und ihrem Tun unter dem bestimmenden Einflusse der gegebenen Daten ihres Gebietes stehen. Die letztern sind dadurch charakterisiert, daß sie Neues sehen, daß sie den überkommenen Rahmen ihrer Tätigkeit und die gegebenen Daten ihres Gebietes abändern.

Moreover, in an earlier passage, he claims

die meisten statischen Wirtschaftssubjekte [reagieren] nicht schnell und nicht vollständig [auf Änderung]. Meist fehlen Intelligenz und Mittel: Der Handwerker kann nicht jeden technischen Prozeß nachahmen, der Fuhrwerksbesitzer nicht eine zweite Eisenbahn neben der bauen, die sein Geschäft vernichtet. Oft auch die Neigung: Der selbständige Meister wird nicht ohneweiters zum Fabrikarbeiter, der Fabrikherr nicht zum Angestellten einer neuen Großunternehmung, auch wenn das das Richtigste wäre. (502)

We see here, not a dynamic, but a static worldview that is ultimately very much still lodged in the static social ontology of Aristotle, Cicero and Kant. We can only end this discussion with Schumpeter's words: "Jahrhundertlang kann eine neue Möglichkeit, trotzdem daß sie in recht weiten Kreisen bekannt ist, ein unfruchtbares Schattendasein führen, ohne irgendeine Wirkung nach außen zu haben." (544) It is the primary thesis of this work that cooperation is such a "new possibility" that has found its time.

Thus, while Schumpeter is either blind to – or unwilling – to see the relational view of entrepreneurship, which we introduce below, and which is expressed by Philippe de Woot's notion of "collective entrepreneurship" [De Woot, 2017, p. 14], he is most certainly aware of the *ambivalent* effects of the dynamics of "economic" development. He refers, for instance, to a *Deklassierungsprozess* [Schumpeter, 2006, pp. 504ff.], which Schumpeter recognizes to be accompanied by depressions, crisis and unemployment, where "the industrialist of yesterday is forced to sell his plant equipment as scrap metal"; etc.

This *ambivalence*, which Schumpeter admits entails elements of what James Steuart calls "relative profit" and which modern game theory calls "zero sum" (i.e., a logic of [winner-loser]), inevitably pushes the logic of *economic* innovation into direct confrontation with other logics (e.g., [common good-private interests], [power-no power], etc. cf. [Wieland, 2018, p. 57]). This means, *Schumpeter's analysis can only ever be one side of a polylingual and contextual discourse around economic, social, ecological, etc. innovation.*

While Schumpeter does not address the other side(s) of this discourse, he speaks, for instance, of the conflict between the logic of economic innovation and what he calls “die Eigenbewegung des Volkes” [Schumpeter, 2006, p. 515].

In order to formalize a synthesis of these two logics, we need to know more about how these distinct logics confront one another and the ways in which they tussle agonically with another. In order to do this, we review the central passages of Polanyi’s monumental 1944 work, *The Great Transformation*, as they relate to Schumpeter’s allusions to the *Eigenbewegung des Volkes*. We then move to put these two views in closer dialogue with one another.

## 4.4 Karl Polanyi’s Contributions to the Moral Economy

As mentioned, Schumpeter speaks in passing of an “Eigenbewegung der Bevölkerung”. This term reminds one of Polanyi, who has experienced a bit of a Renaissance in recent decades. New societies and intellectual circles have cropped up internationally (for instance, there are three “Karl Polanyi Societies” in existence<sup>16</sup>), Polanyi’s archives have recently been digitized in Montreal and a resurgence of new reflections on the history of neoliberalism and a wider literature on labor relations is rediscovering the value of Polanyi’s fundamental historical, anthropological and political writings<sup>17</sup>.

Below, we review Karl Polanyi’s contributions to the discourse surrounding the moral economy, reviewing such concepts as *embeddedness*, *fictitious commodities* and *double movements*

### 4.4.1 Economy as Instituted Process

In fact, Polanyi argues that the concept of economy can be better defined as a *substantive* rather than a *formal* phenomenon. The substantive meaning of economy, for Polanyi, “derives from man’s dependence for his living upon nature and his fellows. . . [and] refers to the interchange with his natural and social environment, in so far as this results in supplying him with the means of material want satisfaction”, whereas the formal sense

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<sup>16</sup>The author is a member of one of these, but in contact with members of all three.

<sup>17</sup>For just a small selection: [Slobodian, 2018], [Piketty, 2019] and [Benanav, 2020] draw on Polanyi, as does a new and growing literature on the digital or platform economy, such as [Kenney et al., 2020]. See also the relevant literature in economic sociology, e.g., [Beckert, 2009] for a critical survey.

derives from the logical character of the means-ends relationship, as apparent in such words as "economical" or "economizing." It refers to a definite situation of choice, namely, that between the different uses of means induced by an insufficiency of those means. If we call the rules governing choice of means the logic of rational action, then we may denote this variant of logic, with an improvised term, as *formal economics*. [Polanyi, 1992, p. 29]

Polanyi's ultimate point is that, besides the strict domain of market society or capitalism, the substantive definition of economy is more factually in keeping with the "great variety of institutions other than markets" in which human lives are embedded. Thus, "[i]t is our proposition that only the substantive meaning of "economic" is capable of yielding the concepts that are required by the social sciences for an investigation of all the empirical economies of the past and present." (ibid, p. 30)

What are these institutions and how are (or were) these empirical economies organized? Polanyi names three main "forms of integration" – or regular patterns that demarcate norms and engender expectations: exchange, reciprocity and redistribution. Whereas the substantive definition of economy recognizes each of these three forms as legitimate, the formal notion only concerns one of these: exchange. Moreover, the presence or absence of one or more of these forms of integration is "conditioned by the presence of definite institutional arrangements, such as symmetrical organizations, central points and market systems, respectively." (ibid, p. 35) The importance of these institutional arrangements cannot be stressed enough for Polanyi, as "The human economy... is embedded and enmeshed in institutions, economic and noneconomic. The inclusion of the noneconomic is vital. For religion or government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor." (ibid, p. 34)

We turn next to this notion of embeddedness.

#### 4.4.2 Embeddedness

Polanyi defines embedding by reference to relation: economy and society are intertwined. Anthropologically seen, custom and trait guide social behavior, and this stands somewhat in opposition to market logic, which makes use of and reinforces individual rationality. The old dichotomy of Weber's, between *Gesellschaft* and *Gemeinschaft* begs repeating at this stage. In the course of capitalist development, Polanyi sets forth in *The Great Transformation*, market relations and *Gesellschaft* increasingly (and necessarily) displace

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custom<sup>18</sup>, convention and *Gemeinschaft*. A process of *dis-embedding* occurs:

The market pattern. . . being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.[Polanyi, 1944, p. 61]

Polanyi's notion of "market society" conjures images of Braudel's distinction between *capitalism* and *market exchange* [Braudel, 1979]. For the time being, it suffices to say that market logic differs fundamentally from the logic that has driven human societies since prehistory. Therefore, while in the past, markets, wherever they existed, were subsumed into custom and tradition, always subservient to *Gemeinschaft*, the expansion of markets later becomes a self-reinforcing process by which the relationship between market and society is inverted, and market logic comes to dominate policy and decision-making.<sup>19</sup>

Moreover, as becomes clear from reading Polanyi (he is often misinterpreted), the mere existence of markets or exchange in societies is not of itself significant.(*ibid*) Moreover, Polanyi questions the assumptions of classical political economists, who assumed the rise of markets to be related to humankind's "natural propensity to truck and barter" (Smith). No, says Polanyi, "the true starting point is long-distance trade." Thus, Polanyi distinguishes between *local* and *internal* markets, saying that "only with the emergence of internal or national trade does competition tend to be accepted as a general principle of trading." Moreover, the role of towns as both places of increasing market activity *and* as bulwarks against the generalization and spread of the market mechanisms begs mention:

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<sup>18</sup>Which is not to be seen as mere "static relations, as Schumpeter suggests. Cf. [Thompson, 2016].

<sup>19</sup>Marxists also distinguish between "markets" and "market forces", the latter term describing this process of dis-embedding. See, e.g., [Devine, 1988].

Towns, insofar as they sprang from markets, were not only the protectors of those markets, but also the means of preventing them from expanding into the countryside and thus encroaching on the prevailing economic organization of society.[Polanyi, 1944, p. 65]

Thus towns served much the same role that our auto-immune response system plays in preventing pathogens from entering sensitive organs and pathways. This means that towns served as vehicles to *embed* markets within the body politic. Polanyi mentions the Hanse cities of Germany as examples of this effect. In the design of the Hanse cities, market towns were created which facilitated trans-national trade. However, these districts were kept physically separate from other parts of the towns, reinforcing the notion that commercial trade was something to be kept separate from local social organization.

Thus, argues Polanyi, the creation of self-regulating markets was not a spontaneous action, but of concerted action by Mercantilist leaders:

the gearing of markets into a self-regulating system of tremendous power was not the result of any inherent tendency of markets toward excrescence, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine. (*ibid*)

This means that as “the towns raised every possible obstacle to the formation of that national or internal market for which the capitalist wholesaler was pressing... the burgesses hampered by all means at their disposal the inclusion of the countryside into the compass of trade and the opening up of indiscriminate trade between the towns of the country.”[Polanyi, 1944, p. 68]. Polanyi argues that “[i]t was this development which forced the territorial state to the fore as the instrument of the ‘nationalization’ of the market and the creator of internal commerce.” (*ibid*)

Thus, “Mercantilism destroyed the outworn particularism of local and inter-municipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces.” This had as a result that “in [countries like England and France] trade and commerce spread over the whole territory of the nation and became the dominating form of economic activity.”

At last, it begs mentioning, that this *re-embedding* of society within the market did not come without risks:

With every step that the state took to rid the market of particularist restrictions, of tolls and prohibitions, it imperiled the organized system of production and distribution which was now threatened by unregulated competition and the intrusion of the interloper who “scooped” the market but offered no guarantee of permanency. Thus it came that although the new national markets were, inevitably, to some degree competitive, it was the traditional feature of regulation, not the new element of competition, which prevailed.[Polanyi, 1944, p. 70]

We return to this discussion below when we discuss *double movements*.

### 4.4.3 Fictitious Commodities

Polanyi<sup>20</sup> describes the rise of the so-called *market economy*, “an economic system controlled, regulated, and directed by market prices”, furthermore a system where “order in the production and distribution of goods is entrusted to this self-regulating mechanism [of market prices].” [Polanyi, 1944, p. 71]. Therefore, “[u]nder the guild system, as under every other economic system in history, the motives and circumstances of productive activities were embedded in the general organization of society” [Polanyi, 1944, p. 73]. As such, many resources remained *ex commercium*: “Mercantilism, with its tendency toward commercialization, never attacked the safeguards which protected... two basic elements of production – labor and land – from becoming objects of commerce.” (*ibid*). Thus, before the great transformation that was initiated in the last decade of the 18th century, “the idea of the self-regulation of economic life was utterly beyond the horizon of the age.”

In the course of the transition to a market economy, “the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society.” An independent *economic* sphere arising in the course of the 19th century Polanyi describes as “a singular departure”. Polanyi suggests that “[i]t is with the help of the commodity concept that the mechanism of the market is geared to various elements of industrial life”, commodities being defined as “objects produced for sale on the market” and “markets... are empirically defined as actual contacts between buyers and sellers.” [Polanyi, 1944, p. 75]

As Polanyi elegantly states, “[a] market economy can exist only in a market society.” This concept of *market society* undergirds much of Polanyi’s thinking. It reveals one of the main causes of friction of contemporary life: because, on the one hand, “[a] market economy must comprise all elements of

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<sup>20</sup>See [Polanyi, 1944, pp. 59-70].



industry, including labor, land and money”, yet, at the same time, “labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.” [Polanyi, 1944, pp. 74-5]

In other words, land, labor and money take on a contradictory form. On the one hand,

... according to the empirical definition of a commodity, they are not commodities. Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking of state finance. *None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious.* [Polanyi, 1944, pp. 75-6, emphasis added]

Nevertheless, as land, labor and money are elements of industry, “they must be organized in markets... in these markets, each of these elements is organized into a supply and a demand group; and that each element has a price which interacts with demand and supply.” In fact, says Polanyi, “these markets form *an absolutely vital part of the economic system.*” (emphasis added) Therefore, “[t]he commodity fiction... supplies a vital organizing principle... namely, the principle according to which no arrangement or behavior should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction.” (*ibid*)

Polanyi goes to great lengths to describe the dangers inherent in this transformation. It is useful to quote these here at length.

To allow the market mechanism to be sole director of the fate of human beings and their natural environment indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity “labor power” cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this particular commodity. In disposing of a man’s labor power, the system would, incidentally, dispose of the physical, psychological, and moral entity “man” attached to that tag. Robbed of the protective covering of social institutions,

human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed. [Polanyi, 1944, p. 76]

Ultimately, Polanyi concludes, that “[u]ndoubtedly, land labor, and money markets *are* essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill. (*ibid*)” This brings us at present to our last major concept from the Weberian-Polanyian critique<sup>21</sup>, the *double movement*.

#### 4.4.4 Double Movements

The last category of Polanyi’s thought we introduce is that of *double movement*. This concept, which relates back to our ecological framework, looks at first glance to be a reinterpretation in the social sphere of Newton’s Third Law of Motion: *every action has an equal and opposite reaction*. To quote at length from *The Great Transformation*:

It can be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market—primarily, but not exclusively, the working and the landed classes—and using protective legislation, restrictive associations, and other instruments of intervention as its methods.

Thus, Polanyi argues that sectional interests of classes often times become substituted for the general interests within this cybernetic coupling, and that this describes the situation in which the modern market society arose. This means that

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<sup>21</sup>For more, cf. [Nafissi, 2005] or the preface to the second edition of [Finley, 1999].

society itself was endangered by the fact that the contending parties were making government and business, state and industry, respectively, their strongholds. Two vital functions of society – the political and the economic – were being used and abused as weapons in a struggle for sectional interests. It was out of such a perilous deadlock that in the twentieth century the fascist crisis sprang.[Polanyi, 1944, p. 140]

Ergo, the “double movement” involves the “spontaneous” reactions of diverse groups, including workers and their organizations, but also political leaders, monarchs, nobles, the Church<sup>22</sup>, etc. This “double movement” thus catalogues the iterative development of social institutions attempting to adapt to changed circumstances cybernetically<sup>23</sup>, and the workings of these movements deeply impacted the history of industrialization and globalization, and reacted against these processes.

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable dimensions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor, land, and money. While the organization of world commodity markets, world capital markets, and world currency markets under the aegis of the gold standard gave an unparalleled momentum to the mechanism of markets, a deep-seated movement sprang into being to resist the pernicious effects of a market-controlled economy. Society protected itself against the perils inherent in a self-regulating market system—this was the one comprehensive feature in the history of the age.[Polanyi, 1944, pp. 79ff.]

We will return to the concept of double movement again below in 4.5.5 and 4.5.6 when discussing contemporary literature on the moral economy.

#### 4.4.5 The Threat of Fascism

[Polanyi, 1944] closes his book *The Great Transformation* with an appeal for socialism as an alternative to Fascism. Polanyi goes to lengths to spell

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<sup>22</sup>Cf. [Encyclical, 1891].

<sup>23</sup>Thus, not merely in the “static” manner Schumpeter argues. His view discounts dynamism emerging from the social sphere.

out the opposing tendencies inherent in both Fascism and socialism, which each represent different countermovements or double movements against the failures of the liberal order in times of crisis. It is important to recall this appeal, as the lessons apply to the present as much as they did to the inter- and post-war order Polanyi saw emerging. [Novy, 2022]

## 4.5 Formalizing a Schumpeterian-Polanyian Paradigm

Thus, we see above an obverse picture of *social innovation*. We see that Schumpeter's vision is one couched in a monolingual notion of a static social order and a dynamic economic process of innovation, while Polanyi's notion attempts to move beyond monolingualism, by attempting to focus on the dynamic *interaction* between the economic and social logics. However, while Polanyi's analysis in *The Great Transformation* focuses on the deleterious impacts of the market system on social structures, with double movements being a relatively loosely organized concept, elsewhere Polanyi makes clear that the problem is not one of a static social order confronting a dynamic economic process, but that it is a problem in *translating* from one domain to the other:

The relation of producers to each other, in a society with a division of labour based on private ownership, is a unique one: They produce goods for each other without knowing about each other. They do not work in a cooperative way but in isolated groups, isolated from one another through the private property of the owners of the firms, and thus allocation of the total labour to the individual workers is impossible to plan in advance. [Polanyi, 2018, pp. 17-18]

As distinct from Schumpeter's vision of workers as "quasi stationary economic subject" (see above), Polanyi views them much more as *stilted* by the nature and quality of relationships they are embedded in with respect to the economic process. "If the workers were not alienated from each other through the private capital of the owners of companies, and if they only produced in a cooperative way, there would be no 'commodity price'. The estrangement of man from man and the estrangement of things ('commodity', 'capital') from man are both thus consequences of private ownership in a society based on a division of labour. 'Capital' and 'prices' only appear to dominate human beings; in reality, human beings are being dominated by

human beings here. This is true not only of the economy but also of the state.” [Polanyi, 2018, p. 18]

Nevertheless, there have been criticisms of both positions. In an influential essay, [Granovetter, 1985] referred to positions like Schumpeter’s as “undersocialized” (meaning, individual rational actors have no connection with various social institutions whatsoever) and referred to positions like Polanyi’s as “oversocialized” (meaning, the extension of Polanyi’s framework *ad infinitum* would reduce individuals as mere pawns of hegemonic social institutions).

Thus, the central question for the remainder of this chapter is how does one integrate both a dynamic view of *economic innovation* in the Schumpeterian sense with a dynamic view of *social innovation* in the sense of Polanyi? In particular, how does one move beyond both positions’ weaknesses, e.g., for Schumpeter, those pointed out in the prior section, and for Polanyi, those, e.g., pointed out by [Granovetter, 1985] (i.e., the claim of “oversocialization”)? We will argue below that the concept of “moral economy” provides a good starting point for framing the parameters that arise from the confrontations arising through the friction of competing logics.

While below we agree that moral economy serves this role as a starting point, a *framework* is required for translating and operationalizing this view. After a discursive survey, we recommend the domain of *relational economics* as such a framework. First, we begin our survey with E.P. Thompson’s popular 1970 essay that coined the term “moral economy of the crowd”. Then we introduce Amitai Etzioni’s appeal for a *moral dimension* in economics, before surveying some main concepts from Sam Bowles’ *The Moral Economy* and Marcelo Vieta’s recent *Workers’ Self Management in Argentina*, one of whose central concepts applies the notion of a *moral economy of labor*. Lastly, we investigate Tim Rogan’s claims in *The Moral Economists* to situate Ken Arrow and Amartya Sen in the tradition of moral economy.

### 4.5.1 E.P. Thompson: “The Moral Economy of the Crowd”

Perhaps a good starting point for a synthetic reading of both dynamic economic *and* social processes is given by E.P. Thompson’s critique of some economic historians’ tendency towards “crass economic reductionism” which attributes mass movements to mechanistic logics like “elementary - instinctive - hunger”. Thompson refers to this perspective as “the spasmodic” (e.g., Rostow’s ‘social tension chart’). To this perspective, Thompson responds, “The objection is that such a chart, if used unwisely, may conclude investigation

#### 4.5. FORMALIZING A SCHUMPETERIAN-POLANYIAN PARADIGM 267

at the exact point at which it becomes of serious sociological or cultural interest: being hungry [...], what do people do? How is their behaviour modified by custom, culture and reason? And (having granted that the primary stimulus of 'distress' is present) does their behaviour contribute towards any more complex, culturally-mediated function, which cannot be reduced – however long it is stewed over the fires of statistical analysis – back to stimulus once again?" [Thompson, 1971, pp. 77-8]

Against the "spasmodic" or "reductionistic" image of "mobs" and "riots" on the part of, to pilfer Schumpeter's terminology, "quasi-static economic agents", Thompson introduced the notion of the "moral economy". He distinguishes between a "moral economy of provision", which he argues was lost as a consequence of a "breakthrough of the new political economy of the free market" (136), and a "moral economy of the crowd, that crowds frequently congregate to lay claim to very specific rights and that these often derive quite directly from needs. Thus, Thompson concludes that "[t]he food riot in eighteenth-century England was a highly-complex form of direct popular action, disciplined and with clear objectives." [Thompson, 1971, p. 78]

Thompson argues for a dialectical reading of the concept of a "moral economy of the crowd". While he says it "cannot be described as 'political' in an advanced sense, [...] it cannot be described as unpolitical..." (79) Since the "passionately held notions of the common weal" were not only present during acute risings, their present hung over the heads of authorities at all times. "Hence," so Thompson, "this moral economy impinged very generally upon eighteenth-century government and thought, and did not only intrude at moments of disturbance." Therefore, "[t]he word 'riot' is too small to encompass all this." (79) The point of analysis is that the crowd is an expression of the organic unity of the divergent spheres of human social life and, especially, the crowd embodies a potentiality, a kind of *potential energy*, running orthogonal to the operations of markets.

Thus, beyond any binary reading of the social as rejuvenative and markets as exploitative, or entrepreneurs as dynamic and workers as "quasi-static", Thompson interpreted the relationship much more discursively: "if the market was the point at which working people most often felt their exposure to exploitation, it was also the point - especially in rural or dispersed manufacturing districts - at which they could feel most ease." (134) This, because "[t]he market was the place where the people, because they were numerous, felt for a moment that they were strong." (Id.) We see here an attempt to move beyond the "undersocialized" position of Schumpeter and the "oversocialized" position of Polanyi to what we in the next section will call a "polylingual" perspective.

However, while Thompson’s assessment is refreshing and innovative, if we want to employ it as a framework for a Schumpeterian-Polanyian synthesis, it requires some adjustment. As [Rogan, 2017a] argues, Thompson failed to connect his (historical) concept of the “moral economy of the crowd” sufficiently with contemporary social movements like the 1968 movements. Thus, he concludes the article with the statement,

“One symptom of [the moral economy of the crowd’s] final demise is that we have been able to accept for so long an abbreviated and ”economistic” picture of the food riot, as a direct, spasmodic, irrational response to hunger - a picture which is itself a product of a political economy which diminished human reciprocities to the wage-nexus.” (136)

While we did record a slow shift in the presence of “norm-” vs. “act-based rationality in the prior chapter, we also noted that, despite historical permutations, the notion of a progressive, emancipatory view of democracy never disappeared, surfacing in domains as diverse as virtue ethics, jurisprudence and journalism. As we have argued, one of the main domains that has remained impervious to this imaginary is the discipline of economics. Thus, Robert Heilbroner, in *The Crisis of Vision in Economics*, claims that

If our general diagnosis and prescription depart significantly from that of more conventional expressions, the differences lie in two central elements that provide a fitting conclusion to our undertaking. One of these is our insistence on abandoning the natural law conception of economics and replacing it with the explicit assertion of the inextricable connection between economics and its underlying social order. Our second differentiating element concerns the necessity of reorienting the form of economic theory from prediction to policy guidance, a reorientation that emerges from our diagnosis of capitalism as essentially on the defensive before forces of its making, but not under its immediate control. [Heilbroner and Milberg, 1996, Ch. 7, iv]

Thus, any such synthesis needs to take a view of seeing *both* “economy” and “society” as dynamic domains that mutually determine another.

### 4.5.2 Co-determination

One of the important debates that must take central stage with respect to this search for a synthesis is the notion of rationality employed by economists and

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other social scientists. Thus, a growing literature in recent years, beginning with Herbert Simon's pioneering work, has begun analyzing the nature and varieties of "rationality"<sup>24</sup> and the nature and origins of preferences<sup>25</sup>. Similarly, Amitai Etzioni has attempted to lay out the foundations of a "deontological multiple utility model" for describing economic behavior.<sup>26</sup> Below we proceed to summarize the relevance of Etzioni's writing for the moral economy.

Etzioni begins with the premise that "morality and pleasure constitute distinct universes-of-content" [Etzioni, 2010, p. 22]. Moreover, individuals are "systematically and significantly affected by moral factors." (ibid) Indeed, Etzioni's criticism and his alternative vision, which he refers to as the *deontological multiple-utility model*, is couched in "alternative assumptions about human nature." Particularly, Etzioni intends to add morality to utilitarian pleasure, add community to competition, move towards a frame embracing the Socioeconomics outlined above. This new paradigm, which for Etzioni includes *the moral dimension*, has the benefit of being ethical, predictive and logical<sup>27</sup>.

For Etzioni, a fundamental question is *what motivates behavior?* In standard neoclassical theory, agency and behavior is attributed broadly to *utility*. Etzioni describes three main definitions of utility: firstly, Bentham's "original" pleasure principle, i.e., equivalent to the latter's felicific calculus, meaning

. . . that property in any object, whereby it tends to produce benefit, advantage, pleasure, good, or happiness, (all this in the present case comes to the same thing) or (what comes again to the same thing) to prevent the happening of mischief, pain, evil, or unhappiness to the party whose interest is considered.  
[Bentham, 1996]

This first type of utility, Etzioni refers to as *pleasure* or *P-utility*. The second type of utility attempts to respond to latter-day criticisms of the "pure" utility, by including consumption of other in the utility function. This type of utility, which I discuss extensively in [Warren, 2015], Etzioni labels *interdependent* or *I-utility*. The third type of utility refers to attempts to generalize utility to

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<sup>24</sup>Cf. [Aumann, 2019] and [Kacelnik, 2006].

<sup>25</sup>Cf. [Henrich et al., 2004]

<sup>26</sup>The great genius in his writings is his anticipation, seemingly independently of the so-called "post-Walrasian economists" (including Bowles and Gintis), of the demise of the paradigm of methodological individualism and its associated utilitarian notion of utility and rational expectations.

<sup>27</sup>We have already pointed out some of the logical fallacies and predictive shortcomings in the standard economic model above: e.g., see 2.7.3.



such an extent that it includes any motivating factors, This “formal” concept of utility acts as a common denominator and resembles a theological concept, as Etzioni notes (*ibid*, p. 29). It is referred to as “*the great X*” or simply *X-utility*.

In preempting the attempts by some behavioral economists to “save” the Walrasian paradigm by dissociating “long” and “short-term” thinking or finding other fixes, via “nudging” and similar phenomena, to “account for” inconsistencies in what Etzioni calls the “single-utility” model, Etzioni suggests that extending the definition of utility to encompass others’ consumption perverts the notion, and replacing it with a “Great X” renders it a useless concept.

### Das Smith Problem

Recalling the intellectual fervor surrounding “Das Smith Problem”, Etzioni suggests that somewhere along the way, economics began ignoring moral precepts, preferring *apparently* value-free terrain of exchange to the “messy” and contested world of ethical and moral values and their impact on moral behavior<sup>28</sup>. This was mistaken, according to Etzioni, who sees in “the two Adam Smiths” equal use towards explaining economic phenomena. In fact, he argues for the existence of a distinct plane for *affirmation*, a failure of which to recognize “leads to a variety of defects”. Etzioni marshals a litany of empirical and theoretical examples to outline these defects, which derive from ethical, logical and predictive weaknesses<sup>29</sup>.

In fact, he points out, falling in line with Mitchell[Mitchell, 1918] and others before him, in a tradition of critics of utilitarianism’s *normative foundations*. Etzioni cites Bentham, suggesting that *P-utility* “pain and pleasure are not only empirically our masters but also our ethical guides: ‘It is for them alone to point out what we ought to do, as well as to determine what we shall do.’ [...] They, he added, set the standards of what is right and wrong.” (*ibid*, p. 24ff.) Ultimately, Etzioni believes that economics and social science generally will gain much from including a place for “duty” and “right action”.

This inclusion, he argues, cannot be made by merely extending the notion of utility to the breaking point. In his own words,

From a methodological viewpoint, the all-inclusive expansion of the concept of utility violates the rules of sound conceptualization. Once a concept is defined so that it encompasses all the incidents

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<sup>28</sup>Cf. also [Sen, 2017].

<sup>29</sup>For instance, he points out the absurd notion of “afterlife consumption” (*ibid*, p. 26).

that are members of a given category (in the case at hand, the motives for all human activities), it ceases to enhance one's ability to explain. (p. 28)

Thus, much like the Greek gods of antiquity, *X-utility* can be applied to explain everything, and so it adds nothing to theory. Similarly, *I-utility* appears tautological and, in any case, does not appear to comport with reality<sup>30</sup>. Of the remaining utility, Bentham's original *P-utility*, it serves our purposes to quote Etzioni at length:

P-utility has long standing philosophical and psychological foundations; it provides a major explanatory concept and generates testable hypotheses. That is, it constitutes a logical, proper, and productive theoretical concept. To the extent that it is used to suggest that all (or practically all) behavior is explainable by pleasure or narrow self-interest, it is clearly wrong; [...] often behavior is, to one extent or another, moral and self-denying. To the extent that it is hypothesized that the pursuit of P-utility is a major explanatory factor, the hypothesis is clearly valid, but it points to the need to recognize other utilities.[Etzioni, 2010, p. 34]

### Co-Determination

Particularly, Etzioni prescribes so-called *co-determination theory*, where (at least) two distinct forms of motivation are present. This framing appears fortuitous, particularly as moral convictions guide behavior like saving, which the neoclassical model explains poorly<sup>31</sup>. Rather than interjecting ourselves in a multiverse of infinite futures, a calculus that we have recalled in 2.7.3 is theoretically contradictory and empirically questionable, saving behavior, according to Etzioni, can be better explained by the conflict between “consumption now” and a moral commitment to saving. Of particular note is Etzioni's focus on internalization [Etzioni, 2010, pp. 45ff.], which we return to again in Chapter 6 when we discuss *constraint theory*.

We lastly summarize Etzioni's criteria for moral acts. Particularly, moral acts “reflect an imperative, a generalization, and a symmetry when applied to others, and are motivated intrinsically.” [Etzioni, 2010, p. 42ff.] Each of these criteria must hold for an act to be moral: one or two are not sufficient. Thus, morals are de-ontological and may even involve invocation of “the sacred”; while generalizability refers to the ability

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<sup>30</sup>cf. [Bowles and Gintis, 2013].

<sup>31</sup>Cf. the discussion of *ergodicity* above in 2.7.3.

to justify an act to others and to themselves by pointing to general rules, their deontological duties. Statements such as “because I want it” or “I need it badly” do not meet this criterion because no generalization is entailed. “Do unto others as you wish others to do unto you” is a prime example of a generalized rule [Etzioni, 2010, p. 43]

### 4.5.3 Marvin T. Brown: An Economy of Provision

[Brown, 2010]’s book *Civilizing the Economy* seeks to outline a shift away from an economics of property, as represented by Adam Smith’s *Wealth of Nations* with its mercantilist-inspired logic of equating welfare with growth of (privately-owned) productive resources. Brown emphasizes the ethical dimensions of economy, stating

Furthermore, we should remember that Adam Smith was a moral philosopher, not an economist. How we envision the economy, in other words, is not so much an economic question as a philosophical question, and, more specifically, an ethical question. Ethics, after all, is about how we should live together. The answer we give to this ethical question will finally determine our understanding of economics. [Brown, 2010, p. 5]

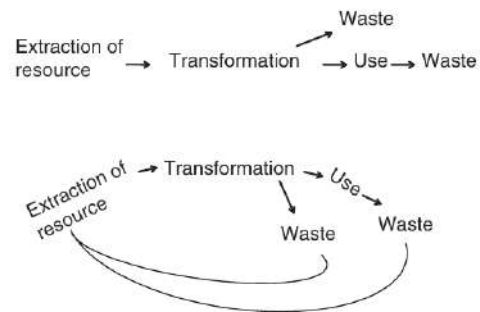


Figure 4.1: A graphic representing the shift from linear to circular thinking, from [Brown, 2010, p. 163].

Brown’s mission is to argue that a transition to an economics of provision is desirable. This idea is based on the classical notion of *economics* going back the origins of the word, which derives from the Greek *oikos* and *nomos*, meaning essentially household management. Writes Brown,

Household management was about making provisions, not accumulating property. Some groups and organizations are already thinking this way. The commercial carpet company Interface Inc., for example, thinks in terms of providing a service that covers floors rather than being a business that sells carpets as a product. Interface found that commercial clients do not want to own a

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carpet, but they do want their floor to be covered nicely. By providing what buildings need, Interface has been able to make its business much more sustainable than it was before. They manage the whole process of making, maintaining, and recycling the floor coverings they offer. [Brown, 2010, pp. 5-6]

One of the impacts of moving from property to provision is a mental shift away from “internal”/“external” thinking that has pervaded economics since the rise of the neoclassical mainstream. This entails, for Brown, a shift from linear to circular thinking, as represented by Figure 4.1.

It is clear from studying Brown’s proposal that his *economy of provision* is couched in a framework of moral economy. His focus on shifting from *property* to provision provides one formal attempt to turn the economic question from a nexus of contracts to one of relations. This shift is represented in Figure 4.2.

##### 4.5.4 Tim Rogan: Amartya Sen and Kenneth Arrow as Oases in the Neoclassical Desert

[Rogan, 2017a, p. 185] suggests that moral economists like Thompson “failed to rise to the occasion” in the era of crisis that began in the 1970s. In fact, he argues, this is due to a loss of potency for such moralizing arguments in a world dominated by “anti-humanist skepticism”. However, the era of legitimation crisis of late capitalism “need not have been the end of the line for the moral economists’ critique of capitalism” suggests Rogan (ibid). The reliance on theological or proto-theological justifications of collective action was not the only path:

Karl Polanyi had pointed out that the same objective of destabilizing utilitarian orthodoxy might be served by rewriting the history of political economy to re-inscribe a bright line economists had once drawn between human beings and the animal world. Modern-day economists were mistaken to imagine, with the utilitarians, humans interacted with one another in a manner modeled by goats and greyhounds on the island of Juan Fernandez. (ibid, pp. 186-7)

Thus, after summarizing the “inventive but unconvincing” work of E.F. Schumacher, Rogan then points to two modern examples of economists attempting to synthesize a materialist and a moral outlook: Kenneth Arrow and Amartya Sen. The former’s *Impossibility theorem* has often been interpreted “as nihilistic, as authority for the proposition that getting from

individual values to social choice by rational and otherwise acceptable means is impossible.” (ibid, p. 193) However, Arrow’s theorem

was not designed to frustrate reformers or delegitimize social policy—to negate the possibility of social choice per se. Indeed, it can be seen as an attempt to facilitate social choice. The conditions economists were insisting that any estimable process for aggregating individual preferences must meet were in fact too demanding.

Thus, Arrow’s pragmatic conclusion is that “We should be less exacting in our demands, more willing to sanction systems of collective choice which do not satisfy those conditions: this was the proposition Arrow’s impossibility theorem put to his colleagues.” This is to say that a more pragmatic reading of Arrow, one that recognizes the context of his upbringing and the particular social values he espoused, is an attack on the impotence the continued application of “utilitarian atomism” renders social policy a victim of.

Thus, Arrow “was taking [welfare economists] to task. . . for their incapacity to describe what was actually happening.” Moreover, “[h]is argument was. . . that there were solidaristic dynamics at play in economic life now which economists needed to compass to do their descriptive work properly.” In Arrow’s phrasing:

Part of each individual’s value system must be a scheme of socio-ethical norms, the realization of which cannot, by their nature, be achieved through atomistic market behaviour.

Thus, according to Rogan, “if [economists] were adequately to theorize processes of reform which were actually happening in non-dictatorial politics all around them, economists needed to find a way of factoring this ‘scheme of socio-ethical norms’ into their models.” (Id., 194) Interesting to note also Arrow’s use of ‘custom’ and

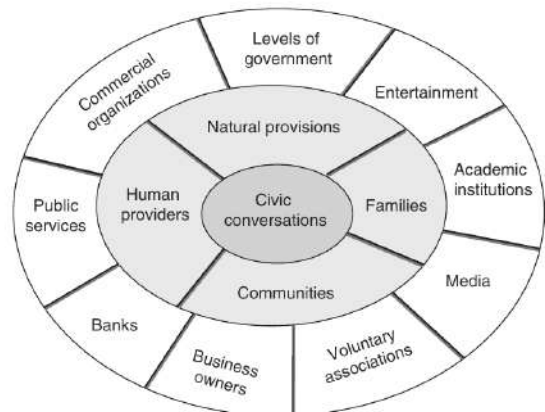


Figure 4.2: A graphic representing the shift from property to provision, from [Brown, 2010, p. 169].

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‘convention’ as tools to integrate such schemes into economic theory, prefacing our discussion below in Chapter 6.

Amartya Sen is similarly introduced as a successor to Arrow in the quest to synthesize political and moral economy. Whereas Arrow contented himself with temporary suspensions of the four “naturalistic” principles making up the criteria for welfare policy, “Sen has taken a more radical view.” (195) In his classic *Collective Choice and Social Welfare*, Sen calls into question the existence of such “naturalistic” criteria: “Once the non-basic nature of the usual principles of collective choice is recognized, some of the rigid distinctions must go.” [Sen, 2017, p. 265]

The model of *homo economicus* is “not a particularly useful model for understanding problems of social choice.” This, particularly due to its lack of attention to context and preference formation. For, as Sen argues, “[t]he society in which a person lives, the class to which he belongs, the relation that he has with the social and economic structure of the community, are relevant to a person’s choice not merely because they affect the nature of his personal interests but also because they influence his value system including his notion of ‘due’ concern for other members of society.” (Sen, quoted in [Rogan, 2017a, p. 196])

Ultimately, Rogan argues that Sen “handled the question of what more and what else besides cold rational calculators men and women happen to be less in the manner of Tawney and Thompson (using theology and natural theology to substantiate a strong conception of human personality) than in the manner of the later Polanyi (maintaining a more basic distinction between human nature and animal regularity to expose utilitarian reasoning as misconceived, insisting that there is something distinctive or special about human beings without need to specify what).” It serves to reproduce the relevant quote by Sen here at length:

That all men are human is, if a tautology, a useful one, serving as a reminder that those who belong anatomically to the species *homo sapiens*, and can speak a language, use tools, live in societies, can interbreed despite racial differences, etc., are also alike in certain other respects more likely to be forgotten. These respects are notably the capacity to feel pain, both from immediate physical causes and from various situations represented in perception and in thought and the capacity to feel affection for others, and the consequences of this, connected with the frustration of this affection, loss of its object etc.

The assertion that men are alike in the possession of these characteristics is, while indisputable and (it may be) even necessarily

true, not trivial. For it is certain that there are political and social arrangements that systematically neglect these characteristics in the case of some groups of men, while being fully aware of them in the case of others; that is to say, they treat certain men as though they did not possess these characteristics, and neglect moral claims that arise from these characteristics and would be admitted to arise from them. (Sen, cited in [Rogan, 2017a, pp. 197ff.])

#### 4.5.5 Samuel Bowles on the Moral Economy: A Calculus of Double Movements

Samuel Bowles outlines a vision for a society beyond Hume’s “Constitution for Knaves” in this wide-ranging work. Accessing a similar critical strain of social theory and history, Bowles draws, among others, upon Machiavelli and contemporary behavioral psychology to provide evidence for intrinsic moral inclinations. Focusing policymaking solely on incentives often times ignores these inclinations and leads to “crowding out”, often times compromising the efficacy of the policy itself. Among others, Bowles introduces categories like “non-separable preferences”, which recalls Amitai Etzioni’s discussion above of *co-determination*.

One of Bowles’ most cogent conclusions in the book is that Hume’s maxim about knaves be extended to state that

good policies and constitutions are those that support socially valued ends not only by harnessing self-interest but also by evoking, cultivating, and empowering public-spirited motives. . . [Indeed,] many of the greatest challenges now facing the world—epidemics, climate change, personal security, and governing the knowledge-based economy—arise from global and other large-scale human interactions that cannot adequately be governed by channeling entirely self-interested citizens to do the right thing by means of incentives and sanctions, whether provided by private contract or government fiat.[Bowles, 2016, p. 222]

Thus, Bowles, agreeing with Etzioni, Sen, Arrow, Thompson and Tawney, is convinced of the need for a distinctly *moral dimension* to social policy and political economy. Moreover, like Karl Polanyi, Bowles appears centrally interested in understanding double movements more analytically and abstractly than a mere description of particular historical events. Notions like “strong crowding out” give a clear analytical guide to policy seeking to harmonize

various segmented interests in society and could serve as part of what I refer to as a *calculus of double movements*. We return to this topic in Chapter 6.

#### 4.5.6 Marcelo Vieta and the Moral Economy of Labor: Rediscovering Thompson

[Vieta, 2019] seeks to situate the rising movement of recovered enterprises (*empresas recuperadas por sus trabajadores*, or ERTs) in Argentina within the context of E.P. Thompson’s notion of *moral economy* and thus also deserves mention at this stage. One of the great contributions of the book is its clear exposition of the context and concept of *autogestion*, usually translated as *self-management*. This is an important element to emphasize. The English-language literature on self-management is colored by several prominent negative episodes, such as the plywood and re-forestry coops of the American Pacific Northwest<sup>32</sup>. These cases, which today have largely been supplanted by traditional firms, have helped push a decidedly negative narrative in the English-language literature on self-management, tending to emphasize problems like under-capitalization and degeneration (a process whereby a labor-managed firm transforms into an investor-managed firm).

Vieta shows that Argentinian ERTs are usually long-living and not restricted to labor-intensive industries. Moreover, while some have adopted more traditional hierarchical management styles, many of those ERTs that arose as a result of class struggle retain their connection with a tradition of strong grassroots organizing. Indeed, in keeping with this notion of grassroots organizing and the phenomenological *creation* of class-consciousness, Vieta continually emphasizes the nature of the (re)constitution of the working class as a struggle to reclaim, re-appropriate and reconstitute – at various stages and with various tools – notions of community, dignified labor and of an underlying sense of solidarity with other workers around the globe. The point being that ties of solidarity are developed through shared experiences forged by a common fate of precariousness [Vieta, 2019, p. 219].

This reading of class suggests that, as Amartya Sen implied above, it is not merely a fixed magnitude, but rather that it occurs as process and that through shared struggles, new forms of consciousness are created. “At the same time that [ERTs] were resisting neo-liberalism. . . , people also began to co-create community-based solutions that looked beyond the mediation of competitive markets, austerity, and cumbersome state or union bureaucracies’ (ibid, p. 103). In making the case for class as a dynamic process, Vieta borrows from historian E.P. Thompson, philosopher Maurice Merleu-Ponty,

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<sup>32</sup>Cf. [Pencavel, 2002].



and outlines a tradition in socialist thought sympathetic to self-management, which he labels the *moral economy of labor*<sup>33</sup>.

#### 4.5.7 Coming Full Circle: From Concept to Framework

The question we return to in closing this discussion on moral economy is again, *how can the concept be harnessed to build a framework for moving beyond the frameworks of both Schumpeter and Polanyi, to integrate a dynamic view of economy and of society?*

Tim Rogan calls for a return to the precepts of the moral economy, and his book closes with an appeal to supplement the utilitarian arguments against inequality that dominate today's normative economic debates with *moral* arguments as to the deleterious character of market exchange. This endeavor, which Rogan sees carried out in Amartya Sen and, before him, Kenneth Arrow, who he claims continue the tradition that Tawney and Polanyi initiated and which goes back to Edwardian England, is not only restricted to mainstream economists or even academics from the Global North. In fact, in recent decades, a number of significant developments have occurred that have made and continue to make the "moral economy" a relevant topic of debate. A first of these is the concept of a "social and solidarity economy" and a second is a recent increase in attention given to ethical and epistemological viewpoints from the global South, such as Africa's notion of *Ubuntu*. A third vital development is the rise of *relational economics* as a paradigm. We recount each of these in turn.

The concept of "social and solidarity economy" (SSE), which is more prevalent in Latin America than in the Anglo-American intellectual domain, similarly responds to questions as to the nature of "economy", attempting to draw in substantive activities like care work and reproduction, that are essential to maintaining the economy but traditionally not included in calculations.[Ridley-Duff and Bull, 2021] In many ways fulfilling Polanyi's notion of *double movement*, we see people organizing themselves into institutions to deal with the fallout of social systems in crises in cases where states and markets often fail to step in. Thus, with Italy's social and community cooperatives (see Chapter 11) and a new class of Internet platforms labeling themselves as "platform cooperatives" (cf. Chapter 10). Here, the moral dimension Etzioni calls for co-determines strategy and operations to a large extent.

Similarly, a renewed interest in concepts like *Ubuntu*, a southern African

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<sup>33</sup>See particularly Vieta, Chapter 4.

term meaning a shared bond of humanity and dignity, particularly in domains like Constitutional law and governance[Muvangua and Cornell, 2012], shows the lingering need for co-determinative theories social behavior, to borrow from Etzioni, or for re-embedding social activity, to borrow from Polanyi. Whatever the future holds for the world’s biological, climatological, economic and social systems, it appears clear that the subject of the moral economy is, if anything, more relevant than ever.

## 4.6 A Framework for the Moral Economy

If, then, SSE is a suitable framing of the object of study, then the question remains of the research paradigm and the methodology. In the following discussion, which will frame the transition to the next chapter, we argue that the domain of *relational economics* provides such a framework. A perspective currently in development, it was initiated by Lucio Biggiero and Josef Wieland (cf. [Biggiero, 2022]).

The latter of this duo writes in his [Wieland, 2018, p. 1] that “Since its earliest beginnings, economic theory-building has always been linked to a spatial conception of society. The *oikonomia* in the Greek *polis*, the household economy,” [Weber, 1972] and various other iterations has been based on the conception of a “social, political and cultural space that provides a comparatively stable environment for the system of economic transactions.” This entrenched distinction “between system and environment,”

in turn, has made the economy and society mutual sources of external positive and negative effects: the economy is an engine for societal development, concerning both material prosperity and the sustainability of living conditions. Conversely, society defines the political and cultural prerequisites and conditions for any and all economic services. But how is the connection between economic transactions and the societal space to be understood in a global economy in which the idea of a global society that is separate from the global economic system is, to date, at least, hard to imagine?

While the old school of national economics mentioned in the introduction approaches the economy “as a space, or as a politically or administratively integrated unit”, the relational perspective “[sees] it as a network of transactions on the part of individual and collective actors from various areas of society, especially from the economy, politics and civil society.” And while these various collective and individual actors engage in competitive behavior –

as we know too well from any neoclassical economics textbook – “they are nonetheless potentially also cooperating economic, political and civil-society actors—either individual or collective.” (2) Interpreted thus, “the global economy becomes a network of regional, national, transnational and international economic interactions between actors, who dock their respective decision logics to transactions.” These transactions, which the relational perspective, like Polanyi, views as extending beyond mere exchange transactions, become “attractors of societal interaction.”

These transactions and the actors who engage in them, both firms, governments and civil society, become the unit of analysis. Thus, we argue that to forge a suitable synthesis of the Polanyian critique of political economy and the Schumpeterian critique of neoclassical economics, we must abandon the perspective of a *mere* “political economy” and adopt a more expansive notion of a *communicative economy*<sup>34</sup>, which is able to respond to the challenge of globalization, which, for [Wieland, 2018, p. 2],

consists in the fact that the continuous dynamic and complexity of interaction between regional, national, transnational and international transactions must be furnished with a governance structure that delivers value creation and which is productive and mutually advantageous for all stakeholders involved.

Thus, instead of following the paths of both Polanyi and Schumpeter, who were concerned with, as Schumpeter puts it, “manchem verdorrten Zweiglein vom Baume A. Smith’ neues Leben einzufloßen” [Schumpeter, 2006, p. 498], the path laid out by the relational view seeks to supplement the lessons of the Smithian tradition of (classical) political economy with a discursive approach to the various communicative domains that connect an economic logic with social and political logics, often in indeterminate and complex ways.

### 4.6.1 Discrete versus Relational Exchange

One of the main ideas is the idea of *relational exchange*, an idea with roots in Durkheim and Macneil. The idea comprises a *new social contract*, comprising both an internal and a societal component. Additionally, it embraces the idea of multiple logics, instead of, e.g., simply the Utilitarian one of (pleasure-pain). However, the formulation by Macneil, [Wieland, 2018, p. 33] argues, forgets to consider *communication* as one such logic. Thus, the entry point of relational economics is the process of *relationalizing* different logics involved in relational exchanges. This involves rendering the hierarchical relations

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<sup>34</sup>Georges Bataille spoke of a “general economy”. See also [Leydesdorff, 2021, p. 22].

involved explicit, including the processes of incursion and recursion involved in setting expectations, as described back in Chapter 2 in Figure 2.1.

### 4.6.2 Relational Goods

Moreover, the relational perspective introduces the idea of *relational goods*. These entail a shift in perspective from “standard economics [, which] essentially shows us a purified ‘thing-to-thing’ world, in which there are no actor-to-actor relations” (35) to a perspective embracing *moral goods*, a term associated, among others, with Kenneth Arrow. Relational goods cannot simply be reduced to instrumentality, as Bruni argues. [Wieland, 2018, p. 35] For instance, a relational good may arise due to intrinsic motivation, or by a “unit of difference between economic and moral coding.” This means that relational goods are goods, but not commodities, meaning they have a value, but usually no price. An example described by Wieland is the atmosphere at a football match. Such events involve both issues of status and esteem, which are notoriously difficult to attribute discrete value to [Brennan et al., 2004].

There are three types of relational goods, according to Wieland: type 1 involves personal relations, involving things like productive relations, e.g., relations between manager and firm. Type 2 includes relations like those to customers, partners or competitors (*agonic*), and type 3 involves what is typically referred to as “externalities” (such as the football match). Moreover, relational goods are “scarce, generate costs” and are “not marketable” (36). Particularly the question of *governance* is one involving relational goods, via the fact of governance as a “relation of relations” and itself a relational good, quo [Nussbaum et al., 2001].

### 4.6.3 Relational Governance

*Relational governance* refers to the fact that in governance relations, formal and informal mechanisms and logics interact and are not independent.<sup>35</sup> Relational governance, as Josef Wieland emphasizes regarding this formal-informal distinction, does not refer to “self-enforcement”. That is, the focus “lies in the *mechanism* of their enforcement”. [Wieland, 2018, p. 43, own emphasis] In other words, relational governance consists of a “suitable proportioning of multiple governance forms”. This proportioning is necessary to ensure continued cooperation among the stakeholders, which, as we have seen above, is the deciding factor that enables the modern economy to provide increased welfare.

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<sup>35</sup>cf. [Cao and Lumineau, 2015], cited in [Wieland, 2018, p. 43].

*Relational contracts* are thus “functional equivalents of formal contracts and hierarchy in a setting characterized by uncertainty” (43-44) These can be represented formally as a function dependent on the factors *individual*, *organizational*, *formal* and *informal* factors. This can be represented by the following equation:

$$RT = f(I, O, SII, SFI). \quad (4.1)$$

Equation 4.1 states that relational transactions are influenced by the interaction of individual, organizational, “social informal institutions” and “social formal institutions”. These facts can be substitutes (as in exchange transactions) or complements (as in relational transactions), and can also interact or combine in new and innovative ways. Wieland states that “it is not the individual parameters of the governance function that are selective, but their relation.” Relational contracts reduce uncertainty, in particular via recursive combinations of the different elements in Equation 4.1, which reduce uncertainty *indirectly*, by operating on trust. Examples of this are the benefits of flexible relationships with product suppliers [Artz and Brush, 2000]. Such relational contracts are thus based on both “weak” as well as “strong ties”, in the language of [Granovetter, 1985]. In such circumstances, the adherence to norms<sup>36</sup> can be mutually beneficial.

Furthermore, according to the relational view, governance is both a *form* (a relation) and a process (an event, i.e., an event of “relationalization”) It furthermore views relations (e.g., in the form of relational goods and ethical norms) as assets. Furthermore, it sees three main forms: *persons*, *organizations* and *markets*, which serve as functional equivalents (47). The process of interaction between these three forms, which is facilitated by governance structures and actions, redefines “the quality of the function(s) for which they are equivalents” (Id.).

As stated, governance structures are essential here, as they “transform potential relations into actual ones.” Accordingly, “[a]t a given point in time during the interaction process, the governance of the relation of resources is operatively closed, but communicatively open”, meaning that while a discrete transaction is carried out in a fixed setting, the setting itself results from a connection, e.g., between the economic and social domains. This communicative openness means one requires an explicit social theory, “without [which], developing a relational economics isn’t feasible.” (p. 48) The social theory RE proposes is briefly outlined below.

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<sup>36</sup>Which operate as constraints, as we discuss in 6.5.

#### 4.6.4 Polylingualism, Polycontextu(r)ality and “Embedding”

While discrete exchange is *monolingual*, reflecting only on the dialogue (payment–non-payment), RE is *polylingual*, meaning it recognizes multiple logics (e.g., cost–earnings, compliance–noncompliance, public–private. etc.). It can thus be considered “inclusively rational” (cf. *co-determination*) and respective of the fact of “shared intentionality” (49-50). However, expectations must be guided by various guidelines and procedures. The parameters from Equation 4.1 are essential in guiding expectations. After all, as mentioned, governance is a “relation of relations”, thus relational governance must exhibit the traits of being recursive, simultaneous and productive.

The polylingualism in relational economics is the result of seeing society as an emerging and transitory process. [Wieland, 2018, p. 55] refers to Max Weber as an proponent of RE in that he viewed socialization as occurring via transactions. At the same time, Aristotle’s view of community as consisting of both economy *and* the ethics of distributive justice is a manifestation of a relational standpoint (Id.). RE is thus at least in part a *political economy*<sup>37</sup>, in the sense that it concerns a logic of value-creation. (56) In (formal) opposition to Polanyi’s call for “embedding”, Wieland claims.

Relational Economics does not view the connection between economy and society as a process of embedding, integrating or reintegrating the economy in a hierarchically superordinate life-world. It views the idea of using ethics, politics, culture or religion, in fact, of using any superior system in the society to directly control the economy and firms with considerable scepticism—not because it would be impossible to do so, but because, in its view, doing so would entail prohibitive losses of societal welfare.

Importantly, instead of viewing “economy”, “society”, etc. as closed systems, RE views “[m]arkets and organisations are fundamental institutions and organisations of society, with which and within which they perform their economic transactions.” Each of these elements, imbued with a distinct logic, together “produce different, but equally valid forms of the socialization of economic actors, the relationalisation of which is, as we have seen, contingent on the history of the human race.” That is to say, while the discrete forms and processes have changed, evolved and been superseded between various historical eras, each era in human history “share[s] the conviction that the

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<sup>37</sup>I will argue later, following [Leydesdorff, 2021] that scientific discourse can also be relationalized, extending the domain beyond interactions between society–economy.

economic organisation of a society is always a process in which both economy and society are consummated simultaneously.” (56)

Moreover, while RE views Granovetter’s analysis as “accurate”, it extends such notions beyond the domain of personal networks. Thus, RE “generalises the argumentation by replacing exchange with transaction as the basic unit of analysis, especially by including institutions and organisations, as well as their respective modes of communication and decision-making in the scope of investigation.” (Id.) At the same time, it recognizes Granovetter’s observation that purely anonymous relations are “non-existent” [Granovetter, 1985, p. 495] as being generally true.

A further problem with the task of “embedding” is the fact that “the whole of the society in which economic operations could be embedded, is [...] not observable from an Archimedean (religious or ideological) stance, which would pave the way for holistic descriptions and a stable, normatively controlled integration as part of the whole.” (57) Moreover, because “Free and open societies are realised in the appearance, disappearance and continued existence of events and as such, also in their relational transactions” it is in the *polyvalent* interaction of various logics (compliance–noncompliance, costs–earnings, etc.) that achieves what Polanyi referred to as “embedding”. Thus, it is through a *recognition* of the polycontetuality, aided by *polycontextuality* and *polylingualism* that RE seeks to achieve the new synthesis. [Wieland, 2018, p. 57]

## 4.7 Conclusion: What is A Moral Economy?

In this chapter, we have learned that the *moral economy* is actually a more fundamental economic concept than the later, Utilitarian-inspired notions that have been popularized by neoclassical economics going back to Aristotle’s coinage of the term οἰκονομικός. In particular, we learned that, while Aristotle contributed greatly to the connection of morality and the economy, he also negatively impacted generations of later scholars with his ontologically static view of human beings as having a social nature that they have no choice in. That is to say, he propagated a pernicious version of master-slave thinking that was maintained, relatively unchanged, until Hegel’s opaque and difficult, yet innovative notion of the master-slave dialectic.

It was this latter concept that provided much inspiration to the young Karl Marx in his intellectual development, and one sees traces of it in his discussion of the role of combination in contributing to economic growth. He was as such also arguably an early exponent of a *relational economics*. Schumpeter’s contributions to the moral economy were also reviewed, partic-

ularly his important system-level thinking with respect to the non-linearity and indeterminacy of economic development in itself, which he interpreted as firstly a historical phenomenon. Polanyi's categories and analysis in *The Great Transformation* formed the next milestone in our discussion of the meaning of *moral economy*, his notions of fictitious commodities, double movements and embedding in particular.

These notions went on to influence E.P. Thompson, who coined the term "moral economy" to refer to a specific historical process relating to Polanyi's notion of double movement. Moving beyond Thompson, we reviewed Heilbroner's contributions to the study of historical economic development and also reviewed Etzioni's notion of *co-determination*. After reviewing some notable subsequent contributions to the domain of moral economy, we asked the question of where to locate a suitable analytical framework for the moral economy. The answer we discovered was in the newly developing discipline of *relational economics* (RE), which promises to focus on an extended domain embracing a substantive view of the economy. Its basis unit of analysis, as we discovered, is the relational transaction, which covers far broader ground than the limited notion of the exchange transaction.

Moreover, as we discovered, RE's focus on *communication* and its inclusion of multiple logics easily allows us to incorporate elements like Etzioni's *co-determination*, as well as Aristotle's notion of civic moral partnerships, as well as providing a framework for, as Polanyi calls for it, "re-embedding" the economy in society. This needs, as we saw, not involve a limiting of the "economic" sphere, but merely its enlarging to include more logics, and tools for the expression and regulation for those logics.

As the next chapter will discuss, the preferable model for expressing and regulating the various logics of a relational economy is *democracy*.



# Chapter 5

## Democracy

As we have seen in the preceding chapters, the struggle for democracy has been a *desideratum* seen throughout history, and has been historically increasingly adumbrated the economic domain. From the “shaking off of burdens” in the Greek 7th and 6th centuries all the way to the self-determination of the Paris Commune of 1871 and the birth of the modern cooperative movement, the connections between the desire for political participation on the one hand and economic self-determination on the other has been a recurring theme throughout history. Moreover, we learned in Chapter 4 that the realm of labor, land, money and many other “fictitious commodities”, but also domains like food, shelter, security (think of [Maslow, 1943]’s hierarchy of needs<sup>1</sup>) function not according to pure exchange, but involve directly relational transactions and thereby fall within the domain of the *moral economy*. Moreover, we outlined a tradition beginning with Hegel’s break from the Aristotilian framework and culminating in Marx, Polanyi and Schumpeter’s notions of *dynamism*. This tradition, we argued, reveals that the fact of human cooperation, resting both on certain “pre-adaptations” and the “moment” of industrial production, has ushered in untold wealth and development.

The fact remains, however, that we have so far been mostly concerned with the *how* of cooperation. Thus, in this final foundational chapter, we attempt to draw a synthesis between the prior discussions, particularly towards the task of beginning to answer the question of *why cooperation?* This chapter presents the final stage of formalization before moving on to Part II of the present work, where we attempt to develop a formal epistemic framework for analyzing, understanding and *contextualizing* cooperation. Accordingly, and as the title of this dissertation is *The Cooperative **Economy***, this chapter attempts to connect the discussions of Chapters 3 and 4 with an economics

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<sup>1</sup>Cf. [Deckers, 2018].

or political economy framework. As such, it emphasizes the importance of both law and jurisprudence on the one hand, and principles and values on the other, in determining practices. It draws heavily on the work of David Ellerman. We thus take as given a moral economy *qua* relational economics perspective and attempt to demonstrate how the ontologically “closed” paradigm of neoclassical economics with its focus on formal exchange transactions is unsuitable to grasping or explaining various practices and principles of the cooperative economy.

Following Ellerman, we make some conceptual suggestions as to what a suitable *economics* framework would look like. This towards the goal of facilitating a respective curriculum on such topics. The latter discussion then serves as a bridge to the remainder of this dissertation. In particular, we will argue that the notion at the root of much economic reasoning, the principal-agent theory, is in many cases incorrectly applied to what Aristotle would call “moral civic” relations (cf. 4.2.1). In keeping with the relational economics literature and Emile Durkheim’s famous rejection of contract theory<sup>2</sup>, we will argue that the lens best suited to deal with the problems of the coming century, that of information, knowledge, complexity and uncertainty, is that outlined above in the framework of relational economics, in particular with an emphasis on moral economy.

It is exactly by pointing out the weaknesses of the neoclassical model in its impotence with respect to these domains that we hope to find a place for the alternative foundations presented here, and for the theoretical apparatus we develop in the following chapters. In particular, the inability of the neoclassical model to deal with power asymmetries and conflict make it entirely unsuitable for deriving avenues and corridors for establishing and maintaining cooperation. Just as Aristotle, in the preceding chapter, accused those practicing “moral civic” friendships of “wanting to have it both ways”, the neoclassical framework on the one hand wishes away conflict, yet is at the same time unable to discover strong and suitable tools for approaching cooperation, as the lackluster approach of “mechanism design” has shown [Bowles, 2016, Chapter 4].

That is to say, while we see an unfolding democratic imaginary during the course of history, as we traced out in Chapter 3, and while the movements we described in Chapter 4 starting in the Reformation and culminating in the Enlightenment did seek to establish a firm foundation for individual human rights (think of Kant), these developments appear not to have unlocked the “iron cage” in which modern economics in its neoclassical guise has found itself in in the last century. In fact, much of the thinking of neoclassical economics

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<sup>2</sup>Cf. [Durkheim, 1893].

either implicitly – albeit, sometimes rather explicitly – still entertains the distinction Aristotle made (consider the quote by Knight in 2.6), who considered master and slave “not two different things” and “the same as that of craft and tools”. In the remainder of this chapter, we attempt to argue out why this is the case and point out some basic outlines as to how this can be remedied. The detailed discussion of these solutions will follow in Part II.

## 5.1 Democracy: Progressive Ideal?

There have been several parallel ideological streams viewing democracy as a progressive ideal, a process of continually widening the domain of the emancipated (those in the realm of freedom). This includes not only Catholic social doctrine the type of which proliferated after *Rerum Novum*, but also liberal, urbane republicanism influenced by Enlightenment thinking<sup>3</sup> – and, at the same time, it also includes Communist and (atheist) socialist thinking of a certain sort<sup>4</sup>. Moreover, much of the *moral economy* tradition outlined in the last chapter makes the case for interpreting democracy in such a manner. According to each of these traditions, it is incumbent upon the social order to ensure the progressive widening of liberty – and thereby, leisure – throughout society. This question, so Castoriadis, goes back to the Greek tradition of *politics* and *philosophy*:

“Das Urteilen und Wählen im radikalen Sinne wurde in Griechenland erschaffen [...] Unter Politik verstehe ich [...] kollektives Handeln, das auf die Institution der Gesellschaft als solche abzielt. In Griechenland stoßen wir auf das erste Beispiel einer Gemeinschaft, die explizit über ihre Gesetze berät und diese Gesetze verändert. Anderswo sind Gesetze ein Erbteil der Ahnen oder eine Gabe der Götter, bzw., des einen wahren Gottes, aber sie gelten nicht als von Menschen aufgestellte, d.h., erschaffene, als Resultat einer kollektiven Auseinandersetzung und Diskussion über richtige und falsche Gesetze. Diese Haltung führt zu weiteren Fragen [...] nicht nur: Ist *dieses* Gesetz richtig oder falsch?, sondern: Was macht ein Gesetz zu einem richtigen oder falschen, d.h., was ist Gerechtigkeit? [...]

“So, wie das politische Handeln in Griechenland die bestehende Institution der Gesellschaft erstmals in Frage stellt und verändert, so ist auch die griechische Gesellschaft die erste, die explizit das

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<sup>3</sup>Giuseppe Mazzini would serve as an example of this sort of thinking.

<sup>4</sup>See, e.g., [Lafargue, 1891] or [Morera, 1990] on Gramsci’s conception of democracy.

instituierte, kollektive Weltbild hinterfragt, d.h., die erste, die Philosophie betreibt. [Castoriadis, 2011a, p. 36]

While more recent entries like [Graeber and Wengrow, 2021] question whether the Greeks really were the first democratic order, the question of course remains by what criterion we may call an organization, whether polity or firm, “democratic”? First we have to ask what the relationship between democracy and economy is.

### 5.1.1 On the Relationship of Democracy to Economy

There has been some study in recent decades of the relationship between democracy and economy. These studies usually take on of three shapes. The first type concerns the necessary conditions for the existence of market transactions. These studies follow in the footsteps of Adam Smith’s writings and concern issues like the need for trust for the functioning of the economy. Moreover, they concern cultural values requisite for the functioning of markets, the “externalities” associated with markets (Durkheim on contracts). The second concerns the issue of “democratization” and has been taken up, for instance, by [Acemoglu and Robinson, 2006]. The third strand involves the study of the mutual development of economies and the political economy of democracy. This third strand is exemplified by [Economou and Kyriazis, 2019].

The first strand of literature’s main claims are typified by what Montesquieu called the *deux commerces* theory<sup>5</sup> This first strand also has an obverse, represented, for instance, by [Economou and Kyriazis, 2019, p. 4], who suggest “Our general conclusion is that there is a close interdependence between democracy and the economy: democracy usually precedes the economy, and a prosperous economy maintains and strengthens democracy and the political institutions on which it stands.” This strand has been, in our opinion, sufficiently developed by others over the decades and has recently seen additional corroboration from cognitive psychology. Hirschmann referred to the first as “feudal blessings”, and the second as “feudal shackles” [Hirschman, 1982, p. 1481].

The second strand of literature has been criticized, among others, by Herbert Gintis, who suggests that Acemoglu and Robinson’s work “assumes that there is a monolithic elite and a potentially monolithic citizenry. Neither of these is in general correct. For instance, often there will be conflicts among the elites, one side drawing on support from the lower classes to defeat the

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<sup>5</sup>Montesquieu suggested that “wherever the ways of man are gentle, there is commerce; and wherever there is commerce, there the ways of men are gentle”. [Hirschman, 1982] or [Hirschman, 2013].

other. This was the case in Great Britain in the passage to democracy.” Secondly, Gintis argues that “it is just false that political democracy is compromise in which the elite gives up hegemonic power and the citizenry gives up the vision of revolution and complete mass hegemony.” In his and Samuel Bowles’ opinion, “large-scale collective actions have virtually always had the goal of social emancipation, in which the common man and woman are endowed with the blessings of liberty and in which democratic institutions are desired not only because they lead to an alteration in the distribution of wealth, but also because political democracy is desirable in its own right.”<sup>6</sup> Thus, according to authors like [Bowles and Gintis, 1996], this second strand of literature is guilty of instrumentalizing democracy as a tool for achieving certain ends, like fairer income distribution.

However, as we have seen in the discussion in the prior chapter, democracy was often implemented and pursued as an end in its own right, as a deontological value. Thus, the third strand looks at democracy as a deontological value worth pursuing in its own right, based on an intrinsic understanding of human sociality and the pursuit of a full personality as something worthwhile in its own right. It seeks to define institutions of collective choice according to this observation and, as such, is congruent with both Polanyi’s notion of *substantive economy* as well as Brown’s notion of *economy as provision*. As such, according to the third strand, “economy” can best be defined in relation to the classical notion of economy, *oikonomia* – as espoused for instance by Aristotle – as the aggregate of mechanisms for providing for the *oikos*, or household. It must also, according to this framing, be understood as a “struggle for rights”.

It is clear from the discussion of the moral economy tradition in Chapter 4 that there is a direct relationship between this notion of economy and the idea of democracy as a progressive civic imaginary, as outlined in the prior chapter. It is to this third strand that we wish to contribute presently, in particular by providing formal theoretical foundations for the normative and historical theories discussed in the prior chapters. We continue next with some preliminary observations.

### 5.1.2 Redefining the Social Contract

As we saw in the discussion of the increasing divorce of citizenship and wage labor in the latter sections of Chapter 3, there is a need to define the ability to withdraw from the social contract. Thus, there is a logical error in the assumption of an implicit contract. While Grotius and Pufendorf agreed

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<sup>6</sup>Source: personal communication with Herb Gintis.

that an explicit agreement had to be made, they assumed such an agreement to have occurred in the past [Baynes, 1989, p. 433]. Hobbes, Locke and Rousseau, on the other hand, saw the social contract largely as a figurative notion (a “regulative ideal”, cf. [Ellerman, 2021c, p. 89]). Meanwhile, Kant argued that “Der Friedenszustand unter Menschen, die neben einander leben, ist kein Naturstand (*status naturalis*), der vielmehr ein Zustand des Krieges ist [...] Er muß also gestiftet werden” [Kant, 1983, Vol. VI, p. 203] Moreover, Kant addressed in his *Zum ewigen Frieden* the role that *transitions* play in shifting from one constitutional order to another.<sup>7</sup>

In this regard, Kant speaks of *permissive law* (*Erlaubnisgesetze* or *leges permissivae*) [Kant, 1983, Vol. VI, p. 201, footnote], by means of which he merely refers to a *transitional regime*. Kant writes, “wenn einmal Gebrechen in der Staatsverfassung oder im Staatenverhältnis angetroffen werden, die man nicht hat verhüten können, so sei es Pflicht, vornehmlich für Staatsoberhäupter, dahin bedacht zu sein, wie sie, sobald wie möglich [...] gebessert werden könne.” (Id., p. 233) Thus, Kant argues, “Ein Staat kann sich auch schon republikanisch *regieren*, wenn er gleich noch, der vorliegenden Konstitution nach, despotische *Herrscher*macht besitzt: bis allmählich das Volk des Einflusses der bloßen Idee der Autorität des Gesetzes [...] tüchtig befunden wird” (Id.)

For Kant, there is clearly a benefit in a negotiated settlement to a renewal or reform of the social contract: “weil doch irgend eine rechtliche, obzwar nur in geringem Grade rechtmäßige, Verfassung besser ist als gar keine, welches letztere Schicksal [...] eine übereilte Reform treffen würde”. Thus Kant supports revolutions which “wo sie die Natur von selbst herbei führt, nicht zur Beschönigung einer noch größeren Unterdrückung, sondern als Ruf der Natur benutzen, eine auf Freiheitsprinzipien gegründete gesetzliche Verfassung, als die einzige dauerhafte, durch gründliche Reform zu Stande zu bringen.” (Id., p. 234, footnote)<sup>8</sup>

Both the Indigenous Critique reviewed above and the framework of relational economics place an emphasis on rethinking social contract theory, as well as functions like leadership. Kant’s notion of a transitional order can also help us frame the context of a transition dynamically, from the legal logic of formal social institutions. Viewing such institutions as negotiated or contested terrain emphasizes the contingent nature of what Machiavelli above

<sup>7</sup>For more on Grotius and Pufendorf’s theory of the state and social contract, cf. [Gierke, 1881].

<sup>8</sup>A contemporary example of such a negotiated settlement can be found in Chile, where a process to reform a dictatorship-era constitution takes place within the formal framework provided by that same constitution.

called *legge* and *ordeni*<sup>9</sup>. We see examples of such a *dynamic transition* in cases like the current (February, 2022) constitutional plebiscite in Chile, a country which has recently begun referring to itself as a “plurinational state”.

One of the problems with much of social science, and especially economics, with regards to collective choice, is its instrumental view of democracy. For many social scientists, democratic decision-making is simply a means of realizing private preferences. Or, as [Bowles and Gintis, 1986, p. 17] put it, “democratic institutions are held to be merely instrumental to the exercise of choice: democracy facilitates the satisfaction of perceived needs.” This reasoning, it has been repeatedly shown, is mistaken and we attempt to move beyond it, particularly beginning in the discussion of Chapter 6.

### 5.1.3 Firms as Dominant Actors

What is the relevance of social contract theory and notions of “perpetual peace” for the issue of a cooperative economy? In fact, many authors speak of a “post-Westphalian order” where national sovereignty is no longer the common denominator in the international order<sup>10</sup>. In its place, networks of firms have taken an increasingly dominant position. In fact, the firm, not the nation-state, is the dominant actor in today’s world. As [Wieland, 2018, p. 77] comments, over 70% of global trade today takes place in intra-firm transfer pricing, meaning markets are no longer the appropriate domain for engaging in economic theory. Their place has been taken by increasingly self-confident, aggressive and powerful networks of firms, which have become “the dominant institutions of the modern world” [Berle and Means, 1932, p. 313]. Thus, when governments seek policies to regulate markets, they are often mistaken in their focus. More focus of government policy must be placed in rendering firms more accountable to the communities they serve, and in which they are embedded, and to the stakeholders without whom they cannot exist. This applies in particular to firms’ workers and users, who are in most cases, *de facto*, powerless [Hirschman, 1970].

[Ferreras, 2017] has suggested that the contemporary labor market, dominated by service work, has shifted the domain of labor from the private to the public. It is clear that this is an extension of the argument begun by Marx discussed in the prior chapter. Thus, the fact of cooperation, which has itself acted to shape and redraw the distinction lines according to which the economy is delineated, has increasingly forced a public logic upon the “hidden veil of production”, as Marx referred to it as. As we move further

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<sup>9</sup>Cf. 4.2.4

<sup>10</sup>Cf. [Rothkopf, 2012] or [Schneider and Mannan, 2020].

away from the classical master-slave dynamic, social institutions must catch up to the new facts on the ground. We also learned above that leadership is a relation and not merely a role.

As we saw in our discussion of the rise of democracy in Athens, the role of citizenship was essential. If we view democracy as a progressive ideal, we must abandon the precept, followed by some within both economics and in the history of social thought, of the “partition[ing] of social space arbitrarily exempt[ing] such basic social spheres as the economy. . . from scrutiny of democratic institutions” [Bowles and Gintis, 1986, p. 17]. While his view of social ontology was, as we showed, static and negatively impacted millennia of thinkers to Schumpeter, Aristotle’s notion of “civic moral partnership” [Aristotle, 2011, 1242a] appears one that must necessarily extend progressively to more domains and to include more individuals

and groups, if the goal of democracy is to be seen in the progressive elimination of the master-slave relation<sup>11</sup>. [Montgomery, 1995] Thus, we propose relationalizing productive relations in the firm in the form of a dynamic “civic moral partnership”, a “revolution” which Kant states above can occur “even in a despotic constitution”.

One way to achieve this is to move to exploit the beneficial outcome of *general cooperation*. As Figure 5.1 shows, not only employees, investors and suppliers, but also consumers, joint-ventures, NGOs, Original Equipment Manufacturers (OEMs) and the general community are stakeholders in a firm’s *running concern* and all provide stakeholder resources. Shifting the

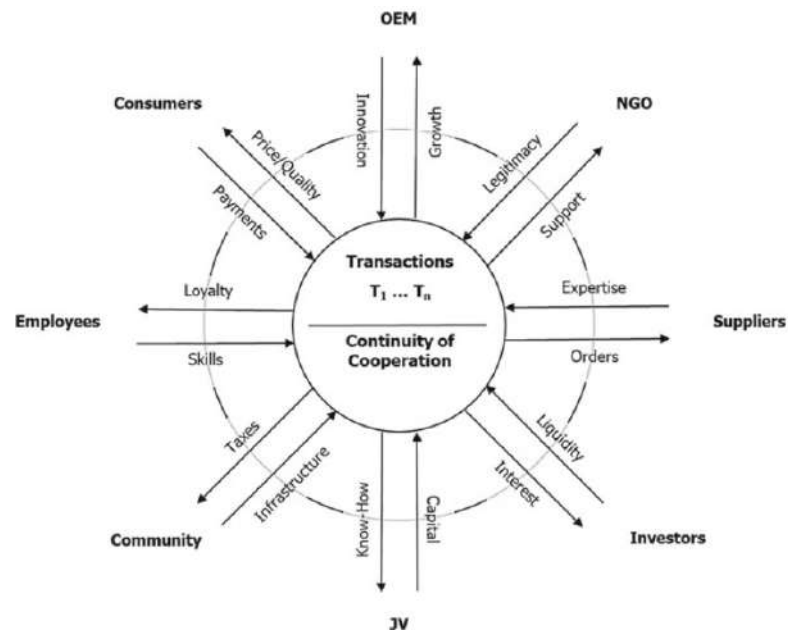


Figure 5.1: A graphic representing the firm as a circle of cooperating stakeholders, from [Wieland, 2018, p. 71].

<sup>11</sup>In fact, Aristotle had a quite “Utilitarian” or instrumental justification for slavery, suggesting that “If every tool, when summoned, or even of its own accord, could do the work that befits it,” [Aristotle, 2003, Book I, Chapter IV], cited, e.g., in [Benavav, 2020].



stakeholder dialogue in firms to social value-creation can thus manifest the shift to viewing firms as “social institutions”. [Berle and Means, 1932, p. 692] This can be achieved by realizing a social contract between firm and society, by viewing the firm as a “principal of all stakeholders” [Wieland, 2018, p. 76] and by viewing management and leadership as agents, but not agents serving the interests of investors only, but rather as governance relations “identifying resources” and prioritizing these resources with respect to the ongoing concern’s transactions.

### 5.1.4 Why Cooperation?

Most of the preceding discussion has been focused, as we have said, on the *why* of cooperation. While we return to the issue of *how* throughout the present work, increasingly, the question of *why* concerns us once more at present. As discussed in 2.7.3, the domain of *ergodicity economics* has revealed many of the contradictions inherent in modern economic theory, particularly its notion of *expected utility*, which is based on an ontological contradiction and an epistemological paradox, which fails to recognize the path-dependent nature of preference development and the fact that individuals simply do not discount the future in the way that neoclassical economists assume<sup>12</sup>.

One of the interesting results to come from this discussion, as outlined above, is the provision of an answer to the question of *why cooperation?* To remind the reader: all things equal, individuals who share things can reduce the volatility of their endowment over time. Thereby, over time, *ceteris paribus*, individuals who share, also share risks and so have a higher growth in income than those who shoulder risks alone. [Peters and Adamou, 2015] This point can be seen in Figure 5.2. This is a very elegant and non-ethical justification for cooperation that is independent of any notions of *inclusive fitness*, and can serve as an explanation as to *why* notions like altruism and tools like language evolved. It also emphasizes the point, made above in 2.6.8, that “cooperation is hard to initiate, but easy to sustain”. Moreover, when one does add an ethical dimension, this perspective can give us an epistemic basis to the above concept of a ‘democratic imaginary’: societies developing the ideational infrastructure<sup>13</sup> and sustaining cooperation via appropriate syntactical tools appear to benefit from what we may call a *relational rent*. We introduce this concept below.

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<sup>12</sup>We discuss in 6.5 that people generally discount “quasi-hyperbolically”).

<sup>13</sup>[Wilson et al., 2012] speaks of “pre-adaptations”, which are not necessarily genetic in nature, they can involve behavioral patterns, such as the fact that otherwise individualistic bees behave in cooperative ways in a given context.

### 5.1.5 Introducing the Relational Rent

A rent “represents a form of free income not based on an additional performance.” [Wieland, 2018, p. 122] According to [Ricardo, 1891, p. 71], “rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour.” It thus “costs no additional capital” (Wieland supra, Id.) Thus, as we discussed above in 4.3.3, the real contribution of capital to the wealth of nations lies in its ability to convert the social process of production cooperatively. Thus, Marx concludes in his *Grundrisse* that cooperation is among “the highest forms of economy” [Marx, 1974, p. 21]. Thus, while capital is the necessary condition, it is the social process of organizing production cooperatively that is sufficient, in the form of the “Arbeits- und Verwertungsprozesses des Kapitals” [Marx, 1867, p. 351]<sup>14</sup>.

This social process, as trajectory (cf. 2.2.3, is influenced by the particular regime in which it is situated. Thus, within a socialized and politicized regime where the firm has become the dominant actor in the world, stakeholder management and governance take on new dimensions from those which, e.g., Schumpeter described above in 4.3.4. In such an environment, “it is not only the individual entrepreneur who creates innovation. Companies now provide economic creativity in a collective and systematic manner. To survive in the long term, the company has become a collective entrepreneur.” [De Woot, 2017, p. 14] Alternatively:

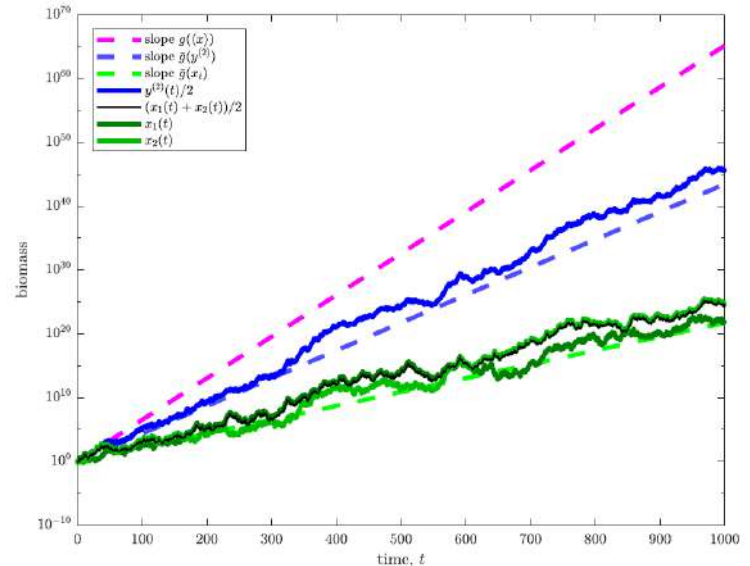


Figure 5.2: A graph depicting typically variable endowments (measured here in biomass) over time, showing that cooperation (blue line) leads to higher outcomes than non-cooperation (in blue, average in black). Interestingly, the “cooperation effect” is cumulative, and so does not spell out immediate advantage; from [Peters and Adamou, 2015, p. 10].

<sup>14</sup>This process of course includes science, a fact that we return to in 8.5.

If it is no longer the individual capitalist who (for the reasons explained by Marx) acquires the rent, but rather the organisation itself (the de-personalised organisation, an entity in its own right), it also means that every stakeholder who joins this organisation is not only entitled to a share of the organisation's earnings in the form of his/her factor income, but also to a share of the cooperation rent generated by and through an organisation. This is precisely why resource owners choose to join a given organisation: the return on investment as a combination of factor income and *cooperation rent*. [Wieland, 2018, p. 125, own emphasis]

As Wieland argues, following Barnard, that “[i]t is the organisation as a functionally differentiated form that makes economic cooperation and the resultant rent possible” (Id.) In particular, firm as nexus of relationships extends beyond the legal form of the firm itself, rendering an approach couched in Pareto optimality “at best a partial solution” (p. 126) and a transaction-specific event. Thus, the relational view posits a firm as a “firm-specific network” with both private and public stakeholders. (Id.) Within this context, the “cooperative rent” should be seen as what the classical political economist James Steuart referred to as a “positive profit” [Marx, 1910, Chapter 1], particularly one derived from differentiation. It is thus a rent based on a continuing relationship<sup>15</sup>

Wieland speaks here of a relational rent, which refers to a jointly produced profit (i.e., a profit that could not have been generated in isolation). Transcultural skills, for instance, contribute to such a rent (by generating new conditions for exploiting resources)<sup>16</sup>. From this perspective, the inter-firm *network* is the basic unit of analysis. [Dyer and Singh (1998)] Within such a context, relational rents are generated from one or more of the four factors: 1) relation-specific assets (these impact the duration and volume of transactions); 2) knowledge-sharing routines (consist of institutions and routines); 3) complementarity of resources (these serve as mechanisms for identifying the above assets); and 4) effective governance (in particular, self-enforcing forms based on *informal* contracts, introduced above in 4.6).

[Lavie, 2006] (cited in [Wieland, 2018, p. 130]) has developed four specific types of relational rent: 1) *internal rents* refer to the type of rent Ricardo spoke of above; 2) *appropriated relational rents* are the mutual benefits to all from combining resources (this is the *why* that [Peters and Adamou, 2015] address); 3) *inbound spillover rents*, internal rents derived from the sharing of external resources (e.g., the use of open source software); and 4) *outbound spillover*,

<sup>15</sup>[Malcomson, 2013, p. 1057]. cited in [Wieland, 2018, p. 127].

<sup>16</sup>For more on this, see [Biggiero, 2022, pp. 97ff.] and [Wieland, 2018, Chapter 8].

which is an externally-appropriated rent derived from the focal firm's internal resources. As Lavie emphasizes, *all four rents are produced simultaneously*, meaning that conflicts necessarily arise as to the just distribution of such rents.

### 5.1.6 Shared-Value Creation versus Creating Shared Value

In order to deal with these conflicts, the relational economics domain advocates a framework of *Creating Shared Value* [Kramer and Porter, 2011]. This framework “approach[es] the societal problems triggered by globalisation, which are addressed, for example, in movements for Corporate Social Responsibility (CSR) and Sustainable Development Goals (SDGs), as opportunities for growth with win-win options for firms and societies”. As [Porter et al., 2012, p. 1] state,

More and more, companies are creating shared value by developing profitable business strategies that deliver tangible social benefits. This thinking is creating major new opportunities for profitable and competitive advantage at the same time as it benefits society by unleashing the power of business to help solve fundamental global problems.

The framework, in a nutshell, criticizes the fact that in the standard exchange paradigm of *Shared Value Creation* (SVC)<sup>17</sup>, most stakeholders are only included *ex post*, which limits the scope of SVC's impact. CSV attempts to fix this delinquency by adopting a *multi-stakeholder* perspective *ex ante* [Wieland and Heck, 2013] and allows for non-market approaches for shared value<sup>18</sup>. Moreover, whereas SVC “demands risk neutrality, transparency” and other strong assumptions<sup>19</sup>, these “can be systematically ignored for the purposes of modern and global economies. Why? Because cultural diversity, differing risk preferences, contracts that cannot be formally enforced and resource revenues that cannot be separated (or only at a prohibitive cost) are

<sup>17</sup>For an overview and comparison of each perspective, cs. [Wieland, 2018, p. 133ff.].

<sup>18</sup>We return to this topic in Chapter 8 with the example of *negotiated coordination*.

<sup>19</sup>Particularly, “optimality is only possible when (i) the partners' views regarding the cooperation are symmetrical prior to their signing the contract; (ii) all partners are risk-neutral and therefore (iii) can be bound to fulfill their contractual obligations without incurring any additional costs; and (iv) the partners' individual contributions are clearly identifiable and separable, allowing them to be attributed to the correct actor...” [Wieland, 2018, p. 136].

the immutable preconditions for global cooperation and economic networks.” (Id.)

Thus, a *relational* approach is required, which focuses on 1) the willingness, 2) ability and 3) opportunities to cooperate. These three domains involve both psycho-social processes of cultural learning, feature institutional components, multi-level resources, values like reciprocity and organizational standards. [Wieland, 2018, p. 139] As opposed to the *Transaction Cost* approach introduced in 2.3.1, firms in the SVC approach are not merely focused on minimizing transaction costs, but also on generating shared value. (Id., p. 146)

Therefore, the decision structure in a SVC approach includes a trade-off between *relational costs* and the relational rent. Relational costs consist of 1) *transaction costs* (these are very similar to those perceived by the neoclassical framework); but also 2) *adaptation costs*, which include so-called “bargaining costs” regarding matters like communication, diversity, etc.<sup>20</sup> and which can also be bundled (sub-additivity); 3) *cooperation costs* which are “those incurred in order to undertake a collaborative activity with a partner, separate from those incurred in reducing the threat of opportunism from that same partner” [White and Siu-Yun Lui, 2005, p. 914], (meaning they can be  $> 0$  even when transaction costs = 0).<sup>21</sup>

According to this view, cooperation occurs if the value of the cooperative rent less the relational costs is greater than 0, or, represented as an equation, if

$$CR_t - RC_t > 0 \quad (5.1)$$

Equation 5.1, where  $CR_t$  is the cooperative rent and  $RC_t$  the relational costs, merely represents the above relation mathematically. Figure 5.3 represents the trade-off visually. The point is that such a relational viewpoint

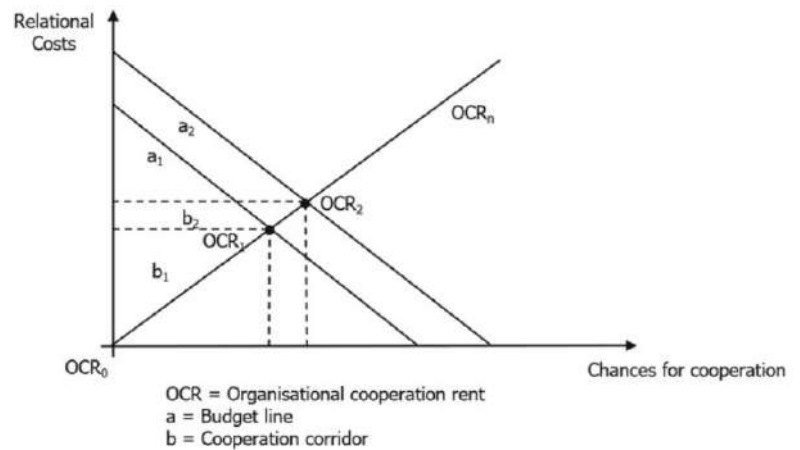


Figure 5.3: A graph representing the trade-off between cooperative costs and benefits, from [Wieland, 2018, p. 149].

<sup>20</sup>[Wernerfelt, 2016], cited in [Wieland, 2018, p. 147].

<sup>21</sup>Examples of such costs include *team-building costs*, *leadership costs*; *stakeholder management costs* and *transcultural management costs*. Cf. [Wieland, 2018, p. 150-4].

does not act to constrain exchange transaction, instead it actually facilitates and increases the domain where these are possible. As organizational science is “not yet a fully developed field” [Wieland, 2018, p. 155], the strengthening of a relational point of view can only aid in a process of maturation.

### 5.1.7 The Importance of Law in Realizing Cooperation

Whitehead suggested the image of the “firm as society”, featuring a “common element” that additionally “arises in each member of the nexus”. Thus, according to the above view, a firm is a unity of form, relation and reproduction. Not objects (whether masters or servants), but *relations* should take primacy in description and analysis. Thus, the appropriate image for a “fundamental transformation” [Williamson, 2007] should be a “going concern” and not a machine. Now that we have established the vitality of such a perspective, the question is whether the existing framework of neoclassical economics is able to incorporate it or whether attempting to integrate such a view into a neoclassical economics framework resembles more “the complicated reasoning made by Ptolemaic astronomers to account for inexplicable orbits.” [Biggiero, 2022, p. 55, footnote] If the latter does obtain, then it wouldn’t make sense “[f]or a Copernican astronomer, [to learn] the calculations required by the old paradigm [...] instead] It [would be] necessary to simply change the paradigm.” (Id.)

As Kant emphasizes, the master-servant relation is ultimately a *legal*, not merely a contractual relation<sup>22</sup>. Thus, we now turn to the legal domain, parsing how the dominant neoclassical model is unable (and, in fact, *unwilling*) to account for these vital *polycontextual* relations.

## 5.2 Ellerman: Rediscovering the Labor Theory of Property

David Ellerman has been a thorn in the side of neoclassical economics for some decades. Writing already on the topic of economic democracy in earlier decades when international interest in the Yugoslav model of development was ripe<sup>23</sup>, renewed interest in Ellerman’s thinking has followed in the wake of a general Renaissance of interest in cooperative forms of governance. As the United Nations declared 2012 the year of the cooperative [Patmore and Balnave, 2018] and events around the Global Financial Crisis (GFC) of 2007-8, as well as

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<sup>22</sup>See above in 4.3.1.

<sup>23</sup>Cf. [Ellerman, 2021a] and the discussion in 3.11.3.

the more recent Covid-19 induced global recession, have shown the resilience of the cooperative model, theories like Ellerman's will prove vital in the effort of understanding and explaining for behavior and outcomes.

Thus, below we first review Ellerman's contributions towards understanding the importance of jurisprudence in economic analysis, which in many ways recalls the discussions of the *Methodenstreit*<sup>24</sup>. Next, we outline Ellerman's version of the *labor theory of property*, which we argue hold a key to understanding the cooperative economy that goes beyond labor.

### 5.2.1 Jurisprudence in Economics

Ellerman goes to lengths to show that economics did not always look as it did today, a collection of abstract models based on 19th century fluid dynamics, with some vulgar psychology to boot. In fact, the German Historical School, containing such great names as Brentano, Schmoller, Weber, Hildebrandt and others was quite centrally concerned with the interaction between law, jurisprudence and economic outcomes (including distributional questions). However, especially since Alfred Marshall's *Principles of Economics*, this has changed [Heilbroner, 1961]. Writes Ellerman, "John Stuart Mill... was the last major political economist who considered the study of property rights as an integral part of economic theory." [Ellerman, 2021c, p. 2] This is all the more strange, remarks Ellerman, as "[t]he property system underlies the price system. There is no market without an underlying system of property and contracts."<sup>25</sup> (*Id.*)

Moreover, as Ellerman eloquently notes, property does not appear out of thin air: "Property and the legal rights to property have a life cycle; they are created, transferred, and eventually terminated. Market contracts transfer property rights but what is the institution for the legal creation and termination of property rights?" (*Id.*, p. 3) In fact, establishes Ellerman, there is virtually no consideration of the question of creating and destroying property<sup>26</sup>. Or, as Ellerman puts it: "It is a remarkable fact—which itself calls for explanation—that the sparse literature on the so-called 'economics of property rights' does not even formulate the question about the mechanism for the initiation and termination of property rights in these normal activities." (*Id.*)

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<sup>24</sup>Cf. [Mommsen and Osterhammel, 2013] and [Peukert, 1998].

<sup>25</sup>We disagree slightly with Ellerman here, as Max Weber was also concerned with the relationship between property and economic theory. Unfortunately, Weber today is mostly remembered as a sociologist, although he considered himself a practicing economist.

<sup>26</sup>One is almost led to believe that economists really *do* believe that property merely appears from thin air

The fact that this question isn't ordinarily discussed by orthodox economics makes it no less important: "Hence the question before us is the mechanism for the appropriation of the assets and liabilities created in normal production and consumption activities." (*Id.*, p. 4) It would be a challenge to refer to existing economic texts, as, according to Ellerman, most economics literature "ignores the assignment of initial rights in normal production." (*Id.*, p. 5) Thus, mainstream economics deals with a number of *myths* in this regard. For instance:

It is rather commonly thought that the product rights are "attached to" or are "part and parcel of" some pre-existing property right such as the ownership of a capital asset, a production set, or, simply, the firm. This idea in various forms is so ubiquitous that it might be termed the *fundamental myth* about the private property system. It is the lodestone that sets so many compasses wrong in neoclassical Economics. . . (*Id.*)

One example of the fundamental myth for Ellerman is the doctrine of *jus fruendi*, usually interpreted as a "right of ownership-over-the-asset's-products." (*Id.*) In fact, Ellerman comments that the fundamental myth can be found in the writings of modern adherents to Marginal Productivity. Paul Samuelson<sup>27</sup> is cited as such an example:

It is the interdependence of productivities of land, labor, and capital that makes the distribution of income a complex topic. Suppose that you were in charge of determining the income distribution of a country. If land had by itself produced so much, and labor had by itself produced so much, and machinery had by itself produced the rest, distribution would be easy. Moreover, under supply and demand, if each factor produced a certain amount by itself, it could enjoy the undivided fruits of its own work. [Samuelson et al., 2010, p. 234], cited in [Ellerman, 2021c, p. 5]

With regards to product rights being "attached to" an undertaking, Ellerman coldly reflects that "It is only a tautology to say that a corporation owns 'its products'; the question is how did the products produced in a certain productive opportunity become 'its products.'" (*Id.*, p. 6) Moreover, "residual claimancy is contractually determined in a market economy; it is not legally determined by some "product rights" supposedly attached to some already-owned asset." (*Id.*, p. 7) A frequently-cited example that gives lie to

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<sup>27</sup>He was introduced above with respect to the "Samuelsonian vice". Cf. 2.1.



the fundamental myth is the case of the Studebaker company renting factory space from the Chrysler Corporation:

In the early 1950s, the Studebaker-Packard Corporation had the Packard bodies produced in a Detroit Conner Avenue plant of the Briggs Manufacturing Company. After the founder died, all twelve of the U.S. Briggs plants were sold to the Chrysler Corporation in 1953. ‘The Conner Ave. plant that had been building all of Packard’s bodies was leased to Packard to avoid any conflict of interest.’ (Theobald 2004) Then the Studebaker-Packard Corporation would hold the management rights and product rights for the operation of the factory owned by the Chrysler Corporation. (Id., p. 6)

### 5.2.2 The Failure of Traditional Economic Models to Foreground Property Rights

[Ellerman, 2021c, p. 3] refers to the failure to consider the role of legal regimes in creating property rights. In particular, whereas concepts like “primitive accumulation”<sup>28</sup> discuss the creation or appropriation in the abstract, “It is a remarkable fact... that the sparse literature on the so-called ‘economics of property rights’ *does not even formulate the question* about the mechanism for the initiation and termination of property rights in these normal activities.” (p. 96)

One of the most mystifying concepts in the economics literature – its “sacred cow” – is that of the invisible hand. However, as Ellerman argues, this concept completely ignores the background process by means of which property relations emerge. Thus, in order for “the invisible hand” to become a meaningful term, it requires a theory of property as a foundation: “Just as neoclassical economics addresses the question of under what conditions does the price system operate efficiently, so the theory of property must consider when the invisible hand of the property system operates correctly.” (p. 9)

Issues like “data capital” reveal in stark terms that “primitive accumulation” does not merely refer to a historical fact in the prehistory of the present era, but is a continuing process of adjudicating on the legality of property claims. Ellerman discusses the creation and termination on claims on property as being a significant aspect of what is referred to as “the invisible hand”. According to Ellerman, “Property rights are *defined as much by the inaction of the legal system as by its actions.*” (p. 8, own emphasis)

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<sup>28</sup>Cf. [Marx, 1867, Chapter 26] or also the discussion of Enclosures above in 3.8.2.

Ellerman suggests that this idea can be applied normatively: “The normative principle of appropriation is just the ordinary juridical imputation principle: assign *de jure* (or legal) responsibility in accordance with *de facto* (or factual) responsibility — applied to normal production and consumption instead of being applied by visible judges to torts and crimes.”<sup>29</sup> (p. 9)

At this point, Ellerman argues that it is the responsibility of the legal system to ensure that the responsibility principle, consent and no contract broach obtain, for “if the legal authorities just ensure that the contractual machinery works correctly in the external market relationships between parties — no property externalities and no broaches — then the market mechanism of appropriation will indeed satisfy the responsibility principle in the internal activities of the parties” (p. 12) Thus, Ellerman argues that “[t]he ‘confused’ myth about the ‘ownership’ of the means of production is not part of the actual legal system where capital goods are just as rentable as people. But it is part of neoclassical capital *theory* and corporate finance *theory*.” (p. 99)

These observations raise two questions with reference to the ownership of the assets and liabilities produced in the going concern<sup>30</sup>, one descriptive and one normative, so Ellerman:

The descriptive question of appropriation is: “How is it that one legal party rather than another ends up legally appropriating (Q, -K, -L)?” The normative question of appropriation is: “What legal party ought to legally appropriate (Q, -K, -L)?” [Ellerman, 2021c, p. 100]

The usual neoclassical response (“value-theoretic metaphor”, as Ellerman claims) is that “in terms of property rights and liabilities, one legal party appropriates 100% of the input-liabilities (0, -K, -L) as well as 100% of the output-assets (Q, 0, 0) which sum to the whole product (Q, -K, -L).” (p. 100) However, “[a]ll who work in a production opportunity (‘Labor’ including managers) are *de facto* responsible for using up the inputs K to produce the outputs Q, which is summarized as Labor’s product (Q, -K, 0). But Labor (*qua* Labor) only legally appropriates and sells (0, 0, L) in the employment system. *Labor is de facto responsible for but does not appropriate the difference* which is the “institutional robbery” of the whole product. This can be represented by Equation 5.2:

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<sup>29</sup>Ellerman argues that the principle of imputation could theoretically be applied to the services of non-persons: “However, since the demise of primitive animism as a legal theory (e.g., after the trials of child-killing pigs during the Middle Ages), the law has only recognized persons as being capable of being responsible.” [Ellerman, 2021c, p. 9].

<sup>30</sup>These assets and liabilities are usually represented as (Q, -K, -L) in economics, referring to an output (Q), less the capital and labor costs (-K and -L, respectively).

$$(Q, -K, 0) - (0, 0, 0, L) = (Q, , -K, -L)^{31} \quad (5.2)$$

In unusually candid terms, Ricardo in his *Principles of Political Economy and Taxation* emphasizes the culturally relative content of wages, discounting any real notion of “natural wage rates”:

It is not to be understood that the natural price of labour, estimated even in food and necessaries, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. *It essentially depends on the habits and customs of the people.* [Ricardo, 1891, Chpt. 5]

Thus, in a society tolerant of slavery (albeit, a very different form of slavery than occurred in the Atlantic slave trade), a different notion of “fair wages” would prevail than in one embracing the principle of general “moral civic” partnerships, or again one with relational contracts, etc. We have only to remind ourselves of Cicero or Aristotle’s discussion of “fair wages” in the prior chapter.

In fact, neoclassicals are only able to hide behind the market mechanism’s operations by equating creative human agency to the operations of machines. In a passage that clearly outlines neoclassical economics’ roots in the master-servant ontology of Aristotle, Cicero and Kant (see above in 4.2), writes neoclassical *Grand homme* Frank Knight: “[i]t is characteristic of the enterprise organization that labor is directed by its employer, not its owner, in a way analogous to material equipment. Certainly there is in this respect *no sharp difference between a free laborer and a horse, not to mention a slave, who would, of course, be property.*”<sup>32</sup>

If this observation, which serves a central role in the arguments legitimizing the human rental system, i.e., a system that legitimates the selling (or renting?) of responsible labor, were more prominently reproduced for public consumption, it is certain that the ethical conclusions therein entailed would generate a significant degree of controversy. This controversy is augmented by the above-cited observation of [Ferras, 2017] of labor relations’ increasingly public nature in the contemporary service economy, where any comparison between, e.g., a Starbucks barista or taxi driver and a brewery nag would certainly be unacceptable. Knight’s observation also serves to underline the danger in extending the economic logic of (costs-earnings) to ever more domains of life, and also provides evidence for the benefit of relationalizing

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<sup>31</sup>From [Ellerman, 2021c, p. 104].

<sup>32</sup>[Knight, 2013, p. 126, own emphasis], cited in [Ellerman, 2021c, p. 104].

the logic which, while necessary, may have deleterious consequences if left unchecked. [Bowles and Gintis, 1996, p. 35] or [Polanyi, 1944]

### 5.2.3 The Myth of Marginal Productivity Theory

To address the question raised at the outset of this section, namely, whether, with respect to the relational viewpoint, the neoclassical domain should be seen as amendable or rather as a Ptolemaic rigamarole, we now come to the workhorse model of value-creation in that domain: the theory of *marginal productivity* (hereafter, MP). Thus, [Ellerman, 2021c, p. 110] states, “In order to address that question about the actual appropriation of the assets and liabilities created in production, one needs a theory of property, whereas marginal productivity theory is actually *only a theory of the derived demand for inputs.*” (p. 110, own emphasis)

Ellerman suggests that MP is faulty, as it rests on “a metaphor, a mistake and a miracle”. (p. 106ff.) The “mistake” was actually discussed above in the fact that there is no actual division of property rights entailed in the theory, as represented by Equation 5.2. Moreover, the “metaphor” can be seen in Frank Knight’s above quotation comparing workers to horses and slaves.

Meanwhile, the “miracle” Ellerman speaks of entails the failure to include mutual interdependence of so-called “production factors”. Thus, “the  $\Delta L$  [that is, an increase in labor inputs] would typically require an increase in the other inputs  $K$  in order to produce some extra output  $\Delta Q$  at minimum costs” (p. 111), meaning labor’s product would equal  $(Q, -K, 0)$ . (Id.) Thus, labor uses capital to engage in the productive process of goods and services, like Ricardo’s “cotton stockings”<sup>33</sup>. Ellerman argues that one “can easily [make]... the same mathematical calculations... for the causally efficacious but non-responsible inputs  $K$ ”, i.e., one could represent capital as “using up” labor and laborers in the productive process, “but since non-responsible things do not qualify for juridical imputation, that calculation has no normative significance.” (p. 112)

Thus, clarifying and demystifying the supposed “miracle” of an immaculate conception on the part of capital, Ellerman suggests, among others, that “[o]utputs are not responsible for using up the inputs; the people who work in the firm are the ones who perform the responsible human actions that use up the inputs in the process of producing the outputs. In the same way, it would be possible, according to the mathematics employed by neoclassicals to attribute *the legal liabilities for the used-up inputs [...]* to the purchasers of

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<sup>33</sup>[Ricardo, 1891, p. 25], cited in [Cockshott et al., 2009, pp. 121ff.].

*the outputs*” (p. 110), even if these “are not actually assigned” to the latter<sup>34</sup>.

“The actual non-metaphorical legal facts are that there is one legal party who stands between the input suppliers and the output buyers, and that one party legally appropriates the whole product, i.e., both the input-liabilities and the output-assets.” (pp. 110-111) In keeping with the relational viewpoint, this party is actually the firm, as we saw above. And the question of the distribution of the rents is a question that, as we above saw, requires the *ex ante* negotiation between all relevant stakeholders, including the workers who carry out the labor process. Neoclassical theory is not built for this purpose and so must be abandoned. We advocate for a *relational* orientation and next introduce a last epistemological element, the juridical principle of imputation, which allows the translation of a relational view into the legal domain.

#### 5.2.4 The Juridical Principle of Imputation

Ellerman (re)introduces the so-called *juridical principle of imputation*, which derives from legal jurisprudence but which has also been accepted by a number of notable economists. The principle, which is common currency in law, merely states “assign legal responsibility in accordance with factual responsibility.” [Ellerman, 2021c, p. 102]

Out of this, Ellerman intends to review what he calls the *labor* or *natural rights theory of property*. [Ellerman, 2021c, pp. 90ff.], also [Ellerman, 2021b, Chpt. 1] This theory finds a long tradition going back in some forms to antiquity, and found one of its earliest popular formulations – in a weakened form – in Locke’s *Second Treatise on Government*. Numerous important economists have expressed support for the theory and its analogue in legal theory is firmly established. Among economists, the influential Friedrich von Wieser, foundational for both Austrian and neoclassical economists expressed support for the principle. [Ellerman, 2021c, p. 165]

As recalled above, Ellerman demonstrates that the neoclassical theory of MP is based on a fundamental error in reasoning. Again, this error has nothing to do with “being unrealistic, hard to measure, involving idealized informational assumptions” [Ellerman, 2021c, p. 89], etc., but rather, that,

[b]y trying to show that the competitive ideal satisfies the principle of giving to each what it produces, [it] pays silent homage to the natural rights theory of property. Unfortunately for neo-

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<sup>34</sup>The point of this observation being to show that one can extend the metaphorical language employed by neoclassicals to impute input liabilities to customers, since “the math is symmetrical”. Source: private communication with David Ellerman.

classical theory, *the imputation is only metaphorical in MP theory*. . . [Ellerman, 2021c, p. 90]

Thus, when neoclassical economists like Milton [Friedman, 1962, pp. 161–162] states his “ethical principle”, attributing “[t]o each according to what he and the instruments he owns produces”<sup>35</sup>, he is mistaking the *metaphor* of production factors for responsible agency. Ellerman uses the example of slavery to illustrate the logical fallacy of Friedman’s and other neoclassicists’ thinking and concludes that “[t]he real question is about *rights*, not real income.” [Ellerman, 2021c, p. 90, own emphasis] And, with respect to this question (i.e., rights), Ellerman suggests that economists have not paid nearly enough attention to this matter. In particular, “It is a remarkable fact—which itself calls for explanation—that economic theory, orthodox or heterodox, does not even formulate the question about the initiation and termination of property rights in these normal activities of production.” [Ellerman, 2021c, p. 97] While termination, according to Ellerman, is considered by select economists working in the so-called “Law and Economics” tradition, these discussions are by no means general and Ellerman argues that the vast majority of economists have never broached the question “what is the mechanism for assigning the liabilities for the normal deliberate using-up of inputs in production (or consumption)?” (*Id.*)

Again, as pointed out above, the fact of the rental of capital negates any naturalistic explanation, as Ellerman claims. Thus, in order to answer both the descriptive and normative questions, he enlists the services of the principle of imputation. Writes Ellerman, “The imputation principle applies in the first instance to deliberate human actions”. (pp. 102-3) Thus, in the case of a productive undertaking (conventionally, a firm):

In factual terms, all who work in a productive opportunity (regardless of their legal role of employer or employee) are jointly de facto responsible for using-up the inputs and thus, by the imputation principle, they constitute the legal party who should owe those legal liabilities. And by those same deliberate human actions, they produce the outputs and thus, by the same imputation principle, they should be the legal party who should legally own those assets. Thus, the application of the conventional (i.e., ‘bourgeois’ in the Marxist sense) principle of imputation to production provides the juridical basis for the old claim of “Labor’s right to the whole product”—to the positive and negative fruits of their joint labor. (p. 103)

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<sup>35</sup>Cited in [Ellerman, 2021c, p. 106].

With regards to the employment contract, Ellerman elicits the alienation principle, suggesting that while “the owner of [an] instrument can factually fulfill [a rental or purchase] contract by turning over the use of the instrument to the buyer or renter so that party can be factually responsible for using it and for whatever is thereby produced [because t]he services of a thing are factually alienable”, the same cannot be said of the employment relation. Ellerman: “Responsible human agency is factually inalienable. Hence the contract to rent persons, like the voluntary contract to buy persons, is inherently breached and is thus inherently invalid. To pretend that responsible human agency can be transferred from one person to another is a legalized fraud carried out on an institutional scale in our current economic system, i.e., ‘a barefaced though legalised robbery’”. (Id.) This paradox can be seen in Figure 5.2.4, where the situation is described similarly to a Type I and Type II error in statistics.

Describing a situation of maximum conservatism in the traditional labor relation, Ellerman states that “At most, a person can and typically does voluntarily agree to obey the instructions of the employer, but then, in factual terms, they each share some of the *de facto* responsibility for the results of their joint actions.” (p. 104) However, as above, the negative side of the invisible hand – i.e., the non-action of jurisprudence – is present in this circumstance, meaning that in the current scheme, the *de facto* shared responsibility is concealed behind the “legal fiction” of the labor contract. It is only by means of this “obverse invisible hand” that the laborer is considered an external supplier of “labor services”. Ellerman concludes,

Thus, the employment system inherently violates the juridical principle of imputation since one party is factually responsible for the whole product (the party consisting of all who work in the enterprise) while another party legally appropriates the whole product (the legal party playing the role of the employer). (Id.)

Thus, Ellerman forcefully argues that, if we are to accept the principles which the Enlightenment, the Reformation and modern constitutions and

Table of injustices due to mismatch of factual and legal responsibility		Factual Responsibility	
		Factually responsible for X	Not factually responsible for X
Legal Responsibility	Held legally responsible for X	True positive	Type II injustice: Innocent party legally guilty
	Not held legally responsible for X	Type I injustice: Guilty party legally innocent	True negative

Figure 5.4: A figure representing an adaptation of Figure 6.10 applied to divergence between factual and legal responsibility, taken from [Ellerman, 2021b, p. 44].

international law enshrine – principles of self-rule, autonomy, the inalienability of reason and responsibility: in short, if we subscribe to the democratic civic imaginary outlined in Chapter 3, then *we must abandon the contemporary labor contract as not in keeping with the factual self-determination, or with the responsible, creative agency that the labor process naturally entails*. Even Adam Smith understood this, when he stated “The value which the workmen add to the materials . . . resolves itself . . . into two parts, of which the one pays their wages, the other the profits of their employer”<sup>36</sup>.

### 5.2.5 The Problem is the Human Rental System

If the modern wage contract is jurisprudentially questionable and ethically indefensible, then what should replace it? We above (4.1 and 4.6) outlined the relational perspective. Ellerman supplements this view by clarifying the dangers of a pure exchange perspective. Agreeing with the relational perspective’s emphasis on informal rather than formal contracts and underlining the *associational* nature of labor relations, [Ellerman, 2021c, p. 92, own emphasis] states

[t]oday, the root of the problem is *the whole institution for the voluntary renting of human beings*, the employment system itself, not the terms or completeness of the contract or the accumulated consequences in the form of the mal-distribution of income and wealth.

“Hence,” continues Ellerman, “the neo-abolitionist call . . . for the abolition of the contract to rent, hire, lease, or employ human beings in favor of companies being reconstituted as democratic organizations whose members are the people working in the enterprise” (p 105) Progressive U.S. Supreme Court justice Louis Brandeis<sup>37</sup> wrote that “no remedy can be hopeful which does devolve upon the workers participation in responsibility for the conduct of business; and their aim should be the eventual assumption of full responsibility—as in co-operative enterprises. This participation in and eventual control of industry is likewise an essential of obtaining justice in distributing the fruits of industry.”<sup>38</sup>

Conservative thinker Lord Percy framed the issue as follows:

Here is the most urgent challenge to political invention ever offered to the jurist and the statesman. The human association which

<sup>36</sup>Smith, 1974, 151, cited in [Cockshott et al., 2009, p. 121].

<sup>37</sup>Brandeis served from 1916-1939 and was pivotal in shaping the notion of a “right to privacy” (cf. an eponymous article of his on the topic, published in 1890).

<sup>38</sup>[Brandeis, 1934, p. 270], cited in [Ellerman, 2021c, p. 112].



in fact produces and distributes wealth, the association of workmen, managers, technicians and directors, is not an association recognised by the law. The association which the law does recognise—the association of shareholders, creditors and directors—is incapable of production and is not expected by the law to perform these functions. We have to give law to the real association, and to withdraw meaningless privilege from the imaginary one.<sup>39</sup>

Finally, and returning to a point made in the discussion of the rise of wage labor above in 3.10.5, “the system of economic democracy finally resolves the long-standing conflict between being a citizen whose inalienable rights are recognized in the political sphere and being a rented “employee” in the workplace.” [Ellerman, 2021c, p. 113]

Thus, a relational view enables us to fulfill the demand of democracy as a progressive, emancipatory *process*, attributing dignity to increasing members of the human species and progressively breaking down barriers of coercive, vertical hierarchies.

### 5.3 The Social Function of Private Law

While the above discussion has been concerned with the *why*, the remainder of this dissertation will concern the question of *how*, qualitatively, a relational view of democratic governance can be implemented in practice. Before turning to the theoretical components of such an endeavor, we turn first back to German legal scholar Otto von Gierke, who argues in a lecture given to the Vienna Legal Society in 1889 that, while science is obliged to analyze the facts, those studying the law must also study “den Zweck [...], der als unbewusster oder bewußter Gestaltgeber des Rechtes waltet.” [Gierke, 1889, p. 3] This, because “Der Strom der Geschichte eilt vorwärts und bringt Wandlungen des Rechts, welche der Zukunft ihre Bahn weisen.” Thus, while the study of law may allow the analysis of disconnected parts, the legal corpus becomes over time impacted by “bewusste That”. In order to understand, analyze and administer the law, however, “nicht Wissen wird verlangt, sondern Weisheit, praktische Kunst, prophetischer Blick.” (Id., p. 4) Gierke addresses his audience on this particular occasion in order to review some criticisms of the draft of the *Bürgerliches Gesetzbuch*, which he had critiqued previously in his doctoral dissertation, later published as the first volume of *Das Deutsche Genossenschaftsgesetz*.

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<sup>39</sup>[Percy, 1944, p. 38], cited in *supra*, Id.

He introduces the discussion by asking “what is the purpose of private law (*Privatrecht*)?” . Referring to the Roman law, Gierke suggests that it is separated into a *jus, quod ad singulorum utilitatem spectat* (“right, which pertains to the interests of the individual”) on the one hand and a *publicum jus, quod ad statum rei Romanse spectat* (“public right, which looks to the state of the Romans”) on the other. The two domains “führen [. . .] den Unterschied der beiden großen Rechtszweige aus eine ungleichartige Zweckbestimmung zurück. Sicherlich haben sie hiermit den unverrückbaren Ausgangspunkt jeder Sonderung von Privatrecht und öffentlichem Recht festgestellt.” (p. 5) For better or worse, the Roman template has been adopted nearly universally subsequently.

Gierke suggests that this distinction is quite natural, “Denn diese Sonderung ist ein Ausdruck der doppelten Bestimmung des Menschendaseins.” Humans, as intelligent beings, are both totalities in and of themselves, as the philosopher Herder argued [Herder, 1869]; at the same time, each individual is part of a greater whole. Or, as Gierke puts it, the distinction

“...entspringt der Thatsache, daß jeder Mensch zugleich sich selbst und der Gattung lebt, daß der Einzelne eine Welt für sich, ein dem Univers gegenüber geschlossenes Ganze und doch auch Theil von höheren Ganzen, vorübergehende Erscheinung in dem Lebensprozesse von Gemeinwesen ist. Indem das Recht als äußere Lebensordnung diesen zwiefachen Gehalt des Menschenlebens vorfindet und demgemäß sich in zwei verschiedenartige Reiche gliedert, muß es sich auf der einen Seite die Begrenzung und den Schutz der äußeren Lebenssphären der Individuen, auf der anderen Seite den Aufbau und die Sicherung des Lebens der Allgemeinheit zum Ziel setzen.” (Id.)

It is clear, then, that the distinction between the two domains is to some extent arbitrary. As Gierke puts it in his reflections, “Was wir Individuum und was wir Allgemeinheit nennen, sind nur unentbehrliche begriffliche Abstraktionen von der in ihrer Totalität für unser Denken unerfasslichen Realität des gesellschaftlichen Menschen”. (pp. 5-6) However, a weakness Gierke attributes to the Roman law is its emphasis on the discontinuities rather than the unity of the two domains: “Doch beruht die Eigenart des römischen Rechtes auf dem ursprünglich angelegten Uebergewicht des Gegensatzes beider Rechtshälften über ihre Einheit.”

Thus, Gierke suggests, the Roman individualized law had outlived its use by his day and age (Gierke died in 1921), with its complex interdependencies, urban social life and a world guided by principles like the inviolability of human dignity. One particularly prophetic and withering critique Gierke lodges

against the Roman law is its treatment of slaves: “Mit seinem Nivellement der Personen wußte es der Sklaverei nicht beizukommen; es erhielt sich seine reinen Linien, indem es den Sklaven *nach wie vor als Sache* einreichte”. (p. 7, own emphasis) Internal contradictions like this one rendered the Roman law relatively impotent in many respects: “Gebaut auf diese ungeheure Lüge, ohne die er doch nicht denkbar war, stand der Individualismus des römischen Privatrechts allen das Leben des gesellschaftlichen Körpers unterhöhenden Kräften rathlos und machtlos gegenüber.” (Id.) Similarly, Gierke would argue, the Roman law would not be able to deal with the controversies and dilemmas of the present.

Gierke, as a representative of the Romantic Historical school, saw a different ethos in the historical tradition of Germanic law, which he describes as “underdeveloped”, a condition he suggests enabled it to find “broader and deeper” application to the social function of law (Id.)<sup>40</sup>. Indeed, Gierke comments that in the Germanic law, there existed “no sovereign state and no sovereign individual.” [Gierke, 1889, p. 8]. It was only in the course of the conglomeration of this latter corporatist tradition with the Roman one that the modern state arose:

Und erst aus der Verschmelzung der Gedankenelemente des aufgelösten Mittelalters mit griechischen und römischen Gedankenelementen formte sich in schweren Kämpfen das Moderne. Nun entdeckte sich das Individuum und es entdeckte sich der Staat. (Id.)

In fact, argues Gierke, this “discovery” was achieved largely by borrowing concepts and ideals from antique Roman law. This borrowing led to an evolutionary trajectory, the end stage of which Gierke describes as a combination of “only free and equal individuals and an omnipotent and mechanical state”, defined on the one hand by “der jeder Gemeinschaft entledigte Einzelne” and on the other hand by “die aus der Gemeinschaft der Menschen in den leeren Raum emporgehobene Allgemeinheit.” (p. 9) If this development were to continue unabated, so Gierke, “ Wäre es dahin gekommen oder käme es dahin, so ständen wir am Ende unserer Kulturentwicklung.” (Id.) This because “Alle aufgespeicherten Schätze an geistigem und materiellem Besitzthum würden nicht hinreichen, einer atomisirten und mechanisirten Gesellschaft eine längere Lebensfrist zu erkaufen.” (Id.)

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<sup>40</sup>In this sense, he is not far from classical scholarship, such as that of Tacitus, who similarly compared Roman and Germanic society. claiming in his *Germania* that the Germanic tribes “choose their kings by birth, their generals for merit. These kings have not unlimited or arbitrary power, and the generals do more by example than by authority.” [Tacitus, 1912, Chapter 7].

Gierke sees the historical school as a bulwark against this type of development. (Id., p. 10) Its promise of a “Renaissance of German law” entails, for Gierke, “the unity of all law”, in which the purpose of public law is “freedom” and that of private law “community”. Thus, for Gierke, the only opportunity for dealing with the “unassailable dangers” that loom on the horizon (perhaps he was thinking of the dangers that movements like National Socialism entail?) exists “wenn wir uns mit dem aufstrebenden Gemeinschaftsgeiste erfüllen und ans ihm heraus Staat und Recht, Sitte und Wirthschaft echt sozial zu gestalten verstehen.” (Id.) Accordingly, the question of the relationship between private and public law is essential. Here, Gierke does *not* advocate for a dissolution of the distinction between the two domains, which, according to him would sacrifice the advances that have been made on these fronts. It is worth quoting Gierke at length here:

Ist das öffentliche Recht nicht mehr die Daseinsordnung höherer Gesamteinheiten mit selbständigem Lebenszweck, sinkt es, statt der erhabenen Idee eines unsterblichen Gemeinwesens zu dienen, zum Mittel für die im Einzeldasein beschlossenen Zwecke Aller oder der Mehrheit herab, so stürzt die mühsam erstrittene Höhe des Staates! Erkennen wir im Privatrecht nicht mehr das Individuum als Selbstzweck an, verkümmern wir seine Ordnungen zu Mitteln des Gesellschaftszweckes, so hat das Christenthum umsonst den unvergleichlichen und unvergänglichen Werth jedes Menschendaseins offenbart und die Weltgeschichte vergeblich die Ideen der Freiheit und der Gerechtigkeit entwickelt! (p. 11)

Ensuring the unity of public and private law means, for Gierke, abandoning all forms of *monism*. These forms include, on the one hand, “die von der extremen Naturrechtslehre mit ihren Vertragstheorien systematisch ausgebildeten Vorstellungen, für welche, weil sie nur dem Individuum Realität zuerkennen, alles öffentliche Recht zuletzt von den Einzelnen ausgeht und auf die Einzelnen abzielt und darum nichts als ein verwickelteres Privatrecht ist.” (Id.) This is a veiled criticism of Anglo-Saxon common law. On the other hand, Gierke sees “die in den sozialistischen Lehren zum System erhobenen Gedanken, welche den Menschen ausschließlich als Glied der Gesellschaft begreifen und werthen, alles Privatrecht mit der Umbildung in eine staatliche Verwaltungsordnungs.” Both of these extremes are to be “combated”, the one due to its tendency towards “dissolution and death”, the other due to its tendency towards “unfreedom and barbarism.”

The goal of a legal architecture should be, so Gierke, “to strenuously find and realize the unity [of all law], over and against or despite the formal

dichotomy”. This excludes promoting “an absolutist public law” and “an individualistic private law.” In sum, Gierke argues,

Wir brauchen ein öffentliches Recht, [...] das zwar die Pflichten gegen das Ganze voranstellt, aber zugleich den Gliedern Rechte am Ganzen, dem Geringsten Antheil am Staat gewährt und verbürgt das von der Nothwendigkeit und der Stetigkeit des Gemeinlebens ausgeht und doch die Freiheit in sich aufnimmt. Wir brauchen aber auch ein Privatrecht, in welchem trotz aller Heilighaltung der unantastbaren Sphäre des Individuums der Gedanke der Gemeinschaft lebt und webt. Schroff ausgedrückt: in unserem öffentlichen Recht muß ein Hauch des naturrechtlichen Freiheitstraumes wehen und unser Privatrecht muß ein Tropfen sozialistischen Oeles durchsickern! (pp. 12-3)

One such path to achieving this unity would entail further differentiation, a phenomenon which history shows occurring in the course of development “from the simplest seedling, developing to specialized domains”. While such a path would be “smoother and simpler” than alternative paths, “Leider nur birgt dasselbe geradlinige Schema, das den mathematischen Sinn befriedigt, für das organische Leben, dessen Formen es setzen will, den Todeskeim.” (p. 13) In a passage that presages the discussion of the *ecological dialectic* introduced in Chapter 8, Gierke goes on to lament monadic optimization:

daß in dem einseitigen Wirken dieser sondernden Kraft die gefährlichen Konflikte wurzeln, die das innere Leben des gesellschaftlichen Organismus erschüttern und ihn mit Zerreißung und Zersetzung bedrohen: der Widerstreit von Wissen und Glauben, von Macht und Recht, von Recht und Sittlichkeit, von Sittlichkeit und Sitte, von Bildung und Wirthschaft, von Kapital und Arbeit, der Zwiespalt der Klassen und der Haß der Parteien. (p. 14)

These dangers – very much present and prevalent in the polarized world of the 2020s – can only be overcome, according to Gierke, by way of a push towards synthesis: “zur Vereinigung [...], die Gegensätze in einer höheren Einheit versöhnt und von der Einheit her die besonderen Funktionen mit Gemeinsamkeit durchdringt, das Auseinanderstrebende mit mächtigerem Streben bindet und das Getrennte ohne Aufhebung seiner Sonderart harmonisch zusammenfügt.” (Id.) We move on to outlining Gierke’s suggestion of such a synthetic law.

### 5.3.1 A Synthetic Law

In keeping with his principle of “Genossenschaft”, espoused throughout his oeuvre, Gierke suggests that the only way to supersede a vulgar patchwork of contradictory laws is if “der Gemeinschaftsgeist das Privatrecht von unten auf durchdring[t]” [Gierke, 1889, p. 17]. Gierke goes on to list several “legal moments” to illustrate how this might occur. The first of these is property law. Argues Gierke, “In Wahrheit ist alles Recht nicht einseitige, sondern gegenseitige Willensbeziehung. Auch das Sachenrecht ist zuletzt ein Verhältniß zwischen menschlichen Willen, nicht zwischen einem isolirten Einzelwillen und dem willenlosen Objekt.”<sup>41</sup> Due to this inherently *social* nature of property law, Gierke insists that no “duty free” right to property exists:

Wo aber Mensch und Mensch sich gegenüberstehen, da ist für unsere heutige Auffassung die pflichtenlose Herrschaft ausgeschlossen. So scheint doch auch das Privatrecht von dem Satz ausgehen zu müssen: kein Recht ohne Pflicht. In der That verknüpft schon unsere geltende Rechtsordnung auch mit dem stärksten und vollsten Recht, dem Eigenthum, eine Reihe von Pflichten. (Id.)

Gierke argues that such a dualism of rights and duties is not the result of the “insinuation of ‘policing practices’” (p. 18) into the domain of private law. Instead, Gierke argues, such duties are mere “Folgesätze aus einem obersten Prinzip”. This principle consists of placing the domain of freedom on a higher plan than that of property (p. 19), particularly emphasizing the *inalienability* of certain fundamental rights. We are again reminded of Gierke’s juxtaposition of *translation* and *concessio*. Indeed, according to Gierke, “Das pflichtenlose Eigenthum hat keine Zukunft!” In particular, he argues, the “highest duties” will derive from the domain of *morality* (*Sittlichkeit*). Such duties must necessarily be of both a *positive* and *negative* sort. The former must be anchored in particular stipulations (think of Kant’s notion of *leges permissivae*, while the latter case “bedarf es eines allgemeinen Satzes, welcher dem Mißbrauch des Eigenthums und der übrigen Vermögensrechte zum Schaden Anderer Schranken setzt.” (p. 18) Thus, a synthesis requires both positive law and general principles that can be flexibly applied in a changing environment. Such formulations may, on occasion, extend further than merely prohibiting misuse of property and can, in fact, stipulate its “proper use”. Mining regulations, law of inventions and hunting law are three examples listed by Gierke, but certainly one could extend this list indefinitely.

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<sup>41</sup>The similarity between this observation and Marx’s discussion of labor’s “belonging” in the production process, discussed in the prior chapter, is striking.

### 5.3.2 “No Right Without Duty”

Gierke argues that the idea of “no right without duties” reflects the particularity of the Germanic legal tradition. The Roman legal tradition, on the other hand, sees limitations to the entitlements the law provides “nur von außen her durch entgegenstehende Befugnisse”, (p. 20) which “widerspricht jedem sozialen Rechtsbegriff.” Thus, e.g., an absolute conception of property law (“ausschließliche Willkürherrschaft”), which Gierke observed in the then-contemporary draft of the German civil code, is described as “eine bloße Fiktion”. Moreover, Gierke describes such a fiction as a danger to public safety (*gemeingefährlich*). This because such a fiction views exceptions to the “exclusive arbitrary dominium” as singularities, as exceptions. Such a perspective leads to an “overloading” (*Überspannung*) of the concept of private property, which is, according to Gierke, “seinem Begriff nach kein absolutes Recht.”<sup>42</sup> It is, in other words, at least in part a *concessio* and not entirely a *translatio*.

### 5.3.3 Property Law

For Gierke, this circumstance is quite clearly demonstrated in land ownership, which is by its nature “seinem Inhalt nach von vornherein beschränkter als das Eigentum an Fahrniß.” [Gierke, 1889, p. 21] Gierke grounds this assertion with the argument referring to the Earth as commons, meaning “alles Sonderrecht am Boden [besteht] nur mit einem starken Vorbehalt zu Gunsten der Allgemeinheit.” Therefore, “[d]aß ein Stück unseres Planeten einem einzelnen Menschen in derselben Weise eignen soll, wie ein Regenschirm oder ein Guldenzettel, ist ein kulturfeindlicher Widersinn.” (Id.) In particular, Gierke uses the example of air and groundwater rights to illustrate his point. If the exclusive right to dispose of land extends to such derivative domains as the air above and ground below the property, then the result is an “antisocial law” (Id., p. 22). It is worthwhile to quote Gierke at length here:

Bis zum Mittelpunkt seines feurigflüssigen Innern ist unser Planet sammt dem ihn umschließenden Weltenraum zu Sonderrecht aufgetheilt! Der Alpenbesitzer, welcher entdeckt, daß der Bergtunnel gerade unter seinen Matten liegt, mag eine Strecke desselben sperren. Läuft ein Telephondraht über einen Winkel meines Grundstückes, so mag ich ihn durchschneiden. Der Luftschiffer muß erst die

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<sup>42</sup>“Alle ihm im öffentlichen Interesse gesetzten Schranken mit Einschluss der Möglichkeit der Enteignung sind in feinem Begriff angelegt und entstammen feinem innersten Wesen.” [Gierke, 1889, p. 20].

Erlaubniß aller Grundbesitzer einholen, deren Luftraum er durchfahren will. Wer nicht Grundbesitzer ist, thut eigentlich keinen legitimen Athemzug ohne fremde Gestattung. (Id.)

Therefore, it is important, so Gierke, to acknowledge that “Gerade wer dem Grundeigenthum wohl will, kann nicht scharf genug betonen, daß dasselbe keine den Sachkörper absorbirende Alleinherrschaft, sondern in letzter Instanz nichts als *ein begrenztes Nutzungsrecht an einem Theile des nationalen Gebietes ist.*” (Id., own emphasis) Moreover, Gierke critiques the “special superstition” of a “dogma” that places property rights on a higher plane than all other rights. (p. 24) We already saw this in his criticism of the Roman “noxal laws” above. Other planes of law such as *in rem* rights (*begrenzte dingliche rechte*) “sind ebenso gute und schutzwürdige Rechte wie das Eigenthum selbst.” (p. 25) In particular, Gierke substantiates this with an appeal to develop notions like third party property rights in the manner of *usufruct* (*Rechte an fremder Sache*)<sup>43</sup>. This to avoid an “internal colonization” (*interne Kolonisation*) towards “atomistic” and “materialistic” ends (p. 26).

In prophetic ways, Gierke anticipates many contemporary debates, referring to intellectual property in this regard. We return to many of these themes throughout the present text. Before doing so, it is worthwhile to pivot to Gierke’s arguments concerning labor law. In particular, as he argues “Es giebt aber keinen gefährlicheren Irrthum, als die weitverbreitete Anschauung, daß die Aufgabe des Privatrechts im Vermögensrecht beschlossen sei. Alles Vermögen ist nur um der Person willen da, und vor und über jeder vermögensrechtlichen Beziehung steht das Recht der Persönlichkeit.” (p. 34)

### 5.3.4 Labor Law

“Den grundlegenden Theil unseres Privatrechts müßte ein durchgebildetes Personenrecht bilden.[...] Nur zögernd und nicht ohne Beimischung einer Fiktion werden die obersten Persönlichkeitsrechte, die Rechte auf Leben, Körper, Freiheit, Ehre, überhaupt zu Bestandtheilen der Privatrechtlichen Sphäre geprägt, und unvollkommen bleibt ihr Schutz. ” [Gierke, 1889, p. 35]

At the root of labor law, Gierke sees contract law (*Obligationsrecht*). This is another arena where the social dimension of private law becomes clear. Writes Gierke,

<sup>43</sup>“Darum darf in unserer vom Individualismus bedrohten Zeit eine Privatrechtsordnung, welche soziale Ziele verfolgt, keineswegs die Rechte an fremder Sache zurücksetzen und ohne Noth einengen oder abschwächen. Sie muß sich vielmehr deren sorgfältigem Ausbau widmen.” [Gierke, 1889, pp. 25f.]



Wenn das moderne Recht hier den Grundsatz der Vertragsfreiheit durchführt, *so kann doch auch hier nicht willkürliche, sondern nur vernünftige Freiheit gemeint sein*. Freiheit, die kraft ihrer sittlichen Zweckbestimmung ihr Maß in sich trägt, — Freiheit, die zugleich Gebundenheit ist. *Schrankenlose Vertragsfreiheit zerstört sich selbst.* (Id., p. 28, own emphasis)

Thus, not “freedom of contract” should be the guiding principle for contract law, but a search for equilibrium between “legal freedom” and the “moral freedom of personality”. It is worth quoting at length from Gierke’s talk:

Das Gesetz, welches mit rücksichtslosem Formalismus aus der freien rechtsgeschäftlichen Bewegung die gewollten oder als gewollt anzunehmenden Folgen entspringen läßt, bringt unter dem Schein einer Friedeusordnung das *bellum omnium contra omnes* in legale Formen. Mehr als je hat heute auch das Privatrecht den Beruf, den Schwachen gegen den Starken, das Wohl der Gesamtheit gegen die Selbstsucht der Einzelnen zu schützen. So ist ja längst mit dem Satz, daß Verträge mit unsittlichem Inhalt nichtig sind, eine äußerste Grenze gezogen, die mit der Entwicklung des sittlichen Bewußtseins sich immer weiter nach dem Mittelpunkte hin verschoben hat.<sup>44</sup> (p. 29)

Examples are the voluntary slavery contract and the *couverture* marriage contract. (Id.) These examples serve as arguments for the conclusion that “Doch ist mit der Garantie der Unveräußerlichkeit der sorinalen Freiheitsrechte noch wenig gethan.” Gierke argues that such thinking, which extends to the domain of debt law, “demand further evolution.” (p. 30) Moreover, the priority of personality over property must extend, so Gierke, to the modern *labor contract*, which he argues is rooted in the Roman tradition of slavery (i.e., property law). Gierke writes prophetically in the year 1889,

so muß ein gesundes Privatrecht überall da, wo die Persönlichkeit selbst von der vertragsmäßigen Bindung ergriffen wird, den Begriff der Persönlichkeit in das Centrum stellen. *Dies gilt in erster Linie für die Regelung des Dienstvertrages, sobald derselbe nicht blos eine flüchtige Berührung durch einzelne Dienstleistungen erzeugt, sondern den ganzen Menschen einem Zweckzusammenhange einordnet und einein Lebensberufe entheilt. Es ist undenkbar, daß wir hier*

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<sup>44</sup>This argument of Gierke’s should remind the reader of Ellerman’s charge of the illegitimacy of the labor contract and of Ferreras’ notion of the shift towards “public labor”.

*auf die Dauer bei dem im römischen Sklavenrecht wurzelnden Schema der nach dem Muster der Sachmiethe geformten Dienstmiethe stehen bleiben!* (p. 32, own emphasis)

This is a damning statement, and its relevance shines through into the contemporary world. It captures what some decades later was argued by [Berle and Means, 1932] in their analysis of the modern corporation. In fact, Gierke addresses the implications of the corporation in the life of modern citizens. He adapts his conception of *Herrschaftsverband* to the role:

Vor Allem jedoch sind es in Wahrheit kleinere und größere, zum Theil ins Riesenhaste ausgewachsene privatrechtliche Herrschaftsverbände, welche in der Form des geschäftlichen Unternehmens heute als die eigentlichen Träger unseres wirtschaftlichen Lebens erscheinen. Wozu soll es nützen, diese klar am Tage liegende Thatsache abzuleugnen? Was wird denn erreicht mit der von unserem Rechtssystem immer noch festgehaltenen Fiktion, daß hier nichts weiter vorliegt, als eine Summe obligationenrechtlicher Einzelbeziehungen zwischen freien und gleichen Individuen? (p. 40)

Indeed, the contemporary labor contract is much more. According to Gierke, it “gliedert die Persönlichkeit selbst einem wirtschaftlichen Organismus ein. Als ein monarchisch organisirtes Ganze, dessen alleiniger Träger der Unternehmer ist und dem Angestellte und Arbeiter als dienende Glieder angehören. . .” (p. 40-1) This unsustainable situation, largely today unresolved, despite certain formal Gierkian revisions like the German law on *Mitbestimmung*<sup>45</sup>, can be resolved by recognizing the factual character of the corporation as a *collective of persons*:

Alle fernere sozialpolitische Gesetzgebung wird den Gedanken, daß das moderne geschäftliche Unternehmen eine Form personenrechtlicher Verbindung ist nur immer klarer herausstellen und immer weiter entfalten können. Löst da wirklich das gemeine Privatrecht seine Aufgabe, wenn es gleich dem Vogel Strauß den Kopf in den Busch steckt und bei dem lügenhaften Schema des streng individualistischen reinen Obligationenrechtes verharrt? (p. 41)

Gierke concludes his speech by appealing to the idea of private and public law as “Kinder einer Mutter”, which “zuletzt immer wieder sich in der Arbeit am gemeinsamen Werk zusammenfinden.” (p. 45)

<sup>45</sup>See [Ferreras, 2017, pp. 48ff]’s excellent discussion of the limitations of the German law on “co-determination”.

## 5.4 Conclusion: A General Theory of Cooperation?

“And no one pours new wine into old wineskins. Otherwise, the wine will burst the skins, and both the wine and the wineskins will be ruined. No, they pour new wine into new wineskins.” Mark 2:22

The last three chapters have concerned first the derivation of an “archive” and an “arsenal” of concepts, events and processes that shed light on the interrelations between the striving towards emancipation and a distinctly human trait for counterfactuals. Moreover, we have attempted to connect these strivings with an economic logic, arguing that democracy was never a purely “political” process. Instead, we have argued for a substantive, progressive and emancipatory notion of democracy as a *process* of relationalizing more and more aspects of living together.

We also addressed the need for a *moral economy* perspective, based on the fact that much economic thinking has historically been (implicitly or explicitly) based on a static master-servant logic that traces its lineage back to ancient philosophers and statesmen like Aristotle and Cicero. We argued that a suitable framework for such a moral economy perspective could be found in the new discipline of *relational economics*.

We finally attempted to shed light on why the neoclassical model is unable to accommodate such a relational perspective, in particular because it is designed to ignore such aspects. Finally, we saw the importance of a synthetic vision of law as the handmaiden of economic practice and the arbiter of what has colloquially been referred to as “the invisible hand”.

As we conclude the foundational part of this project, we are now in a position to ask the question whether a “general theory” of cooperation is possible.

A general theory of a cooperative law as envisioned by Gierke, as we have argued above, is an essential component of any meaningful “cooperative economy”, “cooperative political economy” or “cooperative economics”, and would essentially seek to under-gird the institutional and legal structures necessary to sustain a general degree of cooperation with the behavioral, historical, ethical and other components necessary to both initiate and sustain cooperation. Certainly, the legal component can’t be forgotten, as it forms a vital component of what becomes the “invisible hand”, the negative component of an apparently “self-regulating” system of economic transactions:

In other words, when a legal entity, or category of legal entities, has a defining feature that relates to the objective pursued—whether negative (the profit non-distribution constraint that qualifies non-profit entities) or positive (the mutual purpose that qualifies cooperatives [...])—the organizational law of that entity, or category of entities, plays the essential role of defining their particular identity in light of the objective pursued. This applies yet to a greater extent to cooperatives, since their identity is complex and consists of several, at times interrelated, aspects, which do not only pertain to their purpose.<sup>46</sup>

In fact, the special character of cooperative businesses appears to require special recognition before the law. Writes Fici, “while there are legal entities that are ‘neutral’ as regards the purpose pursued, as is the general case with companies, there are other legal entities, including cooperatives (and nonprofit entities [...]), that are not ‘neutral’ in this respect.” [Fici et al., 2013, p. 18] Thus, as we will learn in the following chapters, cooperative business operate on the basis of particular values which are perceived as ends, and these operate as coordinating tools (what we will call “propensities”) to achieve outcomes outside of those based on non-cooperation (e.g., Nash equilibrium). In order to achieve these “non-neutral” outcomes, the legal apparatus must recognize whatever the special features of such firm types are. These features, which we will attempt to outline shortly, and which contribute to a certain “rigidity” stipulated by law, “enhance[...]—within a jurisdiction recognizing a choice among several types of legal entities—a founder’s or member’s ‘ability to signal, via her choice of form, the terms that the firm offers to other contracting parties, and to make credible [her] commitment not to change those forms’”.[Fici et al., 2013, p. 19]

In the following, we attempt to construct such a theory based on the theoretical perspectives introduced in this and previous chapters. In particular, our general theory attempts to integrate historical fact, ethics, legal convention and economic reasoning in a relational ensemble that we tentatively call a

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<sup>46</sup>Fici writes,

For example, while in the regulation of the European Company (*Societas Europaea*—SE)—the European Union law equivalent to a company (or business corporation) established under national law—nothing is stated with regard to the purpose of an SE,<sup>52</sup> in the regulation of the European Cooperative Society (*Societas Cooperativa Europaea*—SCE)—the European Union law equivalent to a cooperative established under national law—the objective of an SCE is stipulated, and accordingly there are specific rules on the allocation of profits. [Fici et al., 2013, p. 17].

*general theory of cooperation.* Before setting out on that journey, we first ask the question of which components *ought to be part* of a general theory of cooperation. We close the chapter by asking whether such a general theory is even possible.

### 5.4.1 Necessary Building Blocks

Here we try to crystallize the necessary building blocks of a potential *general* theory of cooperation. In particular, we try to apply the historical, behavioral and collective choice lessons derived above into a legal framework.

**Self-Organization, Autonomy** Based especially on the reading of Gierke above, it would appear that an understanding of the role of self-organization is required. To be more precise, when reading Gierke, it becomes clear that one of his main motivating concepts is the contradiction between heteronomy and autonomy, as seen throughout history in the legal sanctioning of self-organized activities. If in the European ancient world, Roman emperors were ultimately responsible via the principle of concession of legitimating the collective activity of citizens, and the Catholic church later took on this role, sanctioning the establishment of orders, monasteries and other “spiritual cooperatives” in the language of Gierke, then the question of interest for Gierke, and which he at least answers in the affirmative, is whether such cooperatives or associations exist only by means of the consent of the ruler, or whether they have their own existence. Thus, the first essential building block is the question whether the particular jurisdiction allows an independent existence of collective agency institutions.

**Existence and Promotion of Democratic Choice Mechanisms** The second question is whether, if self-organization is allowed, the mechanism for collective choice is prevalently democratic or coercive? Coercive mechanisms, as we saw in the above, can often take the mantle of being democratic (e.g., “shareholder democracy”) but, in practice, reserve similar requirements for participating as do poll taxes and similar phenomena for political participation. Thus, the second essential building block is the place and role of democratic choice mechanisms (DCMs) in the context of self-organization. These must respect that all representation can only ever occur via *concessio* and not via *translatio*. Hierarchies must be constructed in such a way as to reflect that.

**Cooperative Activity or Enterprise** Cooperation must play a central role in the enterprise or organization. Cooperation

is a characteristic of cooperatives that, when properly understood, significantly contributes to their distinction from companies. In companies, like in any other for-profit entity, the economic activity is simply an instrument for pursuing the entity's final objectives, and it is irrelevant whether this activity is conducted with the members. By way of contrast, cooperatives are formed and exist to run an enterprise that might directly satisfy the interests of their consumer-, provider- or worker-members (who, together, may be referred to as "user-members", since in fact they are the direct recipients of a service provided by the cooperative enterprise). [Fici et al., 2013, pp. 23-4]

Thus, whereas cooperation in the sense of Marx is merely incidental in a company, in a cooperative, it is the *raison d'être* of the enterprise. "This is the reason why in cooperative legal theory these transactions must be kept separate from all others, beginning by giving them a distinct name, as some cooperative laws appropriately do, using formulas such as 'cooperative acts' or 'mutual relationships'." (*Id.*) Thus any general theory of cooperative law must reserve a place for specifying (a diversity of) unique "cooperative transactions" that distinguish the enterprise from a company employing cooperation instrumentally. Notions like "cooperative rents", discussed above, can help shed light on isolating such activities.

**Legal Architecture Recognizing Special Character of Cooperation** The third question is whether the legal framework recognizes the special character of the cooperative form of self-organizing. This does not need to entail special privileged status with respect to state contracts or tax exemptions, though it may. It can occasionally merely suffice to recognize cooperation as a legitimate form of organization. The main factor of import is that public and private institutions like banks are familiar with the legal form and convinced in its longevity. State sanctioning helps this cause. Providing programs for Professional Education and Development (PED) for tax advisors, accountants, lawyers and other critical service providers is also a key element of ensuring a robust legal and institutional architecture.

**Regulatory Oversight** As we will discuss in subsequent chapters, cooperation requires both internal (to the interaction or organization) monitoring, as well as external oversight. This can, for instance, prevent individuals

from misusing the legal form of cooperation for unsanctioned ends, and it can provide further stability. State oversight is not the only option, as some countries like Germany and Italy show that auditing federations and cooperative federations can be effective stewards, when provided sufficient resources for monitoring and also sanctioning. There surely is no single recipe for regulatory oversight, and the focus should always be on balancing a desire for clearing regulatory obstacles for initiating startups and ensuring the integrity of the ecosystem as a whole.

**Privileged Position of Certain Fictitious Commodities** Based on Ellerman’s treatment of the centrality of responsible agency in the execution of labor, it would appear that as part of any general theory of cooperative law recognition of the special place of certain commodities, following Polanyi, land, labor and money – in addition to data, as we will argue in the following chapter – should be privileged in their rights to self-organize. In keeping with classical theories of natural rights (imputation) and notions of the dignity of personality (responsibility) and in recognition of the limited quantity of land available and the special character of money as a circulating medium (both therefore prone to network effects typically referred to as “externalities”), the right to self-organize these commodities in autonomous organizations must be recognized and supported by legal and jurisprudential means.

To rephrase this condition relationally: in many transactions, a increased focus on social logics, such as balancing private and public interest, arise. It appears reasonable to assume that such transactions particularly lend themselves to cooperative forms of organizing.

**Appropriate Balance between *ius cogens* and *ius dispositivum*** As can be seen in the discussion above, there is a necessary balance to be struck between individual autonomy of cooperative enterprise and the protection of the identity of cooperatives as a legal form, which is essential for their sanctioning and – occasionally – support by the state. Thus, concern needs to be paid for the role of mandatory and discretionary characteristics. A potential compromising role may be played by so-called “options”:

To be sure, cooperative law increasingly comprises a third category of provisions that may be termed “options”. They are different from both mandatory rules, as they provide cooperatives with a choice among two or more alternative specified rules (of which, one would apply by default in the absence of a choice between them by the cooperative), and default rules, since in any event they confine private autonomy to the options provided therein (additional and

different arrangements are therefore unavailable). In cooperative law, a trend may be observed in many jurisdictions toward replacing mandatory rules with options, as a result of the relaxation or reinterpretation of some cooperative principles, including the democratic principle “one member, one vote”. [Fici et al., 2013, p. 15]

**Facilitate “Agonic” Freedom** We discussed the *agonic* above in 3.5.5. As is made clear in the above, a relational view is not free from dynamic social processes, conflict or competition. However, it juxtaposes a competitive logic with one of cooperation, with governance acting to balance these various logics. Thus, a better notion than “competition” within the framework of cooperative economics is the *agonic*. To remind the reader again:

The praxis of *agonic* practice cultivates also the disposition to develop one’s powers to overcome the challenges posed by mastering the practice, including those challenges to achieving this mastery that are internal to one’s current constitution as an agent. Thus, the praxis of *agonic* practice cultivates an *agonic* relationship to oneself, a practical relationship to oneself characterized by a disposition to self-overcoming understood as the disposition to increase one’s powers to act and especially one’s ability to self-direct the exercise of one’s agency.

[Owen, , p. 82]

Thus, a healthy, accountable level of competition – even with one’s self in the form of self-mastery – is actually facilitated by taking a relational approach. Thus, a general theory of cooperation also must recognize the relation of cooperation to competition and study where these two elements are complementary and where they clash, and to clearly demarcate those corridors, developing strategies and heuristics for stakeholders traversing these. We return again to this topic later in the text, particularly in our discussion of *process ecology* in 8.3.

**Connect with civil society and so-called “General Interest Cooperatives”** Not all cooperatives are single-member cooperatives. An increasing number of *multi-stakeholder cooperatives* is appearing. A general theory must recognize logics behind the single-member model: producer, consumer, service, etc. and embrace a *polylingual* cooperative logic. This, because the new types



pursue the general interest of the community [...], and not the interest of their members. They are not mutual cooperatives but *general interest cooperatives*. [...] Cooperatives, therefore, are no longer necessarily linked to a mutual purpose, and the law increasingly admits their pursuing the general interest. Cooperative legal theory has to recognize this fact and start also dealing with general interest cooperatives, which relative to mutual cooperatives present different problems of regulation, due to their distinct objective.[Fici et al., 2013, pp. 33-4, own emphasis]

We will keep these nine heuristics in mind as we continue our discussion, which in the next part will move to operationalizing a relational viewpoint within organizations.

#### 5.4.2 Is a “General” Cooperation Possible?

With all the constraints imposed above, the question is begged, whether it is even possible to craft a *general* theory of cooperation. Antonio Fici in his introductory chapter of *The International Handbook of Cooperative Law* states,

the overall understanding of cooperatives, and of their distinct identity, would be greatly facilitated by an interdisciplinary approach to cooperatives, which would include cooperative legal theory and lend more attention and importance to it. For this to happen, it is necessary to strengthen cooperative legal studies and increase their visibility, which in particular would permit bridging the existing gap between economic and legal studies on cooperatives. In many cases, indeed, the cooperatives of economists do not correspond to the cooperatives of jurists. Economists tend to stress some characteristics of cooperatives (for example, their ownership structure) while overlooking others (for example, their solidaristic or altruistic orientation) that are fundamental to the global comprehension of cooperatives and their distinction from companies. On the other hand, legal scholars fail to analyze provisions of cooperative law and/or to compare possible solutions to a particular problem of cooperative regulation (also) in light of the economic theory.[Fici et al., 2013, p. 8]

It is our position that such a theory is possible, and that the groundwork has been laid by past and current initiatives, like the Preference Network at the

MacArthur Foundation<sup>47</sup>, as well as certain efforts within the domain of *Post-Walrasian Economics* [Bowles et al., 1993] and by newer theories of the firm, such as those reviewed in Chapter 2. It will necessarily be an interdisciplinary undertaking, and this dissertation should be read as an attempt to contribute to such an effort from a particular reading of economic theory. This reading suggests that, if we are to devise a *cooperative economics* as part of a general theory of cooperation, it must be lodged in a re-examination of J.S. Mill's dictum that economics must concern itself only with "pecuniary self-interest".

In particular, as the above account has attempted to make clear, there are not only *costs* associated with cooperation, as *Transaction Cost Economics*' focus emphasizes. Indeed, there are also *benefits* to cooperation, in the form of *cooperative rents*. These may in many cases more than compensate for the *costs of cooperation*. One example is the fact that at many Italian cooperatives, elements of what we above called *cooperative costs* are split between the focal organization and the respective cooperative federation. For instance, at the large industrial cooperative CPL Concordia near Modena, courses for leadership trainees are provided both by the company and by Legacoop<sup>48</sup>. This reduces the costs an individual organization must shoulder for training its leaders.

Moreover, a member of CPL Concordia's board described her role less in a "charismatic" sense and more in a "representative and networking" sense, in which she is, above all, "concerned with cooperative values and their application", as well as "concerned with finding opportunities for the cooperative" based on her connections and her daily work efforts. This appears to underscore the notion that a cooperative or relational perspective on firm governance views leadership more as a function (a "relation of relations"), rather than a specific role.

We move on to the task of re-examining Mill's dictum in Part II.

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<sup>47</sup>Cf. [Henrich et al., 2004, p. 1].

<sup>48</sup>Although one member of the firm's 9-member board suggested that "experience" is the most vital aspect in developing leadership skills, beyond such courses.

**Part II**  
**Theory**



# Chapter 6

## Democratic Collective Choice

### 6.1 Methodology Part II

#### 6.1.1 Research Design

The second part of the research hinges on three particular observations.

Firstly, labor and capital are not similar in their nature. As we have shown above, MP theory takes labor and capital to be relatively homogeneous production factors that are somehow combined in a productive endeavor to achieve an output that is then sold on the market. We have shown via various entries from the tradition of moral economy, from Aristotle to Polanyi, how this thinking is based on a faulty equivocation. Thus, one cannot merely attribute various characteristics within cooperative firms to market forces operating symmetrically on labor and capital. No, this perspective argues: labor and capital are fundamentally different commodities, the main difference deriving from the aforementioned fact that labor is another name for human productive activity. Therefore, any theory of collective choice based on cooperation must acknowledge these empirical and analytical differences. We address these issues in the current chapter.

Secondly, cooperative or democratic firms can have hierarchies! Many neoclassical microeconomists attribute the paucity of cooperative enterprise to the essential lack of hierarchy in cooperative firms, which is empirically unsound. Thus, again, empirical and analytical distinctions between cooperative or democratic organizations and traditional enterprises must demonstrate that the distinctions they attribute to the different firm types are actually the result of essential features of that firm type. Only theories satisfying this criterion can be considered sound or scientific, and only such theories can account for the true relative benefits and disadvantages of the cooperative enterprise type. Surely both distinctions exist, in particular with regards to

the *quality* of hierarchy, which we alluded to in our discussion of *translatio* versus *concessio* in Chapter 3. We return to this topic in Chapter 7.

Lastly, the theory of fully competitive markets does a poor job at explaining empirical divergences in outcomes of cooperative vs. traditional firms. Thus, it can be shown that under fully competitive assumptions, no empirical divergences exist between one or another firm type, regardless of which production factor controls the firm. Thus, one of the starting points for any *cooperative* theory of economics is the fact of what Shaikh calls “real competition” and what *asymmetric* impacts it has on cooperative firms versus traditional ones. This observation is the starting point of Chapter 8.

The three preceding arguments will each serve as a context of justification for one of the next three chapters.

### **New Foundations for Microeconomics**

This chapter will seek as its goal to contribute to the move beyond the current hegemonic theory of the firm, today dominated by offshoots of New Institutional Economics (NIE), with examples like Williamson’s *transaction cost economics* or Hansmann’s theory of the ownership of enterprise as two particularly prominent examples. Generally, speaking, much of contemporary microeconomics rests on empirically questionable foundations and therefore, the design of this chapter is to introduce the concept of *empirical microeconomics*, previously discussed by Herbert Simon [Simon et al., 2009]. We will attempt to fill this concept with meaning based both on building on the discussions of the prior chapters. We seek to contribute to these discussions in a number of ways.

Firstly, we introduce the asymmetry principle, which represents the context of justification for this chapter. Following this, we seek to understand in what way preference development contributes to collective preferences and organizational behavior. This discussion presages our introduction of the domain of *constraint theory*, which we suggest as an analogue to the relational epistemology introduced in the prior chapters. After this, we engage in a critical discussion of game theory, interpreting why its use in social contexts may in fact be limited. Particularly, the emphasis on empirically grounded theory, on socio-psychological theories of norms and lead us to critically re-examine the central role of game theory in microeconomic theory. We will agree with [Aumann, 1974] that game theory alone is an insufficient tool to describe social commitments and long-term and persistent norms of behavior. In agreement with this view, we offer the notion that norm-generating and maintaining institutions whose activity occurs outside of the strategy sets and Nash equilibria of game theory (save perhaps epistemic game theory) are

valid terrain for economic analysis, particularly *substantive* economic analysis, or the analysis of the economy of provision.

In its place, we suggest a causally-based epistemology, which seeks to extend Bayesian methods by means of directed acyclical graphs, a mechanistic theory of causality and concepts like counterfactuals.

The concluding sections of the chapter deal with the necessary and sufficient conditions for democratic choice. This discussion culminates in a delineation of three principal “democratic values”, *inclusion*, *equity* and *accountability*. By means of these, we then develop the concept of *democratic choice mechanisms* (DCMs) in Chapter 7. In Chapter 8, we then extend the analysis to networks of firms, i.e., to the extra-firm environment.

## 6.2 *Democratic Choice?*

In this chapter, we return to the events, ideas and practices introduced in the preceding chapters, aiming to test the limits of prevailing concepts from social and behavioral science, such as game theory, in their ability to explain for the processes, environments, conditions, preferences and behaviors involved in the unfolding of the democratic civic imaginary outlined above. Where this is not the case, there is likely a need for new concepts and models. Thus, returning to the discussion of Buchstein’s theories of democracy in 3.3, we are here supplementing the normative and historical democratic theories developed in the prior chapter with formal theories and models, with the purpose of abstracting from particular details to general lessons on the nature of democracy as a progressive evolution of self-governing groups of autonomous individuals within the context of cooperation.

On the way, we will attempt to model the shifts in behavior associated with the unfolding of a democratic imaginary in different cases. In so doing, we will draw on research by [Kyriazis and Metaxas, 2013]. We will attempt to integrate findings from ergodicity economics and juxtapose these findings with theories like that proposed by [Axelrod and Hamilton, 1981] on the evolution of cooperation. In particular, we will learn that shared experience can facilitate the development of trust that strong reciprocity requires. Moreover, we will attempt to integrate the findings of Jon Elster, who developed *constraint theory* to represent the notion that in some cases, “less is more”, meaning that constraints not only increase transaction costs but can also provide a reduced horizon by means of which socially beneficial outcomes are more likely to occur. In other words, in the language of relational economics, we will argue that constraints can serve to increase cooperative rents and decrease the costs of cooperation.

This chapter is organized as follows. We begin by recounting some basic formal observations flowing from prior discussions. We do this by firstly discussing the role of discount rates in decision-making, attempting to disentangle the question of how collective discount rates emerge. We then engage in an extended discussion of the development of preferences, where we agree with [Sen, 2017] and others who have criticized either the inability or unwillingness of economists to engage with this important issue. We suggest some formal solutions based on both social and organizational psychology, comparing and attempting to mix these with methods developed in behavioral economics in recent decades, placing central focus on the role of social learning and on so-called *macrocultures*. Next, we move on to discussing the issue of *non-separable preferences*, which brings us back to the discussion of *co-determination* developed in Chapter 2. The last preliminary formal element is introduced in the form of *coordinated equilibrium* as a tool for synthesizing the rational actor model with notions of morally co-determined citizens with non-separable preferences, engaged in social learning processes resulting in macrocultures.

We then move on to delving more in depth into the necessary and sufficient conditions for establishing democratic choice mechanisms. We begin with the necessary conditions (“if p, then q”), outlining the importance of communication in determining the needs of individual members and of the collective. Next, we discuss the hierarchy of collective viz, individual interests in democratic choice. This is followed by discussions of the respective roles of trust, cooperation and participation. After this, we entertain an extended discussion of the role of control<sup>1</sup> in its relationships, respectively, to rationality, imagination and (intrinsic) motivation. This is followed by a discussion of the role of legitimacy as a necessary condition for democratic choice. The discussion of necessary conditions is concluded with a return to the issues of social learning and socialization as tools to encourage each of the prior values or parameters.

In the sequel, we move on to discussing sufficient conditions (“p only if q”). This discussion begins with moral competence and other conditions for enforcing and maintaining democracy, including transparency, mutual monitoring, sanctioning and the maintenance of legitimacy.

Next, we proceed to connect the prior discussions by formally outlining democratic values. If before we have focused on the formalities of the necessary and sufficient conditions, this section will orient the focus towards the content and purpose of DCMs. It is thus an attempt to introduce normative arguments

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<sup>1</sup>Defined here in accordance with [Bowles and Gintis, 1993]’s notion of contested exchange, where control refers to being on the long side of a transaction.



from Chapter 3 into the more formal corset presented in this chapter. The values we attempt to model include *inclusion*, *equity* and *accountability*. The first of these relates to the Dewean notion of “Great Community” and reflects the most central value of democracy as outlined in Chapter 3, while the second can be compared with Rawls’ notion of justice and can be interpreted as a justification of the former. Meanwhile, accountability is a value that ensures legitimacy and stability and is associated with the other two. After outlining these three values and introducing indicators for measuring them in practice, we look at the role of size, scale and complexity in complicating the maintenance of democratic values.

We close the chapter by reminding of Arrow and Sen’s attempt to move beyond “Impossibility” results.

### 6.3 The Asymmetry Principle

The findings of Part I revealed the “pre-scientific biases” in a static ontology that ascribes factually incorrect qualities to labor that in fact undermine the advancement of the economy in terms of knowledge and high-quality governance relations. Nevertheless, despite the findings of the Cambridge Capital Controversy, most students of economics today still learn about production functions, which typically assume inputs of homogeneous inputs of *capital* and *labor*. These functions, which remind one in effect of the Catholic notion of the duality of the soul, usually give the impression that these inputs are indistinguishable besides being introduced by different actors, like water flowing into a tub from several valves. Applications like the *Cobb-Douglas* production function further reinforce this notion, with its assumptions of orthogonal qualities. Notions like Lucas’ “stylized facts” have not helped things.<sup>2</sup>

We have underlined in the above discussions the reasoning behind a relational perspective. Beyond looking at “Labor [as] only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized” [Polanyi, 1944, p. 75], the relational perspective seeks Consequentialist arguments for emphasizing a process-based view of economic relationships, concluding that a multi-stakeholder dialogue is an essential to gain the most from cooperation. The question is now how to frame that approach and what a reasonable context of justification for it might be.

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<sup>2</sup>For a critical discussion of these and other issues, see [Hill and Myatt, 2010] and [Shaikh, 2016], especially the latter’s emphasis on the economy as an emergent phenomenon.

Greg Dow’s asymmetry principle offers one useful starting point for such a context. When discussing the analytical differences between labor-managed (LMF) and capital-managed firms (KMFs), Dow suggests that these cannot all be attributed to market forces. “Although they are necessary,” writes [Dow, 2018, p. 7], “market imperfections are not sufficient to explain patterns like [e.g., compressed wage structures, less elastic quantity responses to prices], because such imperfections may have symmetric effects on KMFs and LMFs.” Thus, one must find fundamental differences between capital and labor that, in combination with market imperfections, accommodate differences in practice between the two firm types. Thus, [Dow, 2018, p. 8] suggests that “[a]ny theory claiming to explain the empirical asymmetries between KMFs and LMFs must identify a causally relevant asymmetry between capital and labor.”

Applying Wittgenstein’s lessons about language to labor would direct us to finding a lexicon of labor that is conceptually distinct from the language of capital. Thus terms like *social capital* or *human capital* should be avoided in favor of terms designed more explicitly to refer to the unique characteristics of labor as human agency.<sup>3</sup> More important, labor is creative, spontaneous, adaptive, unpredictable, universal, extensive, unalienable and lends itself to critical or deliberative rationalization. Meanwhile, capital is created, ordered, predictable, fixed, indifferent, particular, intensive and alienable.<sup>4</sup>

Like Turing’s machine, human labor can be seen as a universal value, as “in principle, any human can perform any task any other human can perform, allowing in normal variations in strength, skill and learning capability.” [Cockshott et al., 2009, p. 97] The authors thus refer to humans as *universal labor machines*, a play on Turing’s own universal Turing machine (UTM).

Moreover, the concepts we have associated with labor – creativity, adaptation and deliberation – lend themselves to concepts dealing with adaptive processes, learning and development more so than they do to instrumental and static concepts (think about our discussion of the evolution of counterfactual thinking, as evidenced in artifacts like Ulm’s “Lion Man”), which may be useful in discussing capital. We already know from, e.g., [Veblen, 2007] that certain goods have perverse psychological impacts on economic agents – for example because of the signals they send – often affecting either supply or demand, or both, in unexpected and unusual ways. Is it not reasonable therefore to state that labor, too, is such a particular good that requires a subtle, granular institutional and legal context in which to operate? Can one separate the economic component of the labor market away from this

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<sup>3</sup>Cf. [Elster, 2015, p. 456] or [Bianchi and Vieta, 2020].

<sup>4</sup>Cf. [Ellerman, 2021c], [Ellerman, 2021b], [Dow, 2018] or [Cockshott et al., 2009].

overarching social context, as Mill and his followers would have one believe?, and as is ultimately attempted in KMFs<sup>5</sup>? Or is it the case that the growing literature around a *moral economy (of labor)* is the appropriate context in which to view labor?

Of course, what ultimately distinguishes human labor from capital is the fact that human beings are not tools, and are endowed with certain traits that over history have been referred to as “natural rights”. Since the Reformation, a long-standing tradition of interdisciplinary thinking has emphasized “the rights of man”, extending from the Reformation into the Enlightenment and social upheavals like the Haitian, French and American revolutions and beyond, into the de-colonization movement of the 20th century. If human beings are in fact, endowed with certain inalienable rights, and if human creativity and ingenuity is indivisible (cannot be broken up and sold in partial shares, like a share of capital), then it seems quite natural to treat labor quite distinctly from “production factors” like land and capital.

## 6.4 The Development of Preferences

In keeping with the appeal in Chapter 2 for a pluralistic vision for the economy, it is important to incorporate learning and preference formation. Neoclassical economists have long avoided preference formation for the “stylized facts” like the model of the “representative agent”, etc. We agree with Nobel laureate [Sen, 2017, p. 50] that “this is a somewhat narrow position to take”, that “the genesis of individual preferences may indeed be relevant for postulating rules for collective choice” and that “the appropriateness of alternative rules of collective choice will depend partly on the precise structure of the society.” Thus, in keeping with the endogenous preference tradition in Post-Walrasian political economy, we below outline some pertinent arenas that provide *necessary* and *sufficient conditions* for the evolution of democracy.

Until recently, mainstream economics had failed in this regard. The neoclassical model, as described above, is guilty of the “Samuelsonian vice” of fitting reality to its model. Only since the advent of behavioral economics has any progress been made in rendering the discipline fit for dealing with the particularities of human life. Understanding the cognitive and behavioral underpinnings of social and individual behavior has benefited the relevance and generality of the once-parochial neoclassical rock garden. It has also, via the (slow) take-up of what economists refer to as “norm-based rationality”, a reformulation of the Kantian imperative<sup>6</sup>, equipped itself, again – finally –

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<sup>5</sup>Cf. [Ferrerias, 2017]’ discussion of “unicameral firms”.

<sup>6</sup>Though not necessarily the *categorical imperative*, as we will learn below.

after the neoclassical winter sleep, to deal with change.

Economists in recent decades have tried studying self-organization of commonly owned resources. There has been some progress in connecting these precepts with a program, as was shown in our discussion of Elinor Ostrom’s work in Chapter 2. But a general toolkit for describing and interpreting human cooperation remains relatively weak, compared to that studying competition and outright warfare [Webb and Novkovic, 2014]. Thus, we attempt below to begin to formulate a general economic theory of cooperation. Aspiring to become a theory granular enough to account for cultural differences, it must first consider the development of preferences. It must go beyond vagueries like Hayek’s notion that people responded “like iron filaments” to policy interventions [Slobodian, 2018].

Hayek’s great doubt about the knowability of the economy has been largely superseded and we know increasingly more about 1) the cognitive bases of individual behavior while at the same time 2) computing power has developed to such an extent that we are nowadays able to understand the various flows of the macroeconomy with a level of precision not available in the immediate post-war era. [Cockshott et al., 2009, Chapter 14] The development of preferences is thus an integral part of interpreting social choice in dynamic situations, and this section derives a few fundamental ideas towards this end. We will ask, above all, the question of to what extent a more explicit consideration of preference formation can enable an engagement with a view toward transformation. In particular, how can the growing knowledge pool on preference formation help outline implications for democratic choice? How does social learning, moral development and the indeterminacy of large parts of social life impact the role of “collective representations and practices”? [Fourcade, 2011, p. 1731]

This section is thus organized as follows: we begin by introducing the concept of *reciprocal determinacy*, introduced by Albert Bandura, who also developed *social learning theory*. We next move on to discussing the place of macrocultures in the diffusion of social learning, followed by an extended analysis of the idea of “ascendant macrocultures” (i.e., what distinguishes truly transformative developments from “mere fads”?). After this, we briefly outline the role of role models, vicarious learning and imitation in social learning. Next, we return to a topic introduced briefly in Chapter 2: non-separable preferences. This concept will act as an anchor for the idea of *co-determination* introduced there, and as a tool for framing the interaction between what has been called *norm-based* and *act-based rationality*. We argue that this concept is essential for a relational framework of governing social relations. We close the section with two discussions, the first on paths for a transference from individual to collective discount rates; the second and

closing discussion summing up some of the major implications of complexity and non-ergodicity on issues of collective choice.

### 6.4.1 Bandura: Reciprocal Determinacy

For [Bandura, 1977], social learning is related to Piaget's notion of development, except for its inclusion of vicarious learning. This type of learning develops largely from observing the environment. And thus, for Bandura, personality is not simply co-determinous of behavior, but these two in turn are shaped by and impact upon the environment. Bandura refers to this as *reciprocal determinacy*. Bandura's pioneering work on aggression, [Bandura, 1973], demonstrated clearly that complex interactions at various level determine, shape and reinforce aggressive behavior, both individually and socially. His work in this field helped to move away from the "behavioral *cul-de-sac*" in which post-war psychology found itself in<sup>7</sup>.

Bandura's perspective is influenced by a number of theses, including that "limiting the scope of scientific inquiry to certain psychological processes to the neglect of other important ones can reinforce a truncated image of the human potential." [Bandura, 1977, p. vi] Moreover, Bandura emphasized the need to work with clear – and transparent – concepts when describing or analyzing human behavior, as when one is assessing the results of psychological inquiry, "it would be more helpful to know the therapists' conceptual belief system than the clients' actual psychological status." (*Id.*, p. 5) Thus, according to Bandura, much of the research on behavioral-environmental interactions is described as "not [...] especially informative,

because one can obtain almost any pattern of results depending upon the types of persons, behavior, and situations selected. For example, in deciding which movie to attend from many alternatives in a large city there are few constraints on the individual so that personal preferences emerge as the predominant determinants. In contrast, if people are immersed in a deep pool of water their behavior will be remarkably similar however uniquely varied they might be in their cognitive and behavioral make-up. [Bandura, 1977, p. 195]

Thus, in opposition both to "radical behaviorists" like Skinner and traditional humanism, Bandura advocates for a notion of "reciprocal determinacy", which abandons the view that the environment is an exogenous determinant of individual or social behavior. In particular, this view suggests that "though

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<sup>7</sup>Cf. [Chomsky, 1971].

the *potential environment* is identical for all [individuals], the *actual environment* depends upon their behavior” [Bandura, 1977, p. 196], thus rendering the interaction between behavior and environment “a two-way regulatory system in which the organism appears either as an object or an agent of control, depending upon which side of the reciprocal process one chooses to examine” (*Id.*). Ultimately, for Bandura, then, “to elucidate the process of reciprocal interaction between personal and environmental influences, one must analyze how each is conditional on that of the other.” (*Id.*, p. 197)

This, for Bandura, involves including such factors as role prescriptions, which “serve as structuring influences on the nature of reciprocal exchange.” Thus, “expected behaviors toward the same person in the same setting will differ for the role of work supervisor and confidante.” [Bandura, 1977, p. 199] Bandura thus concludes that “in analyzing how the behavior of one person affects the counter-reactions of another, one must consider, in addition to immediate effects of each action, the anticipated changes in mutual consequences over time, predictive cues, and the socially structured constraints on behavior of roles and circumstances.” [Bandura, 1977, p. 199] An example can be found in “detrimental reciprocal systems”, where aggression begets aggressive responses and change can occur “by reducing the reinforcement supporting coercive conduct and developing more constructive means of securing desired responsiveness from others.” (*Id.*, p. 200)

Bandura defines freedom in similar fashion to Sen, whom we address below, in a social sense as a means of “cultivating competences”, and also sees a place for limits in securing social freedom, recalling a discussion Kant also introduced, and which we return to below. [Bandura, 1977, pp. 202-3] argues that “when freedom is defined in terms of options and rights, there is no incompatibility between freedom and determinism [...] Given the same environmental constraints, individuals who have many behavioral options and are adept at regulating their own behavior will experience greater freedom than will individuals whose personal resources are limited.” We return to this discussion again below in 6.5 when discussing *constraint theory*.

Bandura’s contribution to debates within social science generally and within psychology particularly is the observation that “[t]he image of people’s efficacy that emerges from psychological research depends upon which aspect of the reciprocal influence system is selected for analysis.” [Bandura, 1977, p. 203] Bandura compares perspectives of *environmental determinism*, where “investigators analyze how environmental influences shape behavior” (203) and whose agendas are typically aligned with “institutionally prescribed patterns of behavior” (206) with *personal determinism*, which “examine[s] how behavior defines the environment”, and whose proponents Bandura aligns with “humanism” as well as with research agendas “cultivat[ing] self-directing

Perspective	Image of Efficacy	Aligns with
Environmental Determinism	$[B = f(E)]$	Institutionally Sanctioned
Personal Determinism	$[E = f(B)]$	Humanism
Reciprocal Determinism	$[B \xleftrightarrow{P} E]$	Synthesis

Table 6.1: A representation of the three perspectives [Bandura, 1977] juxtaposes

potentialities.” (*Id.*, p. 206) “Behavior is the effect in the former case, and the cause in the latter.” (*Id.*, p. 204)

Bandura’s social learning theory is described as “conceiving of regulatory processes in terms of *reciprocal determinism*, which “encompasses both aspects of the bidirectional influence process” (p. 206) and which sees, above all, that “[a]lthough the reciprocal sources of influence are separable for experimental purposes, in everyday life two-way control operates concurrently. In ongoing interchanges, one and the same event can thus be a stimulus, a response, or an environmental reinforcer depending upon the place in the sequence at which the analysis arbitrarily begins.” (*Id.*, p. 204) The three perspectives are compared in terms of their key attributes in Table 6.1.

Bandura’s theories will help us later in formulating appropriate tools for dealing with the diffusion of democratic values and in designing suitable *democratic choice mechanisms* in the next chapter. In closing the discussion for the moment, we remind of where theories of *reciprocal determinism* will recur below. In particular, as the theory is explicitly multidirectional, it allows for feedback effects and can thereby help us in discovering fundamental dynamics in scenarios like the diffusion of values, styles and principles. Bandura discusses, e.g. the diffusion of musical, artistic or even fashion styles (p. 207) as examples of reciprocal determination, as well as the realization of “pluralistic arrangements” or “pressures [...] to subordinate individual choices to collective interests” in the form of environmental degradation (p. 212), to name a few.

We close this discussion of *reciprocal determinism* with the following illuminating passage: “Contrary to the unidirectional view, human accomplishments result from reciprocal interaction of external circumstances with a host of personal determinants, including endowed potentialities, acquired competencies, reflective thought, and a high level of self-initiative.” [Bandura, 1977, p. 207] A suitable relational framework must take account of such matters.

### 6.4.2 Social Learning and Macrocultures

In continuing the construction of formal theory of *democratic choice*, we now try to connect Bandura’s research agenda around *social learning* with notions from sociology and economics. In particular, notions of macroculture can be dated at least as far back as [Parsons et al., 1949], though arguably [Weber, 2015] and other exponents of the younger German Historical School similarly advocated for such concepts. In agreement with [Kyriazis and Metaxas, 2013], we adopt the notion of *macroculture* as a tool to describe the combination of 1) mechanisms for aligning social with individual preferences as well as 2) the means by which preferences develop endogenously. That is to say, we argue that a macroculture both comprises the necessary “soft institutions” required to engender a particular behavioral profile as well as the cultural values which are engendered.

A growing literature agrees that so-called “macrocultures”

guide actions and create typical behaviour among independent but interdependent entities, so that they coordinate their activities so that complex tasks may be completed [...]. This happens in three ways: 1) by creating “convergence of expectations”, 2) by allowing for idiosyncratic language to summarise complex routines, and information and 3) by specifying broad, tacitly understood rules for appropriate actions under unspecified contingencies [...]. [Kyriazis and Metaxas, 2013, p. 2]

In particular, this literature critiques pre-existing (economic) theories of democratization, such as [Acemoglu and Robinson, 2006], as being to unidimensional and overly simplistic. Here, they are in agreement with a larger body of work, including [Bowles and Gintis, 1986]. Most of this literature, as [Kyriazis and Metaxas, 2013, pp. 3-5] argue, is concerned with the relationship: *political / economic institutions*  $\rightarrow$  *trust*  $\rightarrow$  *cooperation*. The model which the authors develop “turn[s] this issue on its “chronological head”, showing how specific coordination and cooperation mechanisms [...] develop trust in [one domain], which is taken over then in democratic politics.” [Kyriazis and Metaxas, 2013, p. 5] It is thus an *endogenous* model for the social evolution of cooperation.

The model the authors develop combines two primary elements: firstly, the epistemic notion of “bounded rationality” as developed, among others, by [Simon, 1957], and which stipulates that “[w]hat we actually do in real life is to try to reach a solution that satisfies us, even if it is not the best possible one. We may even ignore the best possible one that would maximize utility.” [Kyriazis and Metaxas, 2013, p. 7] Thus,



Once we have found solutions to a particular problem that are perceived as adequate, when facing a new problem, we try to use the established and known “rules of the game”, the known knowledge we possess, in order to solve the new problem. This again reduces our effort and time consumed, which is important due to our brain’s capacity limitation. Only if we do not find an adequate solution using the existing knowledge and if the problem we face is serious enough, do we devote effort and time to find new solutions. Once we have found some, we have increased our total learning and knowledge. Satisficing behaviour thus diffuses known solutions and problem-solving rules to new practical. (Id., p. 8)

Secondly, the authors adopt the methodological perspective of the macroculture, meaning they abstract from individual agency and view organizational behavior as emergent from *social* coordinating activity. This means that the authors subsequently interpret bounded rationality not merely as an individual psychological phenomenon, but also as “a behavioral mechanism, a channel for the transportation and transformation of ideas, norms, values, customs that have emerged in one area of a macroculture, into the other areas.” (p. 8)

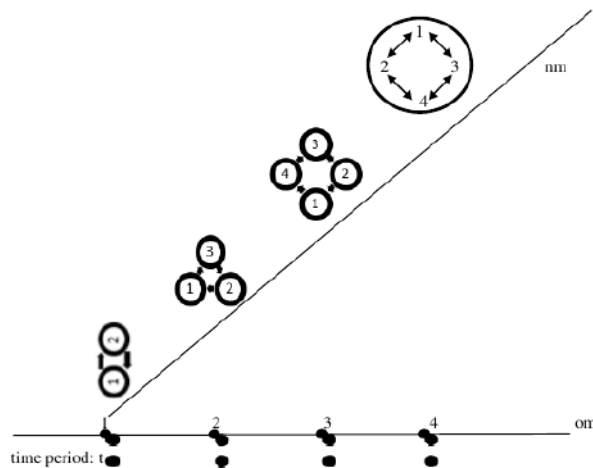


Figure 6.1: Graphical model showing the integrative (i.e., emergent) function of new macrocultures, from [Kyriazis and Metaxas, 2013, p. 33].

**Modeling Rising Macrocultures** Graphically, the new model is presented in Figure 6.1. Between period 1 and 3, the new macroculture “persuades” ever more individuals to participate, until by period 4, the macroculture is fully developed and replaced the “old way of doing things”. Formally, the authors represent their model in the following way: the function

$$m = \alpha + om + nm * e^{g_t * t} \tag{6.1}$$

Here,  $m$  is the macroculture chosen by the organization or society,  $om$

is the “old macroculture”,  $nm$  represents the “new macroculture” and  $g_t$  represents “the rate of change depending on the creation of new elements of macroculture and their speed of diffusion”.  $g_t$ , in turn, is a function of the new values and norms, represented in the model by  $\tau$ , and by  $d$ , the rate of diffusion of these values across the population. This last term is also described as “the macroculture effect”. Together, this dependency is represented by the equation  $g_t = f(\tau, d)$ . Replacing the term for  $g^t$  in Equation 6.1, the authors derive the final equation representing the diffusion of new macrocultures:

$$m = \alpha + om + nm * e^{f(\tau,d)*t} \quad (6.2)$$

Using this model, the authors argue, as we reviewed in 3.5.6, that the role of the hoplite and thete form contributed to the development of the civic virtues and degree of trust required for democracy to emerge. We do not here review the narrative, as it is contextualized in the cited discussion above.

### 6.4.3 Ascendant Macrocultures

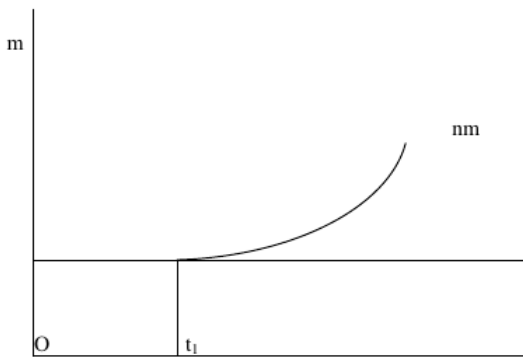


Figure 6.2: Graphical representation of the benefits of adoption of the new versus old macroculture, from [Kyriazis and Metaxas, 2013, p. 34].

Now that we have developed formal theoretical tools to describe how macrocultures emerge and supplant older ones, as well as an understanding of what role social learning plays in this process, we wish at present to connect this discussion with a qualitative description of the process of the growth and diffusion of different macrocultures. In particular, and in anticipation of the discussion in Chapter 8, we briefly introduce in this section some concepts from the fields of biology and archaeology, which we hope will help us to account for and interpret ascendant macrocultures. These are notions of *gene-cultural coevolution*, including *multi-level selection*, *selective extinction*, *reproductive leveling* and *selective assortment*, some of which were introduced already in Chapter 2.

After introducing these concepts, we move on in the following section to discussing the role of role models in facilitating in the social learning required for macrocultures to become ascendant.

### Gene-Cultural Coevolution

Gene-cultural co-evolution<sup>8</sup> has been employed by sociobiologists, anthropologists and others to describe distinct aspects of human social development. The point of these investigations is to understand the contribution of *the interaction* of culture and biology on the development of preferences. Much of this work was initiated by the rise of sociobiology in the 1970s, which was followed by developments such as the MacArthur “Development of Preferences” research network, discussed above in 2.6. The conclusion of such discussions is that notions such as the behavioral viability of social preferences is absolutely vital for the stability of long-term economic relations. Thus, as I conclude in [Warren, 2015, p. 115, emphasis added]:

The *mechanism* by which these factors [propagate and maintain themselves is] relevant for economic discourse, in that the existence of markets and modern states requires a large degree of trust and reciprocation among citizenry. This makes a nuanced view of the evolution and maintenance of reciprocal altruism (altruistic behavior that results from the expectation that it may be reciprocated in the future) quite central to modern economic theory, writ large.

Decades of research in interdisciplinary circles have discovered a number of important elements that contribute to such viability. These include *multi-level selection*, a concept introduced in 2.6, which consists of the fact that “members of [pro-social] groups have an evolutionary advantage over members of other groups [...] *even though* individual members of the *deme* who have the trait are at an evolutionary disadvantage.” (Id., p. 116) This process occurs by one of two manners, firstly, by *selective extinction*, which “consists in the advantage over and against other groups that a group possessing a certain trait might have.” (p. 117). Secondly, it can occur via *reproductive levelling*, which “consists of measures which in fact reduce the payoff difference between traits”. (Id.) Examples of such measures are traits

like the sharing of food or land redistribution [which have] obvious evolutionary disadvantages to the individual, as property belonging to individuals is withdrawn without direct material compensation. However, if benefits of this type of behavior for the group are randomly distributed within the group, and groups endowed with a high number of individuals who share food have a

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<sup>8</sup>The following discussion is adapted from my own [Warren, 2015].

selective advantage over groups that do not, then these two facts themselves spell out two distinct effects that reduce the former disadvantage. (Id. pp. 117f.)

In terms of the specific mechanisms that contribute to reproductive leveling and selective extinction, these can be stimulated either through, on the one hand, a combination of “pre-adaptation” like the prefrontal cortex’s complex emotional processing centers and socialization of “baselines values”<sup>9</sup> or, on the other hand, via more intentional processes like *selective assortment*, where “like-minded” individuals seek out similar types.<sup>10</sup>

#### 6.4.4 Role Models and Social Learning

One of the oft-overlooked antecedents for any behavioral type, including democracy, is *role models*. There is something to be said about “first mover” or “pioneer” strategies. In fact, authors like [Ostrom, 1990] discuss the benefit later CPR-pioneers have initiating their own projects when precedents exist to be learned from. [Dow, 2018] also remarks upon the importance of bad role models in accounting for the lack of new plywood and reforestry cooperatives in the American Pacific Northwest. Thus, in this section, we devise two models, referred to respectively as the “vanguard” and the “whistleblower” models, to describe the role of role models in social learning.

A growing literature in the psychological domain has studied the developmental aspects of role models in social learning.<sup>11</sup> Moreover, within the economic literature, there has been some research on the role of social learning in the construction of markets, e.g., [Yenkey, 2012], also in [Beckert and Aspers, 2011, Chpt. 11]. However, much of this research focuses on the development of individual competencies (in the former literature) or fails to reach a level of generality suitable to describing, e.g., the role of role models in the diffusion of macrocultures. Thus, below, we propose two models developed by the author in abstracting from conclusions drawn from [Brennan et al., 2004]. We present these at present.

#### 6.4.5 Vanguard Model

In my own [Warren, 2015], I develop two models of social change based on [Brennan et al., 2004]. These are called the “Vanguard” and the “Whistleblower” models. These two models present alternative formulations of the

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<sup>9</sup>Cf. [Warren, 2015, p. 119].

<sup>10</sup>Cf. [Warren, 2015, p. 118].

<sup>11</sup>See, e.g., [Kohlberg, 1984], [Power et al., 1989], [Oser and Althof, 2001] and [Lind, 2019], the latter of which we return to below.

development of macrocultures. The “Vanguard” model can be described by a situation where,

[a]s more individuals both espouse the benefits of and engage actively in the practice, the level of positive approbation attached in the activity increases. However, as no overwhelming social norm has been established at this point, no negative attitude is associated with not adhering to the convention. In the final co-domain of the compliance function, the practice is so widespread that, while at some points there may be a certain (declining) level of positive esteem tied to performing the action, increasingly it is negative beliefs and perceptions about those failing to comply with the (now) norm that drive compliance in the final stages of the adoption of the norm. [Warren, 2015, pp. 139-40]

Thus, the “Vanguard” model consists of 3 co-domains. This is represented by Equation 6.3

$$f_Y : Y = \begin{cases} Y = 0 ; & \text{No incentive} \\ 0 > Y > .5 ; & \text{Positive incentives dominate} \\ Y > .5 ; & \text{Negative incentives dominate} \end{cases} \quad (6.3)$$

Equation 6.3 breaks the continuous process of ascendant macrocultures into three discreet stages. While these have been chosen arbitrarily, the domains are designed to represent the shift in the incentive structure that accompanies a broader adoption of a certain macroculture or norm. In the first portion of the function, where  $Y$  is at or near 0, the incentive structure is nonexistent. In the second subdomain, where  $Y$  is significantly greater than 0, but adoption of the macroculture is still not general, the second derivative is positive, signifying a growing dynamic towards the new macroculture. It is in this domain that the question of the generality of the macroculture is determined.

Meanwhile, in the third subdomain, the second derivative changes signs, as enough people have adopted the new macroculture to reach saturation. Remaining “stragglers” are now motivated primarily via negative incentives. It is doubtful that any macroculture ever reaches 100% adoption, as mere chance, genetic and environmental variation, as well as certain performative preferences for individuality (e.g., “snob goods”) act as noise.

Similar to Aumann’s notion of coordinated equilibrium, which we introduced in Chapter 2, and to which we return below, Equation 6.3 answers the

*why* of new macrocultures, but it does not address the *how*: which combination of institutional and individual actors is necessary, but not which are sufficient. While external and/or natural pressures may occasionally suffice, like in the case of the Greek *poleis* after the collapse of Mycenaean civilization as recorded in Chapter 3, in complex and indeterminate situations, existing social institutions can and do contribute to such developments. As I conclude in [Warren, 2015, p. 140], “It is easy to see that this model captures one organic route by which new institutions develop and proliferate throughout societies. It is possible that such institutions have the ability to evolve without the intrusion of state power, but it is imaginable that, at the limit, a certain amount of ‘nudging’ might be desirable. The heavy state involvement in the spread of renewable energy – via feed-in tariffs and the like – is one example. In this case, state power can be employed to help the future ‘vanguard’ overcome the strictures of institutional paralysis and inertia.”

#### 6.4.6 “Whistleblower” Model

On the other hand, the “Whistleblower” model is a model with binary coding (e.g., non-disclosure–disclosure, loyalty–voice). Whereas the “Vanguard” model describes a slow, organic and often continuous process, the “Whistleblower” model is discontinuous by nature. It furthermore involves a dilemma on the part of the individual whistleblower regarding the above binary codings. As [Brennan et al., 2004, p. 175] state,

In lots of cases, I will not be the only person in a position to have information about a suspected case. In deciding whether to blow the whistle in such a case, I rationally focus my attention on the circumstances in which my action will make a difference. And the only case in which this is so is when no one else blows the whistle. For if someone else blows the whistle I don’t need to. This fact gives me pause. Because there is, after all, some uncertainty about whether whistle-blowing is actually justified—uncertainty about the facts of the case, about the consequences of going public, and so on. And I realise that each other person is making an independent assessment of these considerations and that, in the only case that matters (i.e. where my action is decisive), none of those others has decided that the circumstances justify proceeding.

Thus, the “Whistleblower” model is one that allows posing the question of *how* on the level of individuals. Again, it does not explicitly address the *why*, which will tend to be heavily context-dependent. Thus, the two models can

contribute a limited knowledge to the question of ascendant macrocultures, each taking an ontologically distinct approach to the question.

### 6.4.7 Non-separable Preferences: Combining Duty with Incentives

Another way which social preferences may develop is via *non-separable preferences*. As discussed above in Chapter 2, much of modern social theory following J.S. Mill assumes strictly separable “economic” and “moral” preferences, with economists traditionally only responsible for analyzing and interpreting social behavior in as far as it refers to “pecuniary” motives. We pointed out in that discussion how this view creates fundamental problems for the analysis of behavior. It is important to recall these issues in much of economics and social sciences literature, which is only of late beginning to develop a granular theory of human motivations. This section is organized in the following way: we first introduce Mill’s influence on economics. Following this, we interpret Aumann’s recent interventions. After this, we derive a simplified model for interpreting interactions in preferences between “pecuniary” and “non-pecuniary” preferences.

**J.S. Mill’s Ambivalent Influence on Economics** Mill, in his essay *On the Definition of Political Economy; and on the Method of “Investigation Proper to It”* defines political economy as

“The science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the result of any other object.” [Mill, 2006, p. 323]

This framing has delimited economists ever since, exemplified, e.g., by Gary Becker’s comparison of children to durable goods.<sup>12</sup> *Political economy* thus became increasingly focused on a narrow range of human motivations and tools were developed which, while focusing on price dynamics and contracting costs, failed to contextualize such phenomena into the greater cosmos of which they form a part. While such a dualistic vision may have sufficed at a time when the majority of high-value economic activity was carried out in relatively homogeneous context of the factory system, omnipresent during Mill’s lifetime, times have changed.

Thus, “A knowledge-based economy is different from a political economy by being the result of three instead of two coordination mechanisms operating

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<sup>12</sup>Cf. [McCloskey, 1983] for a biting critique of this perspective.

upon one another. The third coordination mechanism of knowledge production and control.” [Leydesdorff, 2021, p. 90] This turn has “endogenized” such aspects of the economy, “whereas only the two coordination mechanisms of markets and policies were needed for explaining phenomena in a political economy.” (Id.) This addition of new, relational, dimensions into the calculation of value-generation makes the strict distinction between “pecuniary” and “moral” preferences quite irrelevant. Thus, an economics that is timely and reflects these shifts in the nature of the productive apparatus must incorporate new ways of thinking about productive relations, including consideration of intrinsic motivation, essential for the types of *social* innovations the present text conceptualizes. It must therefore move beyond Mill’s *cul-de-sac*.

**Rule- vs. Act-based Rationality** Aumann divides economics into mainstream economics (ME) and behavioral economics (BE), which he argues use two different notions of rationality. ME “uses mathematical models to study how economic agents (consumers, producers, merchants, monopolists, oligopolists, ...) should behave to further their interests; the implicit assumption being that in the real world, ‘should’ somehow becomes ‘do’.” [Aumann, 2019, p. 666] Thus, ME rests, at root, on a normative framework of Utilitarianism, as pointed out by [Mitchell, 1918]. Meanwhile, BE refers to how people actually act, based on observation and surveys, and “uses little or no mathematics.” Aumann argues that the challenge that BE poses to ME “has not been satisfactorily addressed” by the latter and that “ME and BE continue to live uneasily side by side, in spite of the apparent contradiction.” (Id.)

Aumann proposes a “synthesis”, using the term “rule rationality” as an overarching category to describe the fact that “Like eating, BE’s heuristics are rule-rational: they prescribe act-rational behaviour in usual, commonly occurring situations, because those are the situations to which evolution applies.” Thus, in “typical” scenarios, ones that arise with a high degree of regularity, rule- and act-rational behaviors coincide. However, “[i]n unusual or contrived situations, the heuristics may well misfire—prescribe act-irrational behaviour—because evolution does not apply there. It follows that most economic behaviour is indeed act-rational.” This, not because people are constantly utility-maximizing, but because “in general, these heuristics are quite useful, but sometimes they lead to severe and systematic errors”<sup>13</sup>.

Thus, Aumann states “Mainstream economics studies how people should behave to further their interests; behavioural economics studies how they do behave. As a result of evolution and learning, ‘should’ and ‘do’ are effectively

<sup>13</sup>[Kahneman and Tversky, 1996], cited in [Aumann, 2019, p. 666-7].



the same; they differ only in unusual or contrived scenarios, which have little or no economic impact. BE's heuristics and biases are in fact what makes ME work; ME is the 'why', BE the 'how'." [Aumann, 2019, p. 670]

In the following, we discuss how this 'synthesis' may not always be so clear-cut, and that instead of being separate and complementary concepts, the two types of rationality frequently interact, both complementing and detracting from the other. Moreover, as we argued in Part I, the focus of economics on rationality is misplaced. Bacteria, amoeba and prokaryotic organisms all feature rationality. Indeed, we made the argument, following Castoriadis and others, that *imagination* is what distinguishes human beings. Regardless of whether that argument convinced the reader or not, it is clear that what distinguishes human intelligence from these other organisms is not rationality, but the complex interactions of intelligence, emotion and culture, which each contribute significantly to human social behavior, including economic behavior. Ignoring one component as "irrelevant" serves to weaken the relevance and validity of economic theory.

### Crowding in vs. Crowding Out

If we accept Aumann's short shrift above for the moment: most microeconomics textbooks assume that individuals' act-rational preferences can be influenced by incentives with little impact on rule-rational preferences, i.e., that "pecuniary" and "moral" preferences are separable or complementary, as in the top graph in Figure 6.3. However, as pointed out above, considerable evidence shows that this is often an unrealistic assumption. [Bowles, 2016] outlines a number of empirical and theoretical arguments against the notion of separable preferences, suggesting that, while there may be situations in which this assumption is true, they are rare. Thus, when policymakers are designing policy incentives, "the framing provided by the incentive may

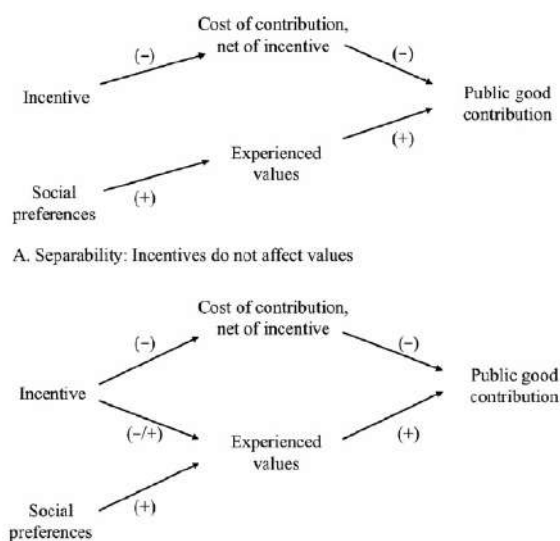


Figure 6.3: Basic decision tree, showing that preferences are not always incentive-compatible, from [Bowles, 2016, p. 49].

be designing policy incentives, "the framing provided by the incentive may

affect the salience of the individual's social preferences, resulting in a level of experienced values different from would have been the case in the absence of the incentive.” [Bowles, 2016, p. 47]

Thus, an policy designed to elicit a response in terms of individuals' “pecuniary” interests may actually backfire, losing much of its efficacy based on the fact that it simultaneously sends negative “moral” signals, such as lack of trust or paternalism, as in the bottom graph in Figure 6.3. Therefore,

[b]ecause of the effect of incentives on experienced values, the total — direct and indirect — effect of an incentive may fall short of what we would expect if we looked only at its effects on the costs and benefits of the targeted activity. In this case, we say that incentives [*morally*] crowd out social preferences. Then, incentives and social preferences are substitutes: the effect of each on the targeted activity declines as the level of the other increases.<sup>14</sup> [Bowles, 2016, p. 50]

Moral “crowding out” can occur in either a *strong* or a *weak* way. Thus, while non-separable preferences are not in and of themselves an antecedent to democracy, a nuanced view on this issue will mitigate overly optimistic or pessimistic predictions based on artificially truncated assumptions of human behavior. Bowles recommends, instead of merely assuming self-interest on the part of citizens (which he argues can become a self-fulfilling prophecy), one should look at the “total effect” of a policy intervention:

The total effect of the introduction of an incentive on the public-goods contribution by an individual is the sum of the direct effect of the subsidy (which must be positive) plus the indirect effect of the subsidy operating via its effect on values (which may be of either sign) and the effect of values on the action (which we assume to be positive). We have separability when there is no indirect effect, either because social preferences are absent or because incentives do not affect their behavioral salience as expressed in “experienced values.” [...] Where the indirect effect is negative, meaning that the total effect falls short of the direct effect, then incentives and social preferences are substitutes (or are “sub-additive” or are said to exhibit “negative synergy” or “crowding out”). (*Id.*)

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<sup>14</sup>Meanwhile, continues Bowles, “Where the effect on social preferences is positive, we have the synergy that the Legislator seeks: [moral] crowding in occurs, and social preferences and incentives are complements, each enhancing the effect of other.” (*supra*, *Id.*)

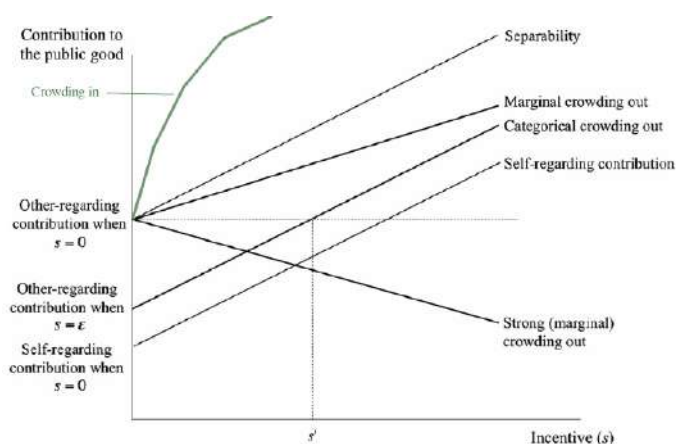


Figure 6.4: Graph showing the contribution of a hypothetical citizen to a public good, under different assumptions of separability and non-separability and the existence or non-existence of social preferences, from [Bowles, 2016, p. 58].

itive, we have crowding in, that is, synergy between the two effects: then incentives and social preferences are complements rather than substitutes, and are sometimes termed ‘superadditive.’” (*Id.*) This is depicted by the green line in Figure 6.4, which shows a falling synergy, representing the diminishing efficacy of ever higher incentives, even in the synergistic case. Thus incentives, even well-executed ones, are limited in their efficacy to elicit pro-social outcomes.

### 6.4.8 Collective Discount Rates

Following [Axelrod and Hamilton, 1981], we argue here that one of the most important variables in developing democratic governance structures and achieving collective action is a sufficiently high discount rate on the part of individuals. Unfortunately, less sufficiently discussed by [Axelrod and Hamilton, 1981] and related authors from game theory and the New Institutional Economics (NIE) paradigm are the mechanics and process of endogenizing discount rates. Certainly, [Axelrod and Hamilton, 1981] admits that achieving higher discount rates can be achieved endogenously, via socialization of values of prudence and long-term orientation. As can be deduced additionally, more “patient” discount rates can also arise due to exogenous threats to a community,

This negative feedback effect can be marginal or extensive, as is seen in the lines “Marginal” versus “Strong Crowding Out” in Figure 6.4. The latter represents situations “[w]here the indirect effect is negative and large enough to offset the direct effect of the incentive, we have the attention-riveting cases in which incentives backfire, that is, they have the opposite of the intended effect [...]” (*Id.*, p. 51) Meanwhile, on the other side of the spectrum, “Where the indirect effect is positive,

such as wars, which necessitate what has been labeled *parochial altruism* and in certain cases can serve as examples of Goodhardt’s Law, which states that “Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes.”

However, what is missing in the literature is a detailed discussion of the role that discount rates have in social settings. Much of the microeconomics literature (see, e.g., [Varian, 1990]) assumes individually-established and exogenous discount rates that derive from an operation in the brains of individuals optimizing so-called inter-temporal utility via a time ensemble *expected utility function*. As has been outlined by [Peters, 2019] and as we have reviewed in Chapter 2 and again recalled in the prior chapter, recent findings in mathematical behavioral models have called this methodology into question and call for alternative theories and models for describing and/or explaining economic behavior.

In alignment with [Etzioni, 2010]’s call for a co-determined motivational function, we call for including norms into any models claiming to account for people’s intertemporal behavior. For instance, as regards saving behavior, Etzioni argues,

Future consumption cannot motivate present saving because it does not generate present pleasure, but does inflict the pain of selfdenial. [...] Saving behavior is thus to be viewed as a conflict between consuming now and abiding with commitments to moral values to which the actors are committed in the same time frame, now.

The benefit of this framing of the issue of discount rates is that it easily allows us to conceive of and model mechanisms by means of which to augment both individual and collective discount rates in accordance with social priorities.<sup>15</sup> It will be seen that the neoclassical growth models of Solow and Swan fail the test of accounting for dynamic changes in social priorities: as they are “micro-founded” on the mainstream microeconomic models described above, they take individual discount rates as given and either aggregate these or abstract by using a so-called “representative agent”. Any social or technological shifts are only included as a “residual” that lies outside the model’s purview. [Leydesdorff, 2021, p. 90]

It will be seen that neither of these approaches is timely concerning issues like the knowledge economy, climate catastrophe or socioeconomic crises of inequality. If people’s preferences are taken as given, then they cannot respond

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<sup>15</sup>Again, looking at Figure 6.4, the co-determinative view promotes consideration of indirect, e.g., moral, effects of material incentives and vice versa.

to new information, only in so far as they introduce that information into their existing preference scheme and “optimize” according to their exogenously given profile. Moreover, restricting the purview of economic analysis to the investigation of issues derivative to contracts reduces human agency and interaction unnecessarily to formal, instrumental and transactional arenas not in keeping with the lived experience, even the lived economic experiences, of most really existing human beings, as we argued above in reference to legitimating a relational view.

Following the conclusions of the prior chapter, we attempt to show that a moral economy of provision is served by developing behavioral models able to account for mechanisms that impact collective discount rates. We hope to show that enlarging the domain of reflection to norm-based imperatives dramatically increases the power of behavioral models intending to describe democratic collective choice. In fact, failure to include such phenomena leaves one with little beyond individual comparisons to estimate outcomes. [Sen, 2017]

#### 6.4.9 How Do Discount Rates Transfer to Collective Level?

Here we attempt to move away from the assumption that discount rates for collective decision-making are merely an aggregate of individual discount rates.<sup>16</sup> We discuss the importance of emergence in the development of collective discount rates and further deepen the discussion of the consequences of the assumption of non-ergodicity for collective choice. We start by asking *how discount rates transfer to the collective level?* Following the notion of “downward translation” [Krahé, 2021], the question can best be answered by reversing it: *how are collective discount rates transferred to the individual level?* It appears that law, customs, norms, religious observance and “groupthink” are all forms of this process. The lingering question here is among *types* of “soft institution” as those just listed.

Can we describe “soft institutions” that are effective in enforcing internal cohesion and yet maintain the “liberal” quality of being voluntary? To what limit can voluntary association be brought? Which values are essential for facilitating the transference of collective discount rates to the individual level? Can collective institutions survive deviation on the part of individuals? If so, to what extent? These are all vital questions for the purpose of developing suitable mechanisms for democratic collective choice. They impel us to develop a *typology* of institutions, by means of which we may arrive at more

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<sup>16</sup>Cf. [Mankiw, 2003].

general knowledge of the nature of the connection between individual and collective interests.

Collective discount rates are likely longer and “stickier” than individuals, not merely because they are the emergent result of a discursive process and therefore result in information costs and inertia, but also because of the fact that association itself provides an associational rent<sup>17</sup>, ensuring longevity and reducing risk aversion. One only has to think of [Bandura, 1973]’s studies with “Bobo dolls” for examples of such codification.

Another example of a mechanism for aligning social and individual preferences is law. A recent decision by the German Federal Court that the actions of the German government have “insufficiently recognized the rights of future generations” viz. climate change<sup>18</sup>. Such examples and the arguments of the last chapter underline the importance of establishing conventions formally and legally. However, some element of voluntary association is required to satisfy the general modern support for liberal values. Certainly, the educational system plays a vital role in engendering voluntary alignment of personal discount rates with collective priorities.<sup>19</sup>

The “downward translation” approach of “embedding” collective preferences in individuals, as argued, works via “soft institutions”. These include biologically ingrained behavioral patterns as well. For instance, the human propensity to recognize faces. As, e.g., [Brennan et al., 2004] observe, putting eyes next to a donation jar increased the level of contributions significantly. While, before drawing any causal conclusions, one would have to isolate any mediating influences, it would appear that, generally, when people feel themselves observed, they tend to act less selfishly. This clearly says something about the importance of social contexts in terms of translating collective discount rates.

Now that we have established that the transfer between individual and collective discount rates is not one-sided (does not occur by individuals merely blindly following the “social dictates”, but involves a complex process of “downwards translation”), and that moral co-determination should play a central role in any model of democratic collective choice, we conclude this preliminary discussion of preference development by recalling again the ergodicity question.

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<sup>17</sup>Cf. above in 4.6.

<sup>18</sup>Cf. 1 BvR 2656/18, 1 BvR 288/20, 1 BvR 96/20, 1 BvR 78/20. Source: <https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-031.html>.

<sup>19</sup>Cf. [Unterrainer, 2012] or [Power et al., 1989].

### 6.4.10 Ergodicity, Epistemology, Methodology

In concluding this discussion, we turn our attention to one of the results of the recent debate on *ergodicity economics*: time-inconsistency. We briefly ask what implications this observed tendency has on the development of preferences, before inquiring further as to the epistemological and methodological consequences of these implications. This in turn sets up the discussion in the next section.

As discussed above in [Peters, 2019], ergodicity assumes identity between ensemble and time averages. If we assume a process reflecting certain parameters is non-ergodic (i.e, that these two averages are not symmetrical), two income streams or discount rates under such an assumption would in all likelihood be entirely different from what an ergodic model would predict. [Kirstein, 2019, p. 114] The problem with standard neoclassical (and offshoots) treatments of economic behavior is the general assumption of Independence of individual behavior. Thus, generally, there is at most acceptance of a “mild stochasticity”, as suggested by [Kirstein, 2019, p. 9] or by [Farjoun and Machover, 1983]. In this version of events, individuals choose based on exogenous preferences, exposed to a random shock that symbolizes the hand of stochasticity “barely” entering the discussion. However, most human behavior is dependent on that of others, and humans are entwined in networks.

Thus, real behavior is complex and partly interdependent, so that such elegant assumptions, while mathematically erudite, have little bearing on human affairs, as the level of complexity of human networks belies any ability to capture relations in such a way, at least as far as the analysis considers relationships. In other words:

complementarity and compatibility of complete determinism at an intermediate, say mesoscopic, level of (condensed) matter and the everyday world how it surrounds us, and the need for probabilistic treatments of whole economies and dynamic systems on the macroscopic level on the one hand as well as at the microscopic level of individual decision makers and subatomic particles on the other hand. We find determinism and pure causality embedded in an unstable Goldilocks state between layers of contingency and stochasticity.[Kirstein, 2019, p. 11]

Thus, advocates of *ergodicity economics*, as well as many proponents of complexity, suggest that, as Wiener argued, “The errors of an observation are a part of the observation”<sup>20</sup> (and a result of the nature of observation).

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<sup>20</sup>[Wiener, 1956, p. 256], cited in [Kirstein, 2019, p. 13].

These conclusions of course cast into doubt the idea of a fully informed subject, comparing various states in the ensemble and basing decisions on the maximization of an expectation value. In fact, it calls into question the idea of optimization as a criterion for decision-making, *per se*. [Biggiero, 2016]. Following such thinking, uncertainty is a radical fact, and one which must be embedded into social systems in some way. Moreover, social systems, especially those humans have built and are a part of, have a degree of self-reflection and learning embedded in them. Thus, the social systems and their “downward translation” to the individual is the result of long processes of social learning and reflection under radical uncertainty. Such systems should therefore be seen as assets and the “downward translation” as a form of intergenerational “endowment”.

Thus, we must speak of dynamics (the introduction of degrees of freedom) and the emergence and emergent results that these stipulate. Thus, when discussing issues of collective choice, it appears increasingly questionable to derive theories from a mere aggregation of static individual preferences. Moreover, the picture of human nature associated with such an aggregation does not consider the above observation that social action is not independent. Thus, individual action and choice must be constrained by collective needs, and vice versa. There may not be a general rule as to how these parameters should be grouped, or in which hierarchy. However, once we develop clearer *typologies* of collective choice (e.g., democratic versus coercive, *concessio* versus *translatio*, etc.), the way to develop a more general taxonomy of approaches *relative to a type* becomes more conceivable.

## 6.5 Constraint Theory

Echoing Kurt Schumacher’s claim that *Small is Beautiful*, political scientist Jon Elster has called for a rethinking of collective choice theory, claiming that in many situations of social interaction, “less is more”, that frequently, constraining actors’ choices can have a socially preferable outcome. Elster argues that many are the potential benefits of constraints, including “avoid[ing] temptation, or to make ourselves unable to succumb to it when we meet it” [Elster, 2001, p. 270], restricting passions as well as *employing* “passions... as a means of precommitment against temptations” [Elster, 2001, p. 271], enabling rationality (e.g., via contract law [Elster, 2001, p. 272], or “resisting the excessive focus on the present that is characteristic of hyperbolic discounting” [Elster, 2001, pp. 274-5].

This section is organized as follows: we continue immediately below by introducing one of the most important contributions which constraint theory can



provide the discussion above: the impact of constraints on time-inconsistency. This is followed by a discussion comparing constraint theory to Kantian deontology, in particular Kant's notion of the *categorical imperative* and his notion of *subjective judgments*. Next, we distinguish between *incidental* and *essential* constraints, relating these concepts to the notion of *macrocultures* discussed in the previous section. We then look more closely at constraints as a two-step process, before closing with an inquiry as to how to represent or model constraints. This discussion then introduces the following section.

### 6.5.1 Time-Inconsistency and Constraints

Time-inconsistency “occurs when the best policy currently planned for some future period is no longer the best when that period arrives.”<sup>21</sup> Elster adds to this definition that “the preference reversal involved in time-inconsistency is not caused by exogenous and unforeseen changes in the environment, nor by a subjective change in the agent over and above the reversal itself. The reversal is caused by the mere passage of time.” [Elster, 2001, p. 24] This notion of time-inconsistency should remind of the discourse around *ergodicity economics*. Again, as emphasized in the prior section, learning can play a large role in ameliorating these conditions. “Once we learn that we are subject to [time-inconsistency], we may take steps to deal with it, to prevent the reversal from occurring or from having adverse consequences for behavior.” (*Id.*)

One of the more interesting implications of constraint theory is the hypothetical impact of constraints on discounting behavior. In 6.4.8, we asked the question of how individual discount rates differ from collective discount rates, and how the latter emerge. Here, it will be our argument, following [Elster, 2001], that one of the primary instrumental functions of groups and collective agency is the extension of discount rates from the individual, where frequently hyperbolic – or *quasi*-hyperbolic – discount rates are observed. Thus, we intend to interpret social institutions as a means of escaping the *volitional quandary* of learning to time-discount. As [Elster, 2001, p. 28] puts it,

We cannot expect people to take steps to reduce their rate of time discounting, because *to want to be motivated by a long-term concern ipso facto is to be motivated by that long-term concern*, just as to expect that one will expect something to happen *is to expect that it will happen* or to want to become immoral *is to be immoral*.

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<sup>21</sup>[Shelling, 1960], cited in [Elster, 2001, p. 24].

One of the most important questions to be asked before proceeding is *how people actually discount in practice*. “Neoclassical economists usually assume that discounting is *exponential*, in the sense that the welfare  $t$  units of time into the future is discounted to present value by a factor of  $r^t$ , where ( $r < 1$ ) is the one-period discount factor.” However, a growing literature within experimental psychology and related fields in the behavioral sciences “argue that discounting is *hyperbolic*, so that welfare  $t$  units into the future is discounted to present value by a factor of  $\frac{2}{(1+kt)}$ , with  $k > 0$ .” Intuitively, the implications of this would be “that individuals have a strong preference for the present compared to all future dates, but are much less concerned with the relative importance of future dates.” [Elster, 2001, p. 25]

Hyperbolic discounting has several socially undesirable outcomes. With respect to present debates on climate change, the wide-spread presence of such present-oriented thinking would act as a hindrance to effectively mitigating catastrophic climate change. One can think of many more reasons to avoid hyperbolic discounting, from addiction to unsustainable debt levels. Certainly, if individuals tend to discount hyperbolically, then collective institutions, with their mutual monitoring and other means of “downward translation”, would be in a position to elicit more desirable outcomes. Thus, we reproduce below the model by which Elster explains the potential impact of constraints on such preferences and behaviors. We then describe a number of examples taken from the text and from the author’s own research.

### 6.5.2 Elster’s Model of Hyperbolic Discounting

Elster develops a graphical model to represent the phenomenon of hyperbolic discounting [Elster, 2001, 29-31]. It is useful at this point to reproduce the model and its parameters in order to understand the qualitative importance of hyperbolic discounting on individual behavior. The graph in Figure 6.5 shows two potential outcomes, in particular two rewards granted at two separate time intervals.

About the graph, Elster writes,

Before  $t^*$ , when the present value curve (II) of the larger reward is above that of the smaller reward (I), the agent intends to choose the larger reward. After  $t^*$ , however, the present value of the smaller reward dominates. At time 2, he therefore chooses the smaller reward. With exponential discounting, such preference reversal can never occur: if an option is preferred at one time it is preferred at all other times.

In terms of practical examples of such a case, Elster suggests

... clear-cut cases include procrastination, failure to save for Christmas or for one's old age, failure to go to bed early at night or to get up early in the morning, and failure to do physical exercise. In many of these situations, failure to keep one's resolution is plausibly due to the sheer passage of time. There may not be any passions, urges, or cravings of any kind involved [...]. And [...] we may reasonably assume that to a first approximation the pre-reversal preference embodies the "real" interest of the person. [Elster, 2001, p. 30]

We immediately see the importance of understanding the manner in which individuals discount future events in order to, firstly, know where individual behavior deviates from what is socially desirable or "rational" in the sense discussed in 6.4.7. Secondly, understanding how individuals actually discount future events helps to "downwardly translate", i.e., plan interventions suitable to elicit the types of behavior that are mutually beneficial to all. Thus, if our goal in this chapter is to develop hypothetical interventions in order to test causal effects or counterfactuals in the context of epistemic coordination, then it is first necessary to know a general "default" position or state from which individuals approach such dynamics, if such a state exists. Therefore, if real people discount hyperbolically and not exponentially, then there are significant performative implications for assuming the latter, that may nevertheless mis-specify the real behavior of most people.

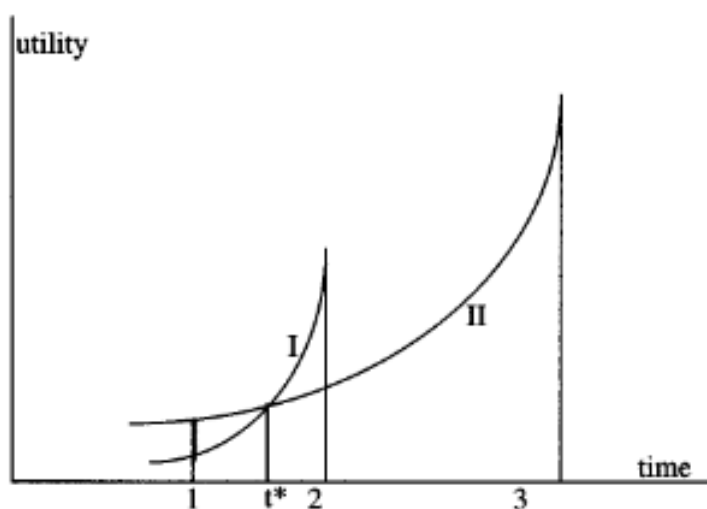


Figure 6.5: A graph showing the differential utility outcomes of – in this case two instrumental outcomes in their relation to time. Taken from [Elster, 2001, p. 30].

### 6.5.3 Emergence, Essential and Incidental Constraints

Indeed, as [Elster, 2001] outlines, such constraints may have either an *essential* character, meaning "constraints that an agent imposes on himself for the

sake of some expected benefit to himself” or an *incidental* character, meaning “constraints that benefit the agent who is constrained but that are not chosen by the agent for the sake of those benefits.”

The former idea, of an essential constraint, is easier to understand and has been studied in the long tradition of social contract theory, from Aristotle to Rawls. More interesting for our purposes is the notion of incidental constraint and, in fact, how such constraints, once in place, may become learned, acquired and transformed into essential constraints. As Elster comments, “[a]n agent might be *unable to make himself unable* to act in a certain way, and yet find himself constrained, to his benefit, by the force of circumstances or through an act of another agent.[Elster, 2001, p. 5]” Thus, individuals may in such cases actively *seek* to be bound by others. The famous example, which Elster appropriates for the book’s title and which continually resurfaces throughout the book, is the incident from *The Odyssey*, in which Odysseus is to “have his crew fill their ears with soft bee’s wax” so that he “may hear the beautiful song” but that his crew must bind him, “and if he asks to be unbound, let his crew bind him all the tighter.” [Homerus et al., 2009, p. 210].

Such “incidental” constraints, can, of course, develop essential characteristics over time. It is arguable that many human institutions have followed such an evolutionary trajectory. In the following Chapter, we will ask whether the contemporary Cooperative Principles can be interpreted in such a way, as essential constraints *ex* incidental constraints.

#### 6.5.4 Constraints as Two-Step Process

The role of subjective judgment is indeed involved in choosing *which* approach one chooses in both reasoning and in determining strategies. This renders the environment before any (potentially) strategic interaction occurs of central importance. Elster suggests that “[t]he creation of a work of art can in fact be envisaged as a two-step process: *choice of constraints* followed by *choice within constraints*.” [Elster, 2001, p. 176] Similarly, these two stages of choice face any collective intending to apply a civic imaginary of the progressively autonomous / emancipatory sort, which must firstly constrain itself. As is remarked, for instance, by the great Athenian orator Aischines, “It is agreed that there are three kinds of constitution in the whole world: dictatorship (*tyrannis*), oligarchy and democracy, and dictatorships and oligarchies are governed by the temperament of those in power, but *democratic cities are governed by the established laws*. You are aware, men of Athens, *that in a democracy the personas of citizens and the constitution are protected by the laws, while dictators and oligarchs are protected by distrust and armed*

guards<sup>22</sup>.

Thus, Aischines understands the two-step process: *firstly, choice of constraints*, followed by individual choices within those constraints.

### 6.5.5 Relationship Between Constraint Theory and Kantian Deontology

In this section, we attempt to compare the constraint theory developed by [Elster, 2001] with two of Immanuel Kant's deontological categories: firstly, the *categorical imperative* developed in numerous works and secondly his particular notion of *aesthetic judgment* as developed in the *Critique of judgment*

#### Interpreting the Categorical Imperative via Constraint Theory

Kant developed his conception of the *categorical imperative* throughout his career, beginning with his *Foundations of the Metaphysics of Morals* (1785) and continuing with 1788's *Critique of Practical Reason*, where it was presented in its refined form: "Handle so, daß die Maxime deines Willens jederzeit zugleich als Prinzip einer allgemeinen Gesetzgebung gelten könne." [Kant, 1983, Vol IV, p. 140] For Kant, this imperative has the consequence that "Reine Vernunft ist für sich allein praktisch, und gibt (dem Menschen) ein allgemeines Gesetz, welches wir das *Sittengesetz* nennen." (*Id.*, p. 142)

Kant's *categorical imperative* can be understood as a form of essential constraint, a way of pre-commitment. A quote from the *Foundation of the Metaphysics of Morals* should suffice to make this connection clear. In the following quote, Kant distinguishes between a *world of reason* (*Verstandeswelt*) and a *world of senses* (*Sinnenwelt*),

Weil aber die Verstandeswelt den Grund der Sinnenwelt, mithin auch der Gesetze derselben enthält, also in Ansehung meines Willens (der ganz zur Verstandeswelt gehört) unmittelbar gesetzgebend ist und also auch als solche gedacht werden muß, so werde ich mich als Intelligenz, obgleich andererseits wie ein zur Sinnenwelt gehöriges Wesen, dennoch dem Gesetze der ersteren, d. i. der Vernunft, die in der Idee der Freiheit das Gesetz derselben enthält, und also der Autonomie des Willens unterworfen erkennen, folglich die Gesetze der Verstandeswelt für mich als Imperativen und die diesem Princip gemäße Handlungen als Pflichten ansehen müssen.

Und so sind kategorische Imperative möglich, dadurch, daß die Idee der Freiheit mich zu einem Gliede einer intelligibelen Welt

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<sup>22</sup>Cited in [Carey, 2017, p. 42]. Cf. also [Castoriadis, 2011a, p. 50].

macht. . . [Kant, 1983, Vol VI, p. 90]

We see in the above an early formulation of the co-determined rationality we introduced above in 6.4.7. More important for the present discussion, we see the *Sinnenwelt* Kant describes the notion of pre-commitment. We also may interpret it as an *essential constraint*, a form of voluntary self-binding of a moral agent (cf. norm-rationality) of his or her immediate volition (cf. act-rationality). Kant provides an example that fits within Elster's thought-style:

Es ist niemand, selbst der ärgste Bösewicht, wenn er nur sonst Vernunft zu brauchen gewohnt ist, der nicht, wenn man ihm Beispiele der Redlichkeit in Absichten, der Standhaftigkeit in Befolgung guter Maximen, der Theilnehmung und des allgemeinen Wohlwollens (und noch dazu mit großen Aufopferungen von Vortheilen und Gemächlichkeit verbunden) vorlegt, nicht wünsche, daß er auch so gesinnt sein möchte. Er kann es aber nur wegen seiner Neigungen und Antriebe nicht wohl in sich zu Stande bringen, wobei er dennoch zugleich wünscht, von solchen ihm selbst lästigen Neigungen frei zu sein. Er beweiset hiedurch also, daß er mit einem Willen, der von Antrieben der Sinnlichkeit frei ist, sich in Gedanken in eine ganz andere Ordnung der Dinge versetze, als die seiner Begierden im Felde der Sinnlichkeit [. . .] Das moralische Sollen ist also eigenes nothwendiges Wollen als Gliedes einer intelligibelen Welt und wird nur so fern von ihm als Sollen gedacht, als er sich zugleich wie ein Glied der Sinnenwelt betrachtet. (*Id.*, *ff.*)

Kant's example speaks directly to an issue [Elster, 2001, p. 279] mentions:

Addicts will always be able to find some aspect in which the present occasion is exceptional. And how can an artist know that his violation of a convention is an act of daring imagination rather than mere self-indulgence? To address these second-order problems, various second-order solutions are possible. The problem drinker, for instance, might use a convention to pace himself: never have alcohol in the house except when entertaining guests.

Elster's addict's "second-order problems" are exactly what Kant speaks of with the conflicts between the *Verstandeswelt* and the *Sinneswelt*. Thus, Elster is in fact much more a "Kantian" than he admits!<sup>23</sup>

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<sup>23</sup>Cf. [Elster, 2001, p. 63].

**Interpreting Aesthetic judgments via Constraint Theory** Kant's notion of the transcendental notion of categorical imperatives has faced repeated scrutiny and dissent, and was criticized as unfounded even shortly after the publication of the *Critique of Practical Reason*. It is apparent in reading his third and final *Critique*, the *Critique of judgment*, that Kant wrote this book on *aesthetic judgments* at least in part in response to the early criticisms of his prior work.

Castoriadis believes that Kant's main motivation for writing the third *Critique* lay in three related issues. Firstly, the search for stable categories for organizing organic life, as "Keine Kausalitätskategorie könnte je Gesetze für eine *Mannigfaltigkeit* aufstellen, die sich nach folgendes Gesetz hielte: Wenn *y* einst auf *x* folgte, wird nie wieder ein *y* auf ein *x* folgen." [Castoriadis, 2011a, p. 24] In other words, that reality which follows the logical rules which Kant attempted to establish in his two earlier *Critiques* had, in the least, to be *organizable*.

Daher die Hinwendung zu einer reflexiven und nicht konstitutiven Teleologie der Natur: Auch wenn wir es nicht "beweisen" können, funktioniert die Natur so, als ob sie zweckmäßig organisiert wäre. Das menschliche Kunstwerk liefert einen Analogon für diese Mechanismen der Natur, denn in ihm können wir "die Einbildungskraft auch in ihrer Freiheit als zweckmäßig für den Verstand bestimmbar" [...] erkennen. (*Id.*)

The second reason Castoriadis believes Kant wrote the third *Critique* is

in Anerkennung der Besonderheit des Kunstwerks. [...] Das Meisterwerk der Kunst befolgt keine Regeln, es stellt neue Regeln auf – es ist Muster und exemplarisch. Der Künstler, das Genie, ist nicht in der Lage, sein Produkt zu "beschreiben" oder "wissenschaftlich anzuzeigen", er setzt die Norm "als Natur"

Castoriadis at this point makes one of his most significant distinctions in Kant's reasoning, suggesting that

Natur meint hier natürlich *natura naturans*, nicht *natura naturata*, nicht die Natur der *Kritik der reinen Vernunft*, sondern eine "lebendige" Entstehungskraft, die Materie unter Form fasst. Das Genie ist Natur – und die Natur ist Genie! – *qua* freier, zweckmäßig bestimmbarer Einbildungskraft. (*Id.*, p. 25)

According to Castoriadis, Kant's third reason for writing the third *Critique* lay in

Kants zunehmendes Interesse an Fragen der Gesellschaft und Geschichte, was sich [...] in der dritten Kritik durch die Idee eines *sensus communis* und die Unterscheidung zwischen objektiver und subjektiver Allgemeingültigkeit zum Ausdruck kommt. (*Id.*)

In particular with regards to this third point, Castoriadis points out that one may interpret the third *Critique* as a reaction and response to the analytical weakness of the first two *Critiques*, as these two works allow one “weiterhin über [Adolf] Eichmann und das, was er verkörpert, schockiert [zu] sein, aber sich in keinerlei Verlegenheit befinden hinsichtlich der Möglichkeit, über ihn zu urteilen.” (*Id.*, p. 26) Thus, strictly *transcendental* or *categorical* imperatives may tell us *how* we should act, but not in every case allow us to judge as to *why* this is the case (just as merely acting “as if” a particular action embodies “a universal law” does not tell us *why* we should do so.

Thus, within a social context, a lower standard is often necessary in order to make choices:

Maximen (oder ähnliche Regeln) haben nur in einer Gemeinschaft un für diese einen Wert, die (a) eine vernünftige (nicht “rationale”) Diskussion als Mittel der Konfliktbewältigung akzeptiert, die b) anerkennt, dass nicht alles “bewiesen” werden kann, und in der es (c) einen hinreichenden (wenn vielleicht auch nur impliziten) Konsens über die Bedeutung von Begriffen wie “Person” oder “Menschheit” (oder auch “Freiheit”, “Gleichheit”, “Gerechtigkeit” usw.) gibt, und zwar jenseits logischer Definition. Es bleibt festzuhalten, dass diese Begriffe auf gesellschaftliche imaginäre Bedeutungen *par excellence* verweisen. (*Id.*)

In terms of finding such consensus, it is possible, as [Aumann and Maschler, 1985] argue, to arrive at similar – or even parallel – conclusions based on independent modes of reasoning (in their article, they compare game theoretic approaches based on strategic interaction with Talmudic religious reasoning: i.e., absolute moral rules.) In particular, as Kant remarks,

Denn es ist ein Geheiß unserer Urteilkraft, nach dem Prinzip der Angemessenheit der Natur zu unserem Erkenntnisvermögen zu verfahren, so weit es reicht, ohne (weil es keine bestimmende Urteilkraft ist, die uns diese Regel gibt) auszumachen, ob es irgendwo seine Grenzen habe, oder nicht; weil wir zwar in Ansehung des rationalen Gebrauchs unserer Erkenntnisvermögen Grenzen bestimmen können, im empirischen Felde aber keine Grenzbestimmung möglich ist. [Kant, 1983, Vol. V, p. 262]



Thus, the task is similar to finding “boundary conditions” for causal inferences: empirical reality and the Universe of experience is potentially limitless, so any limitations on experience are merely imposed for the sake of evaluating certain domains of reality, or for passing judgment (e.g., on a particular artwork or government policy).

In Kant’s eyes an aesthetic, “reflexive judgment” is capable of possessing a “subjective general validity” [Kant, 1983, Vol. V, p. 293]. This distinguishes it from an objective general validity and “bezieht sich auf den *Geschmack*” and depends on what Adam Smith would call the “principle of sympathy” [Smith, 2010, Chpt. 2], or “der Möglichkeit des Subjekts [...], sich an die Stelle des anderen zu versetzen.” [Kant, 1983, Vol. V, p. 533] The *general* quality of such judgments stems “[a]us dem Umstand, dass ich beim ästhetischen Urteil nicht sage, ‘das gefällt mir’ oder ‘das finde ich schön’, sondern: ‘Das *ist* schön.’ [Castoriadis, 2011a, p. 27] Thus, with respect to “reflexive judgments,” “muss der andere eben *als anderer* in Betracht gezogen werden” and this not in a “numerical” way, *quo* Scholastics or neoclassical economics, “sondern substantiell”. This, because “[t]rotz der entsprechenden Konnotation des Begriffs ‘reflektierend’ ist der andere kein Spiegel.” Castoriadis continues,

Denn nur *weil* er anders ist (in einem nichttrivialen Sinn verschieden), kann er an der Stelle fungieren, die Kant ihm zuweist. Weil *verschiede* Menschen sich in Sachen Schönheit verständigen *können*, existiert das ästhetische Urteil und ist seinem Wesen nach anders als theoretische oder rein praktische (ethische) Urteile. [...] Die “subjektive Allgemeingültigkeit” des ästhetischen Urteils [...] ist Gemeinsamkeit durch Nichtidentität. (Id. p. 28)

Thus, there arises a kind of emergent, subjective generality “through non-identity”, which Kant refers to in the following way:

wenn die einzelne Vorstellung des Objekts des Geschmacksurteils nach den Bedingungen, die das letztere bestimmen, durch Vergleichung in einen Begriff verwandelt wird, ein logisch allgemeines Urteil daraus werden kann: z. B. die Rose, die ich anblicke, erkläre ich durch ein Geschmacksurteil für schön. Dagegen ist das Urteil, welches durch Vergleichung vieler einzelnen entspringt: die Rosen überhaupt sind schön, nunmehr nicht bloß als ästhetisches, sondern als ein auf einem ästhetischen gegründetes logisches Urteil ausgesagt. Nun ist das Urteil: die Rose ist (im Geruche) angenehm, zwar auch ein ästhetisches und einzelnes, aber kein Geschmacks-, sondern ein Sinnenurteil. Es unterscheidet sich nämlich vom ersteren darin: daß das Geschmacksurteil eine ästhetische Quantität

der Allgemeinheit, d. i. der Gültigkeit für jedermann bei sich führt, welche im Urteile über das Angenehme nicht angetroffen werden kann. [Kant, 1983, Vol. V, p. 293]

This type of *aesthetically-grounded logical judgment* finds its expression particularly in Kant's discussion of the pedagogical role of critics in their "Berichtigung und Erweiterung unserer Geschmacksurteile". This, Kant argues, occurs, in "die wechselseitige Zweckmäßigkeit [...] in Beispielen aus einander zu setzen", examples which Kant refers to as "selbst nur subjektiv". This activity entails

die Kunst oder Wissenschaft, das wechselseitige Verhältnis des Verstandes und der Einbildungskraft zueinander in der gegebenen Vorstellung (ohne Beziehung auf vorhergehende Empfindung oder Begriff), mithin die Einhelligkeit oder Mißhelligkeit derselben, unter Regeln zu bringen und sie in Ansehung ihrer Bedingungen zu bestimmen. (Id., p. 380)

Whether such judgments are art (*Kunst*) or science (*Wissenschaft*) depends on the purpose which they serve:

Sie ist Kunst, wenn sie dieses nur an Beispielen zeigt; sie ist Wissenschaft wenn sie die Möglichkeit einer solchen Beurteilung von der Natur dieser Vermögen, als Erkenntnisvermögen überhaupt, ableitet. Mit der letzteren, als transzendentalen Kritik, haben wir es hier überall allein zu tun. Sie soll das subjektive Prinzip des Geschmacks, als ein Prinzip *a priori* der Urteilskraft, entwickeln und rechtfertigen. . . (Id.)

Thus, Kant argues that such subjective judgments can indeed serve as the basis for new knowledge. In fact, doing so renders them a part of the *transcendental critique* of the sort the categorical imperative is, however with empirical and not "synthetic, a priori" content. In particular, the recursive quality of creation finds its expression here: in the hierarchy of artistic creation and the criteria by which such creations are ultimately judged. In particular, Kant argues that

eine jede Kunst setzt Regeln voraus, durch deren Grundlegung allererst ein Produkt, wenn es künstlich heißen soll, als möglich vorgestellt wird. Der Begriff der schönen Kunst aber verstatet nicht, daß das Urteil über die Schönheit ihres Produkts von irgendeiner Regel abgeleitet werde, die einen Begriff zum Bestimmungsgrunde habe, mithin einen Begriff von der Art, wie

es möglich sei, zum Grunde lege. Also kann die schöne Kunst sich selbst nicht die Regel ausdenken, nach der sie ihr Produkt zustande bringen soll. [Kant, 1983, Vol. V, p. 406]

There is a dialectic here between rules of behavior or creation and their genesis, and the objects or phenomena they apply to: Kant recognizes that art is not a product *sui generis* and that, at the same time, judgment (or criticism) of art must follow some criterion. However, at the same time these criteria generally cannot be explained as distinct from or *prior to* the process of creation. Kant resolves this dilemma with reference to the category of *genius*:

Da nun gleichwohl ohne vorhergehende Regel ein Produkt niemals Kunst heißen kann, so muß die Natur im Subjekte (und durch die Stimmung der Vermögen desselben) der Kunst die Regel geben, d. i. die schöne Kunst ist nur als Produkt des Genies möglich.<sup>24</sup>(*Id.*)

Genius requires, according to Kant, a dialectical process of education (Kant speaks of “Erziehung des Geschmacks”) and at the same time is constantly breaking out of pre-ordained modes and models, seeking new and innovative forms of expression (Kant argues that “Schöpfung setzt sich selbst voraus”) Moreover, this incursive and recursive process of *creation* requires a cultural context in which to arise (i.e., does not arise *sui generis*). [Castoriadis, 2011a, p. 28f.]

Before moving on to connecting Kant’s notion of aesthetic judgment, we review a last point of Kant’s: the ability to *justify* such judgments. As Kant argues, “Auf irgendeinen Begriff muß sich das Geschmacksurteil beziehen; denn sonst könnte es schlechterdings nicht auf notwendige Gültigkeit für jedermann Anspruch machen.” [Kant, 1983, Vol. V, p. 443] In fact, Kant argues it is possible to move beyond the notion of “mere private judgment”, and this via a grounding in a concept: the contradiction “disappears”

wenn ich sage: das Geschmacksurteil gründet sich auf einem Begriffe [...], aus dem aber nichts in Ansehung des Objekts erkannt und bewiesen werden kann, weil er an sich unbestimmbar und zum Erkenntnis untauglich ist; es bekommt aber durch eben denselben doch zugleich Gültigkeit für jedermann (bei jedem zwar als einzelnes, die Anschauung unmittelbar begleitendes, Urteil): weil der Bestimmungsgrund desselben vielleicht im Begriffe von demjenigen liegt, was als das übersinnliche Substrat der Menschheit angesehen werden kann. [Kant, 1983, Vol. V, p. 445]

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<sup>24</sup>Kant’s notion of genius is itself a fascinating and dynamic concept, whose detailed analysis would go beyond the present work. Cf. [Kant, 1983, Vol. V, p. 406].

We see here the relation to Elster's notion of the 2-step process of constraining discussed above. Kant's notion of deriving generally valid subjective judgments via experience is tantamount to selecting constraints. Kant's notion of *genius* then refers to the second stage, that of "choice under constraints". Elster refers to example such as the Hayes Code, which imposed strict rules of censorship on films beginning in 1934 and lasting into the 1960s, with increasing numbers of directors refusing to accede to its "seal of approval" starting in the 1950s with films like *The Moon is Blue*. Elster writes that "[i]n some cases at least, the effect of the constraint was to enhance rather than detract from the artistic value of the representation." [Elster, 2001, p. 229] Thus,

Late 1930s movies reached a particular 'innocence' by presenting a deadpan level of performance that acted as a foil to the secondary 'sophisticated' narrative constructed within the imagination of the viewer.... The more the movie world diverged from what audiences knew went on in the real world, the more the movies took on a comic sophistication of their own. They gained a wit, a knowingness that audiences could take pleasure in, because it revealed and rewarded their own sophistication. [Maltby and Craven, 1995, p. 342], cited in [Elster, 2001, p. 231]

Indeed, we can see parallels of Kant's notion of the dilemma in hierarchy spelled out above in the rise and fall of the Hayes Code. We can interpret it as an externally imposed catalog of criteria for establishing "good art" (in this case, film) and seeing over time the shift in aesthetics in the film industry as a reaction to this new catalog. At the same time, we may also interpret the efforts of directors like Otto Preminger and Howard Hughes to "test the limits" of the code, and to later abandon it altogether, as the product of what Kant refers to as "genius". In the same way as Rogan suggested that Tawney's appeal to Christian values was supplanted by a pluralistic, secular world [Rogan, 2017a], Kant's transcendental critique appears to have lost much of its appeal for much the same reason. The third *Critique* with its notion of aesthetic judgment appears to offer a "back door" to Kant's transcendental logic, in the main via the notion of *subjective general validity*. The rise and fall of the Hayes Code can serve as one example to validate Kant's reformulation.

In conclusion, living together in society does not merely entail transcendental logics of rational utility-maximization. In fact, rational utility-maximization and the cost-benefit reasoning associated with it is a sign of a very primitive Utilitarian logic that can be observed in the most simple

organisms (cf. 2.6.7). What distinguishes human beings and their complex social orderings, according, e.g., to both Castoriadis and Kant, is the role of *intelligence* and *imagination*. Thus, viewing the various aspects of complex interactions rather according to the Kantian notion of *aesthetic judgment* appears for many to be a more promising activity than merely applying cost-benefit analysis<sup>25</sup>. Thus, the aesthetic judgment offers us another, independent, path to analyzing and interpreting social activity according to incursive and recursive processes of establishing, maintaining (and potentially, breaking) constraints. This should not, as Castoriadis argues, mean that aesthetic and political judgments “have the same source.” Nevertheless,

Die Ähnlichkeiten zwischen [den Voraussetzungen für ein gemeinschaftliches Leben] und denen jeder Diskussion über Kunst sind unübersehbar. Das bedeutet, [...] dass es nicht *prima facie* unangemessen ist, die Bedingungen zu erkunden, unter denen eine Gemeinschaft über Dinge diskutieren und sich verständigen kann, die sich rigorösen Beweisführungsverfahren entziehen. [Castoriadis, 2011a, p. 26]

### 6.5.6 Conclusion: Representing Constraints

As we’ve observed in the preceding discussion, constraints are not simply “costs” that “tax” an individual agent’s “freedom”, as much of modern neoclassical social theory assumes. Constraints have the characteristic of correcting for systematic aberrations from act-rationality by delaying, imposing costs, offering premiums for long-term oriented choices and generally by *binding* individuals via self-selected (pre-commitment) or externally-imposed (essential constraints). Because real human beings frequently engage in hyperbolic, and not exponential, discounting, such constraints can help to socialize citizens towards more long-term decision-making and so improve general welfare. Constraints can be essential or incidental, and the criterion for distinguishing them thusly is whether the constraint was enacted to elicit the stimulated choice, or whether the constraint was merely incidental in the outcome.

Incidental constraints can become essential via a process of emergence. There are many similarities between the contemporary notion of “constraint theory” and Kantian deontology, and while the notion of a categorical imperative has certain analytical weaknesses, Kant’s notion of *aesthetic judgment* is an exceedingly useful concept to think about constraints, particularly those involving self-imposition. We related the Kantian ideas with Elster’s dis-

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<sup>25</sup>In particular, besides Castoriadis, this was also the path favored by Hannah Arendt.

cussion of constraint theory via a number of examples, including the Hayes Code.

At this point, the reader may be questioning where this discussion is headed. They may have followed the general arguments above but wonder *what it all means* or, perhaps, be convinced that a synthesis of constraint theory and Kantian notions of *judgment* are indeed useful to describing or interpreting the notion of a democratic civic imaginary, but be asking themselves *how* to connect these various research agendas. The next section will attempt to close the gap between the preceding discussions. In it, we introduce both notions of *coordinated* or *epistemic equilibrium* and also the language of *causal inference*, to which we return again in Part III.

It will be our argument going forward that the tools provided by these two research strands, the one epistemic and deriving from investigations about the nature and limitations of game theory in describing social practices, the other deriving from foundational questions of scientific inquiry, namely how to carry out and represent *causal inquiries*, can aid in turning from investigating constraints in the abstract, towards applying the theories derived above towards investigating the impact of real policies.

## 6.6 Epistemic / Causal Coordinated Equilibrium

Since the late 1950s, social norms have been interpreted by game theorists as Nash equilibria.[Gintis, 2000] Gintis points out some issues with this view, stating

first. . . the conditions under which rational individuals play a Nash equilibrium are extremely demanding. . . and are not guaranteed to hold simply because there is a social norm specifying a particular Nash equilibrium. Second, the most important and obvious social norms do not specify Nash equilibria at all, but rather are devices that implement *correlated equilibria*. [Gintis, 2014, p. 142]

Aumann first described a *coordinated equilibrium*, which “places very few restrictions on the possible outcomes” [Aumann, 1974, p. 15], the thinking being to move away from the “demanding” conditions of a Nash equilibrium.

The results are quite robust. “Thus, while rationality and common priors do not imply Nash equilibrium, these assumptions do imply correlated equilibrium.” [Gintis, 2014, p. 143] We agree that mental states are publicly inaccessible as they entail private information. Thus, we typically have

no exogenous knowledge about the preferences of others. Nevertheless, if we maintain a commonly shared *prior belief* and associate that belief with some commonly-shared signal, then this signal can simultaneously act to choreograph individuals' behavior and serve as a cue for the respective common prior. Here it does not ultimately matter if that prior is *endogenous* or *exogenous* (just as it does not necessarily matter if a constraint is incidental or essential), as the issue relates to the relationship between common knowledge and the existence of a correlated equilibrium [Aumann, 1974, p. 11].

Interestingly, [Aumann, 1987] also discovered that the correlated equilibrium is a way to introduce Bayesian reasoning into game theory.

This is the first step of discovering how social arrangements can lead to certain outcomes (i.e., towards facilitating a “downward translation” of social preferences), but it says nothing about where these common priors originate and how they come to drive agency. In order to do this, we must include discussion of both the physiological endowment that facilitates communication as well as institutions and conventions that have a capacity to maintain certain behavioral outcomes.

### 6.6.1 The Utility of Bayesian Reasoning in Social Sciences

David Kaplan speaks of “a renaissance in the developments and application of Bayesian statistical methods.” [Kaplan, 2014, p. x] In fact, citing de Finetti, for whom “only *subjective* probabilities—i.e. the *degree of belief* in the occurrence of an event attributed by a given person at a given instant with a given set of information” [Kaplan, 2014, p. 8], Kaplan argues that the Bayesian model is the most “honest” and forthcoming, both in terms of framing research questions and in terms of transparently revealing the researcher’s own biases and beliefs.<sup>26</sup> Ultimately, this form of *epistemic probability* “reflect[s a] notion of probability as an individual expression of a greater or lesser degree of uncertainty about our knowledge of a particular problem at hand.” (*Id.*, *ff.*) A main criterion for epistemic probability is *coherence*. As Kaplan comments, “Although the notion of *epistemic* probability predates the frequentist conception of probability, it had not significantly impacted the practice of applied statistics until computational developments brought Bayesian inference back into the limelight.”

Indeed, “[t]he importance of understanding the differences between these two conceptions of probability is more than a philosophical exercise. Rather, their differences are manifest in the elements of the statistical machinery

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<sup>26</sup>Source: personal communication with David Kaplan.

needed for advancing a Bayesian perspective for research in the social sciences.” [Kaplan, 2014, p. 11] These differences are significant because “even though the results of a Bayesian analysis and frequentist analysis of the same data may provide ‘similar-looking’ results, they are, in fact, different at a very fundamental level.” These fundamental differences involve epistemic notions viz. the nature of probability, with regards to which “the frequentist framework views probability as synonymous with long-run frequency, and the infinitely repeating coin toss represents the canonical example of the frequentist view. All of frequentist statistical practice derives from the notion of probability as long-run frequency. Indeed frequentist statistical inference relies on asymptotic assumptions that derive from viewing probability as long-run frequency.” [Kaplan, 2014, pp. 283-4] Thus, the frequentist notion of statistics employs concepts like the law of large numbers and other mathematical approaches that assume a homogeneous distribution of parameter values.

On the other hand, the Bayesian view is summarized by the idea that was expressed provocatively by de Finetti: “Probability does not exist”, an aphoristic and laconic way of expressing the idea that “probability does not have an objective status, but rather represents the quantification of our experience of uncertainty. . . [thus] the notion of probability as something external to the individual, possessing an objective status ‘out there,’ is superstition—no different from postulating the existence of ‘Cosmic Ether, Absolute Space and Time, . . . , or Fairies and Witches’ . . . [for Bayesians], probability is to be considered only in relation to our subjective experience of uncertainty, and, more strongly. . . *uncertainty* is all that matters.” [Kaplan, 2014, p. 284, emphasis added]

### The Problem of p-values

One of the main issues with frequentist statistics, especially when applied to social science contexts, is the fact that “frequentist inference rests on data that have not been observed.” [Kaplan, 2014, p. 285] This refers to the use of *p-values*, which “is properly interpreted as the probability of observing data at least as extreme as the data that were actually observed under the assumption that the null hypothesis is true.” [Kaplan, 2014, p. 286]

[Wagenmakers, 2007] discuss three main criticisms of the use of *p-value Null Hypothesis Significance Testing*, (NHST), namely

- (1) NHST tempts the user into confusing the probability of the hypothesis given the data with the probability of the data given the hypothesis;
- (2)  $\alpha = .05$  is an arbitrary criterion for significance;



and (3) in real-world applications, the null hypothesis is never exactly true, and will therefore always be rejected as the number of observations grows large.[Wagenmakers, 2007, p. 779]

Thus, while many social scientists, including psychologists and economists, focus heavily on “problems of interpretation”, a more central focus “on problems of formal construction” are required. When considering such problems in the context of social science research, three main problems occur, which lead to the above three criticisms. The first problem is the fact that p-values “depend on data that were never observed” [Wagenmakers, 2007, pp. 782ff.], this because the p-value “is a tail-area integral, and this integral is effectively over data that are not observed but only hypothesized.” (*Id.*, p. 779) Secondly, p-values “depend on possibly unknown subjective intentions” of researchers.[Wagenmakers, 2007, pp. 783ff.] This means that “the same data may yield quite different p-values, depending on the intention with which the experiment was carried out.” This particularly impacts sequential design, where “the NHST methodology demands a heavy price for merely entertaining the idea of stopping an experiment in the entirely fictional case that the data might have turned out differently than they did. That is, ‘the identical data would have been obtained whether the experimenter had been following the sequential design or a fixed sample size design. The drastically differing measures of conclusiveness are thus due solely to thoughts about other possibilities that were in the experimenter’s mind.’” [Wagenmakers, 2007, p. 786]

The third problem with NHST is that p-values “do not quantify statistical evidence”. This problem hinges on the definition of “statistical evidence” and is exemplified by the so-called *p-postulate*, which states that “identical p-values provide identical evidence against the null hypothesis.” For p-values to quantify statistical evidence hinges on this minimum requirement. However, “there is considerable disagreement as to whether the p postulate holds true.” [Wagenmakers, 2007, p. 787] In particular, there is significant controversy among scientists whether two identical p-values associated with different samples of different sizes convey the same level of evidence.” Thus, it becomes clear that, in the very least, the question as to whether or not p-values quantify statistical evidence is not certain. However, [Wagenmakers, 2007, p. 780] argue that “[t]his minimum requirement is, however, not met: Comparison to a very general Bayesian analysis shows that p values overestimate the evidence against the null hypothesis, a tendency that increases with the number of observations. This means that  $p = .01$  for an experiment with 10 subjects provides more evidence against the null hypothesis than  $p = .01$  for an experiment with, say, 300 subjects.”

Thus, the applicability of frequentist methodologies to social science is, at

best, questionable. What approach should social scientists use then? Particularly; which methods should those concerned with questions of cooperation, so heavily dependent on intersubjective judgments use?

### 6.6.2 Game Theory, Social Psychology, Gestalt Psychology and Self-Actualization

Economists have embraced game theory for various reasons. It has provided a level of generality for describing strategic interactions that prior generations could only dream of. At the same time, it provides tools and explanations for why social outcomes often deviate from what standard economic theory would consider optimal. At the same time, a significant and growing literature has come to terms with the limitations of game theory as a tool for explaining actual social behavior.<sup>27</sup> These findings and others<sup>28</sup> underline the deep importance of including cultural values, norms and heuristics into economic theory, as well as in policy analysis and development. Moreover, it is important to restrict the use of game theory to where it is relevant. For instance, [Shaikh, 2016, pp. 81ff.] demonstrates that in macroeconomic contexts, where emergence obtains, game theory often “adds nothing”.

Strangely, economic models have rarely made use of the findings of human psychology. Certainly, there have been attempts to compensate for this lack in recent decades, with authors like Kahneman, Thaler and others beginning the task of re-introducing psychological categories and thinking into economics and Aumann above speaking of behavioral economics as a complement to the mainstream. However, this “complementarity” is an uneasy one, an eclectic co-existence spelling contradiction and epistemological incongruence.

Generally, the economy and human actors are viewed by the mainstream in terms that Friedrich Hayek compared to iron filings reacting to their proximity with a magnet [Hayek, 1975]. Nevertheless, even much of the new

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<sup>27</sup>Particularly, [Aumann, 1974] has shown that coordinated equilibria are generally better able to achieve higher welfare outcomes than the Nash equilibria most economic theorists work with. [Harsanyi, 1967], meanwhile, “has been perhaps the most eloquent proponent of [Mises’ frequency theory of probability and Popper’s notion of propensity]... which interpret probability as the long-run frequency of an event or its propensity to occur at a certain rate.” [Gintis, 2014, p. 149]. Harsanyi, moreover, “distinguishes between ‘subjective’ and ‘ethical’ preferences, but sees the ethical ones as rare”, [Etzioni, 2010, p. 38] an assumption which Gintis (*supra*) finds “applies only under a highly restricted set of circumstances”. I.e., there is no reason to assume that in most circumstances, “ethical” preferences should be rare.

<sup>28</sup>For instance, the work of Samuel Bowles, Herbert Gintis and Joe Henrich on *gene-cultural evolution* and *multi-level selection* see, e.g., [Bowles and Gintis, 2013], [Bowles, 2016] or [Henrich et al., 2004].

Behavioralism still belies a *contingent* thinking, where preferences are taken as given and incentives are employed to act upon these. [Türk, 1978] Thus, there is still a need for more dynamic, holistic and general approaches to integrating psychology and social sciences like economics. These approaches should principally be *process-oriented*, instead of instrumental, as much of contemporary economics research is organized. It appears unlikely that such an approach can sustain the “unicameral” version of human rationality. A *co-determinative*, relational approach is required.

As [Gintis, 2014, p. 200] remarks,

Providing a plausible game-theoretic model of cooperation among self-regarding agents would vindicate methodological individualism. . . , and render economic theory virtually independent of, and foundational to, the other behavioral disciplines. In fact, this project is not a success. A fully successful approach is likely to require a psychological model of social preferences and a social epistemology, as well as an analysis of social norms as correlating devices that choose among a plethora of Nash equilibria and choreograph the actions of heterogeneous agents into a harmonious operational system.

Much of this type of thinking on social epistemology and norms as correlational devices can be discovered in social psychology, particularly the *Gestalt* psychology of Kurt Lewin and *Social learning theory* of Andrew Bandura, as well as in the “holistic-dynamism” of Maslow’s theory of human motivation. Each of these frameworks offer a useful lens for moving from a formalist Utilitarian framework inadequate to dealing with contemporary demands and towards a dynamic framework embracing both the interdependence of social action and individual autonomy. Particularly useful is each of these perspectives’ focus on adjusting the frame of reference to fit particular circumstances, contexts and situations. As such, they provide powerful tools for connecting “purely” descriptive theories like game theory with the heavily context-dependent situations confronting real human beings in their daily interactions.

Below we begin by recounting the discourses of the “internal” limitations of game theory. We then move on to, in turn, discussing how the socio-psychological theories respectively of the psychologists Kurt Lewin, and Andrew Bandura can serve as a bridge between game theory and a view towards a *moral economy*.

		Player Y	
		<i>Heads</i>	<i>Tails</i>
Player X	<i>Heads</i>	(1, -1)	(-1, 1)
	<i>Tails</i>	(-1, 1)	(1, -1)

Table 6.2: An outcome table representing a coin toss.

### 1974 Paper

[Aumann, 1974]’s approach, and especially its reformulation [Aumann, 1987] has been described as a manner of introducing Bayesian preference updating into game theory. [Davis, 2003b, p. 2] More generally, it has been increasingly recognized that the focus over the decades in social science research on Nash equilibria has been misplaced, that “the conditions under which rational individuals play a Nash equilibrium are extremely demanding... and are not guaranteed to hold simply because there is a social norm specifying a particular Nash equilibrium.” On the contrary, “the most important and obvious social norms do not specify Nash equilibria at all, but rather are devices that implement *correlated equilibria*.” [Gintis, 2014, p. 142] In the following, we outline the advances Aumann’s contribution facilitated and then in following sections attempt to connect these with the late advent of formal causal reasoning.

As briefly outlined above (cf. footnote 27 above), Robert Aumann extended the *Harsanyi doctrine* beyond mere strategic interaction. Below we review his contribution. [Aumann, 1974, p. 67] begins by stating that it is rather odd that “in spite of the long history of the theory of subjective probability, nobody seems to have examined the consequences of basing mixed strategies on ‘subjective’ random devices.” Doing so, he argues, “some startling results,” including the fact that “Two-person zero sum games lose their ‘strictly competitive’ character. It becomes worthwhile to cooperate in such games, i.e., to enter into binding agreements.”

Thus, taking as a starting point a zero-sum coin toss of the type in Table 6.2, it is clear that, in the absence of all external interference, the expected outcome for players playing a random mixed strategy is, on average, (0,0). However, Aumann suggests that adding a rule to the game based on the occurrence of an event associated with a subjective probability (such as, that the telephone should ring during the game) can exogenously increase both players’ welfare. In his case, the event,  $D$ , is assigned a different subjective probability by each player, e.g., “ $2/3$  and  $1/3$ , respectively”. The rule is as follows, “Player [Y] will play left in any event; player [X] will play top if  $D$  occurs, and bottom otherwise.” Thus, the outcomes are (subjectively)

		Player Y	
		<i>Heads</i>	<i>Tails</i>
Player X	<i>Heads</i>	(0, 8, 0)	(3, 3, 3)
	<i>Tails</i>	(1, 1, 1)	(0, 0, 0)

		Player Y	
		<i>Heads</i>	<i>Tails</i>
Player X	<i>Heads</i>	(0, 0, 0)	(3, 3, 3)
	<i>Tails</i>	(1, 1, 1)	(8, 0, 0)

Table 6.3: A three person game, where X chooses row, Y chooses column and Z chooses the matrix.

1/3 for each player<sup>29</sup>. This is, as Aumann points out, more than the pure mixed strategy outcome, which foresees an outcome of (0,0) for each player, on average.

More generally, Aumann argues that for any two-person zero-sum game in which uneven outcomes are possible, i.e., an outcome where the value gained by one of the players exceeds that of the other, *in case there exists a subjective event, e.g., a public lottery, of which a player has knowledge*, then there exist outcomes that improve upon the value of alternative outcomes.<sup>30</sup> Thus, we see that by restricting potential outcomes and reducing the total strategy profile prior to the interaction, both players are able to increase their welfare. In particular, such restrictions achieve outcomes that ‘‘pure’’ rational choice can never achieve<sup>31</sup>. Aumann demonstrates this more clearly with reference to a three-person interaction, modeled in the game represented by Table 6.3.

Here, player *X* chooses the row, player *Y* selects the column and player *Z* (not pictured) selects the matrix. In the absence of correlation or communication, each player’s best mixed strategy would result in an expected outcome of (1,1,1). Aumann has shown in simple terms that, if private information as to the probability of a certain event *W* exists, there are general social benefits to restricting this information. In the example, this private information refers to the knowledge of the occurrence of *W*, restricted to player *Z*, with players *X* and *Y* going from varying subjective probabilities (e.g., 1/4 and 3/4) of *W* occurring. Thus, if *X* and *Y*’s subjective probabilities convince them to play *top* and *right*, respectively, then player *Z*’s choice is irrelevant, the players’ expected outcome is (3,3,3), obviously preferable to the original,

<sup>29</sup> $2/3 * 1 - 1/3 * 1$  for player 1;  $-1/3 * 1 + 2/3 * 1$  for player 2.

<sup>30</sup>For a proof of this proposition, cf. [Aumann, 1974, p. 80].

<sup>31</sup>Cf. Example 2.4 in [Aumann, 1974, p. 70].

		Player Y	
		<i>Hawk</i>	<i>Chicken</i>
Player X	<i>Hawk</i>	(0, 0)	(7, 2)
	<i>Chicken</i>	(2, 7)	(6, 6)

Table 6.4: The standard “Chicken” game.

non-communicative equilibrium in mixed strategies, which was (1,1,1).

Aumann points out that “the new, subjective, equilibrium is not only ‘subjectively higher’, it is also ‘objectively higher’.” [Aumann, 1974, p. 69]. Moreover, “[t]he contribution of subjective probabilities is to make this new point an equilibrium; once chosen, it is *sure* to make all players better off than at any of the old equilibrium points.” As Aumann correctly realized, “much of the effectiveness of mixed strategies is based precisely on [this type of] secrecy.” (*Id.*) Moreover, correlation can be used to achieve arbitrary points along a payoff hull, as [Harsanyi and Selten, 1972] realized. These discussions underline the importance of psycho-social norms in coordinating social activity, which goes beyond the scope of traditional (non-evolutionary) game theory.<sup>32</sup>

In the above case, the correlation is due purely to one player’s restriction of knowledge from the other two. This device can be permuted arbitrarily (to so-called *n*-coalitions), so is not limited by the number of players. The point being, as Aumann points out, that “the introduction of correlation among *subsets* of the players can significantly improve the welfare of everybody.” [Aumann, 1974, p. 71]

Where Aumann diverges from previous knowledge is his notion that “by the use of correlated strategies one can achieve a payoff vector that is in equilibrium in the same sense as [the above examples], but that is *outside* the convex hull of the Nash equilibrium payoffs.” [Aumann, 1974, pp. 70-1] This is particularly apparent in *n*-person games, where  $n > 2$ . He refers to this type of arrangement as “cooperative” [Aumann, 1974, p. 86], as it requires the explicit coordination and communication among the players *before* a strategic interaction occurs (as opposed to the prior examples where coordination could occur merely by restricting the flow of information). The advantage of such an arrangement lies in the fact that “the new correlated strategy equilibrium point has the property that any deviation will actually lead to a loss (not only a failure to gain).” [Aumann, 1974, p. 71]

The correlation effect can also be seen in the standard 2-person “Chicken”

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<sup>32</sup>For more on the distinctions between *epistemic* and traditional game theory, cd. [Gintis, 2000].

game, depicted in Table 6.4. This game has become identified as a workhorse model for economic interactions and has often been questioned in its relevance for particular social settings<sup>33</sup>. This situation is generally associated with highly inefficient outcomes, as [Gintis, 2000, p. 153] points out. This is because, in the standard, non-cooperative set-up, there are three Nash equilibria, (2,7), (7,2) and (0,0). Assuming an equal distribution, the players' expected outcomes are  $4\frac{2}{3}$ . [Aumann, 1974, 72] shows that with the introduction of an exogenous third party (a "choreographer") assigning each player a given strategy, both players can improve upon this outcome. The players would each then receive an outcome of  $\frac{1}{3} \cdot 6 + \frac{1}{3} \cdot 7 + \frac{1}{3} \cdot 2 = 5$ , which is again outside the convex hull of the Nash equilibrium.

### 1987 paper

Aumann's second paper on correlated equilibrium more explicitly associated the notion of *correlated equilibrium* with Bayesian subjective probability. In particular, he argues that "Nash equilibrium does make sense if one starts by assuming that, for some specified reason, each player knows which strategies the other players are using. But this assumption appears rather restrictive." [Aumann, 1987, p. 2] Moreover, Aumann also refers to a criticism from Bayesian statisticians, who occasionally have argued that the very notion of equilibrium is inconsistent with "the modern subjectivist, Bayesian view of the world." Aumann counters this view, arguing that "far from being inconsistent with the Bayesian view of the world, the notion of equilibrium is an unavoidable consequence of that view. It turns out, though, that the appropriate equilibrium notion is not the ordinary mixed strategy equilibrium of Nash (1951), but the more general notion of correlated equilibrium." (Id.)

Thus, "if each player is Bayes rational<sup>34</sup> at each state of the world, then the distribution of the [strategy set] is a correlated equilibrium distribution." [Aumann, 1987, p. 7] In particular, the model envisions encoding the choices of other players in a description of the world in the form of an "outside agent" representing "a surrogate for the ignorance of the system as a whole—the lack of common knowledge—of the signals received by each player." [Aumann, 1987, p. 8] This, in turn, is "only a convenient way of expressing the fact that the other players do not know which action [a particular player] wishes to choose." The players' priors, on the other hand, are common knowledge in Aumann's model.

<sup>33</sup>For instance, by [Ostrom, 1990], as discussed in Chapter 2.

<sup>34</sup>Cf. [Warren, 2015, p. 105].

### Further Developments in the Tradition

While Aumann’s contributions were recognized with the highest honors an economist could receive, the “emulation” (cf. above, footnote 3) has largely not been forthcoming. A comparative glance at Google Trends reveals, as Figure 6.6 shows, that, relative to the – declining – rate of search results for “Nash equilibrium” on Google between 2004-2022, the term “correlated equilibrium” is hardly notable. At the same time, it would appear that roughly 38,000 papers were published since 2010 discussing Nash equilibrium, while only roughly 4,800 papers feature “correlated equilibrium” in the same time frame.

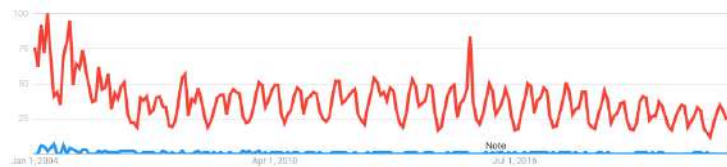


Figure 6.6: A representation of the relative incidence of “Nash equilibrium” (red line) and “Correlated equilibrium” (blue line) on Google. Source: Google Trends.

this tradition. The author of the present text is doubtful of the ability of this tradition in developing a positive synthesis of psycho-social behavioral theory and game theory, but the tradition offers clear insight on the limits of game theory in integrating phenomena like social norms and so should be recognized in this regard.

Whether notions deriving from Aumann’s correlated equilibrium are the best approach or not, a major question is why students of economics are still largely taught concepts like the Nash equilibrium when it is clear that it has little relevance to most real situations. It may be the case that Aumann’s notion of correlated equilibrium is an unproductive concept, another intellectual *cul-de-sac*. But until more intellectual resources are expended on notions of cooperative game theory, many resources will be expended studying problems like the “tragedy of the commons” and similar notions, which we showed in Chapter 2 are more performative than descriptive.

We generally agree with [Pearl, 2001]’ view that, while Bayesian approaches are an improvement over frequentist notions of statistics and thereby,

<sup>35</sup>Cf. [Moses and Nachum, 1990].

Nevertheless, a small tradition has emerged from the foundations Aumann erected, based on notions of consensus and concepts like *like-mindedness*. Both [Bacharach, 1985] and [Cave, 1983] independently generalized Aumann’s findings<sup>35</sup>. [Tsakas, 2008] offers an overview of



Aumann's notion of correlated equilibrium is an improvement over the more parochial notion of Nash equilibrium, it is "only half the story". Any effective theory that seeks to connect psycho-social norms with models of behavior must also include a suitable *causal* framework. We return to this question after a quick detour that seeks to connect the above discussion with concepts from psychology.

### Lewin

Kurt Lewin developed the idea of *psychological ecology*. With this concept, Lewin means to emphasize the importance of beginning with an evaluation of different motivators and interactions that determine behavior. He means to say that a psychological analysis doesn't make sense before one separates out environmental and mental processes. In a passage reminiscent of Bandura's discussion of reciprocal determinism (represented by Figure 6.7), writes Lewin, it is important to clarify

where and how psychological and non-psychological problems overlap. Any type of group life occurs in a setting of certain limitations to what is and what is not possible, what might or might not happen. The non-psychological factors of climate, of communication, of the law of the country or the organization are a frequent part of these "outside limitations." [Lewin, 1951, p. 206]

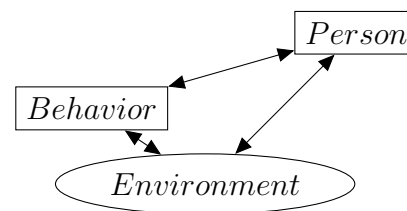


Figure 6.7: A simple graph representing the interdependence of various behavioral factors, adapted from [Bandura, 1977, p. 10].

Thus, before discussing the process variables that make people act as they do and beginning to draw up payoff tables, it is important to distinguish these from the underlying ecological influences and parameters that Aumann attributes to an "outside agent". Once these "non-psychological" data have been adequately described and suitably distinguished from the "psychological" (and clearly, the boundaries here are not always clear-cut), a closer reading of preferences and behavioral determinants can be made.

Moreover, Lewin is also interested in the dynamically shifting horizons of human cognition. His application of field theory to delineate the shifting horizons of thought resemble Herbert Simon's notion of bounded rationality

[Simon, 1957]. This can be seen in an early work, entitled “Landscape of War” (*Kriegslandschaft*). Here, Lewin’s “initially phenomenological description of the battle ground becomes a cornerstone of the psychology he develops in Berlin in the 1920s and early ‘30s. In his description of the 1917 war scenery, the interpretation of the situation at the front in the light of perceptual psychology becomes important”.[Langemeyer, 2017, p. 2] Thus, Lewin describes the shift with reference to the distance the spectator is from the war front:

[The environment] is relatively independent of the visibility conditions caused by the special shape of the terrain, extending far beyond the space which, in accordance with optical laws, the retina would be able to reflect even successively. What is important for the scenery of peace is that this extension uniformly stretches into infinity in all directions [...]. The scenery is round, without a front or a rear side.” – “However, as you approach the front zone, extension into infinity is no longer true in the same sense. Towards the front, the scenery seems to end somewhere; the scenery is bounded. When marching towards the front, this boundedness of the scenery is apparent a considerable time before the front line becomes visible.<sup>36</sup>

What becomes clear in such passages is that, from the perspective of psychology, the restriction of options (in this case, visual options due to an ongoing war) influences and shapes perception, which relates again to Aumann’s notion of correlated equilibrium. Thus, while, “from a social learning perspective, human nature is characterized as a vast potentiality that can be fashioned by direct and vicarious experience into a variety of forms within biological limits”[Bandura, 1977, p. 13], the realization of those varieties depends on restricting the real set of options via social norms and collective intelligence.

### 6.6.3 Moving from Social Psychology Back to Economy

Aumann expressed his surprise at the lack of focus on the issues of correlation and cooperation in both economics and game theoretical research: “It is all the more surprising that these ideas have heretofore not been more carefully studied in game theory in general, and in the context of randomization in particular.”[Aumann, 1974, p. 86] In particular, Aumann comments that “[a]n understanding of th[e distinction between ‘non-cooperative’ and ‘cooperative’ theory] rests on an understanding of the concepts of communication,

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<sup>36</sup>[Lewin, 1917], cited in [Langemeyer, 2017, p. 2]

correlation, commitment and contract.” By communication, Aumann refers to communication *prior* to the strategic interaction. *Correlation* refers to situations where the strategies of the players are dependent. *Commitments* refer to “an irrevocable undertaking on the part of a player, entered into before [the strategic interaction], to play in accordance with a certain strategy, while *contracts* are “set[s] of commitment simultaneously undertaken by several others, each player’s undertaking being in consideration of those of the others.”<sup>37</sup>

The main distinction between the cooperative and non-cooperative versions of games is, according to Aumann, whether “players enter into commitments or contracts.” The difference between the two types is not formal in any sense, but refers rather to reflections on possible outcomes: while non-cooperative strategies ignore commitments, “in the cooperative theory the players enter into binding agreements. . . therefore a strategy [cluster] does not have to be in equilibrium to be of interest”, meaning one can induce any feasible point to become an equilibrium, even those beyond the traditional Nash-convex hull. Aumann then states that

Thus we see that both the non-cooperative and the cooperative theory involve agreement among the players, the difference being only in that in one case the agreement is self-enforcing, whereas in the other case it must be externally enforced. Agreement usually involves communication, so that we conclude that communication normally takes place in non-cooperative as well as cooperative games.[Aumann, 1974, p. 87]

We are actually in disagreement, in practice, with the everyday sense of the above statement. While it is true that, formally speaking, within the game-theoretical framework, *cooperative* games require external enforcement, this terminology says more about the limitations of game theory than it does about the nature of the enforcement mechanism. Players can choose to introduce such “external enforcement mechanisms” by consensus, so they may practically speaking be more “self-enforcing” than outcomes pertaining to traditional non-cooperative games (like the Prisoner’s Dilemma, or a traditional employment contract). Nevertheless, we are in agreement with Aumann’s general conclusions and agree with the sentiment that “when one has admitted commitments, one has already gone much of the way from the non-cooperative to the cooperative theory.”(*Id.*, p. 88)

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<sup>37</sup>Only the term “correlation” has a strict, formal definition within game theoretical precepts.[Aumann, 1974, p. 87], again showing the – at best – incompleteness of it as a methodology in social science.

In particular, Aumann's contribution showed that, under quite reasonable conditions, a zero-sum interaction can be made to be mutually beneficial with the introduction of a subjective event providing the players with additional information.[Aumann, 1974, p. 80] Thus,

It is not true that a 2-person 0-sum game is strictly competitive, i.e. that the preferences of the players are always in direct opposition; both players can gain by the use of a binding agreement. Thus 2-person 0-sum games can profitably be played cooperatively.(*Id.*, p. 89)

At a more fundamental level, discussing the Nash equilibrium, Aumann writes, "a little reflection leads to some puzzlement as to why and under what conditions the players in an  $n$ -person game might be expected to play such an equilibrium":

why should any player assume that the other players will play their components of such an  $n$ -tuple, and indeed why should they?... it does not seem clear why the players would play even a unique Nash equilibrium. In a two person game, for example, Player 1 would play his component only if he believes that 2 will play his; this in turn would be justified only by 2's belief that 1 will indeed play his component; and so on. To many this will sound like a plain old circular argument: consistent, perhaps, but hardly compelling.[Aumann, 1987, pp. 1-2]

The Bayesian concept of "common priors" goes a long way to resolving this tautological language by providing a theoretical language for integrating the functioning of "subjective events" like social norms.

Indeed, the notion of correlated equilibrium, while it is true that it has not been widely accepted by economists[Aumann, 1987, p. 15], offers powerful tools for modeling and describing behavior that is "neither perfectly correlated not independent".(*Id.*, p. 17) Certainly, most real social activity falls into this category. As the move is made away from the neoclassical workhorse model to more realistic and more useful models, renewed interest in correlated equilibrium will surely rise. More importantly, the notion of correlated equilibrium and "like-mindedness" also clearly point to the limitations of using game theoretical approaches to model real world social behavior, as the review above demonstrated that much of the correlating activity occurs "external" to the strategic interaction that is modeled as a game.

Thus, the question remains of developing a toolkit for both theorizing and representing "thick" cooperation in complex social settings. This obviously

requires models that allow one to scale across levels and to recognize the path-dependence on social behavior. Moreover, it requires a reflection of cognitive processes and the reciprocal determinism these have with respect to the environment. In the remainder of this chapter, we argue that the concepts of causal inference can serve as a framework by means of which to represent such complex interactions in order to frame research questions regarding the cooperation. As we will learn, the benefit of these tools are that they can link up with a broad range of other methodologies, like network analysis.

#### 6.6.4 Moving from Bayesian Statistics to Causal Analysis

Judea Pearl has been quite influential in re-thinking the foundations of statistical reasoning. In particular, “the building blocks of our scientific and everyday knowledge are elementary facts such as ‘mud does not cause rain’ and ‘symptoms do not cause disease’ and those facts, strangely enough, cannot be expressed in the vocabulary of probability calculus.” [Pearl, 2001, p. 27] In an article entitled *Bayesianism and causality, or, why I am only a half-Bayesian*, Pearl continues that,

[l]ike most Bayesians, I believe that the knowledge we carry in our skulls, be its origin experience, schooling or hearsay, is an invaluable resource in all human activity, and that combining this knowledge with empirical data is the key to scientific enquiry and intelligent behavior. Thus, in this broad sense, I am still Bayesian. However, in order to be combined with data, our knowledge must first be cast in some formal language, and what I have come to realize in the past ten years is that the language of probability is not suitable for the task; the bulk of human knowledge is organized around causal, not probabilistic relationships, and the grammar of probability calculus is insufficient for capturing those relationships. [Pearl, 2001, p. 27]

Probability, even in its Bayesian formulation, is particularly unequipped to dealing with dynamic environments. Because causal analysis can infer aspects of the data-generating process: “[w]ith the help of such aspects, one can deduce not only the likelihood of events under static conditions, but also the dynamics of events under changing conditions.” [Pearl, 2001, p. 28] Thus, one is in a position to “predict[...] the effect of actions (e.g., treatments or policy decisions), identify[...] causes of reported events, and

assess[...] responsibility and attribution (e.g., whether event  $x$  was necessary (or sufficient) for the occurrence of event  $y$ ).”

Thus, for Pearl, it is as though,

[d]rawing analogy to visual perception, the information contained in a probability function is analogous to a precise description of a three-dimensional object; it is sufficient for predicting how that object will be viewed from any angle outside the object, but it is insufficient for predicting how the object will be viewed if manipulated and squeezed by external forces. The additional properties needed for making such predictions (e.g., the object’s resilience or elasticity) is analogous to the information that causal models provide using the vocabulary of directed graphs and/or structural equations. The role of this information is to identify those aspects of the world that remain invariant when external conditions change, say due to an action.

This shortcoming is well-represented by the famous (or infamous) example of *Simpson’s Paradox*<sup>38</sup>. This finding, which “is a purely numerical fact [resulting from] a reversal in relative frequency of a particular event in two or more different samples upon merging the samples” [Pearl and Mackenzie, 2019, Chapter 6], has frequently generated counterintuitive outcomes relating to statistical analysis, most famously in research funded by the tobacco industry in the 1970s to disprove that nicotine was causally related to cancer. Simpson’s paradox merely underlines the need to specify models suitably. [Pearl et al., 2016, pp. 66ff.]

This means, one needs specifically *causal* knowledge in order to make causal inferences, which cannot be inferred from statistical knowledge: “No causes in, no causes out”, as Nancy Cartwright quipped. Thus, one cannot explain an effect with reference to correlations, regressions or mutual dependencies This again puts a critical lens on the sufficiency of Aumann’s approach, outline above: correlation itself is necessary, but *insufficient* to explain real behavior.

The difficulties in taking up causal analysis are, according to Pearl, two-fold. Firstly, assumptions about causal relationships cannot be tested. This leads to three main aversions. Firstly, “statistical assumptions, even untested, are testable in principle, given sufficiently large sample and sufficiently fine measurements. Causal assumptions, in contrast, cannot be verified even in principle, unless one resorts to experimental control.” [Pearl, 2001, p. 30] Secondly, while statistical assumptions can be states using the language of probability, “causal assumptions [...] are deprived of this honor.” Thirdly,

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<sup>38</sup>cf. [Pearl, 2009, pp. 174ff].

causal assumptions “are shockingly transparent” and their “clarity” tends “to invite counter-arguments and counter-hypotheses.” (Id., p. 31)

The second main difficulty in taking up causal analysis relates to Imre Lakatos’s point about “ossification” and “hard cores” described in Chapter 2, namely that “the adaptation of a new language is difficult in general”. (Id.) While Pearl admits that in certain social science disciplines, causal modeling has been introduced via Structural Equation Modeling (SEM), “[u]nfortunately, this machinery has remained a mystery to outsiders, and eventually became a mystery to insiders as well.” (Id., p. 32)

### Relationship between Statistics and Causality

The idea of reducing causality to probability is “both untenable and unwarranted. Philosophers have given up such aspirations twenty years ago, and were forced to admit extra-probabilistic primitives (such as ‘counterfactuals’ or ‘causal relevance’) into the analysis of causation”. [Pearl, 2001, p. 36] In particular, as stated above,

... causality deals with how probability functions change in response to influences (e.g., new conditions or interventions) that originate from outside the probability space, while probability theory, even when given a fully specified joint density function on all (temporally-indexed) variables in the space, cannot tell us how that function would change under such external influences. Thus, “doing” is not reducible to “seeing”, and there is no point trying to fuse the two together. (Id., p. 36)

Even “translating” causal concepts to probabilistic ones appears, for Pearl, unnecessary, as

Adding probabilistic veneer to the mechanisms portrayed in the DAGs [*directed acyclical graphs*] may make the *do* calculus appear more traditional, but would not change the fact that the objects of assessment are still causal mechanisms, and that these objects have their own special grammar of generating predictions about the effect of actions. In summary, recalling the ultimate Bayesian mission of fusing judgment with data, it is not the language in which we cast judgments that legitimizes the analysis, but whether those judgments can reliably be assessed from our store of knowledge and from the peculiar form in which this knowledge is organized.

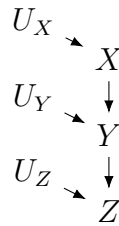


Figure 6.8: Graphical model of Equation 9.6.2.

This distinction between “seeing” and “doing” may be easier for Bayesians to accept, as Pearl argues. “The separation between concept definition and model verification is even more pronounced in the Bayesian framework, where purely judgmental concepts, such as the prior distribution of the mean, are perfectly acceptable, as long as they can be assessed reliably from one’s experience or knowledge.” This has led one Bayesian statistician to remark that “causal models may be easier to come by than one might initially think”. [Pearl, 2001, pp. 37-8] Writes Pearl, “Indeed, from a Bayesian perspective, the newcomer concept of a DAG is not an alien at all — it is at least as legitimate as the probability assessments that a Bayesian decision-maker pronounces in constructing a decision tree.” (Id., p. 38)

### Counterfactuals

Pearl suggests that the invention of counterfactuals provided *homo sapiens* with evolutionary advantages. However, statistical concepts are not able to represent such concepts. As mentioned, they (statistical concepts like correlation) refer to static experimental settings. [Pearl, 2001] In particular, the notion of *counterfactuals* are difficult – if not impossible – to formulate via stochastic models like those used in statistical mechanics. According to [Pearl, 2009],

certain concepts that are ubiquitous in human discourse can be defined only in the Laplacian [deterministic or quasi-deterministic] framework. . . such simple concepts as ‘the probability that an event  $B$  would have been *different* if it were not for an event  $A$ ’ cannot be defined in terms of purely stochastic models.” [Pearl, 2009, p. 27]

As Pearl concludes, such environments entail counterfactuals and “require a synthesis of the deterministic and probabilistic components embodied in the Laplacian model.”



This sentiment is shared by some advocates of so-called *ergodicity economics*, who advocate for “the complementarity and compatibility of complete determinism at an intermediate, say mesoscopic, level of (condensed) matter and the everyday world how it surrounds us, and the need for probabilistic treatments of whole economies and dynamic systems on the macroscopic level on the one hand as well as at the microscopic level of individual decision makers and subatomic particles on the other hand.” [Kirstein, 2019, p. 11]

### Path Diagrams and SEM

In order to extend causal modeling to non-linear situations or situations “in which the functional form of the equations is unknown” [a] one must “detach the notion of ‘effect’ from its algebraic representation as a coefficient in an equation, and redefine ‘effect’ as a general capacity to transmit changes among variables.” (Id., p. 34) One useful method toward this end is the *directed acyclical graph* (DAG). This, in conjunction with a probability function  $P$ , are the essential components of *do-calculus*, which we introduce shortly. Before doing so, we briefly show how DAGs are conceptually identical to SEMs. This discussion is drawn from [Pearl et al., 2016, p. 36-7].

Beginning with the following structural equation model:

$$V = X, Y, Z, U = U_X, U_Y, U_Z, F = f_X, f_Y, f_Z \tag{6.4a}$$

$$f_X : X = U_X \tag{6.4b}$$

$$f_Y : Y = \begin{cases} \text{Closed IF } (X = \text{Up AND } U_Y = 0) \text{ OR } (X = \text{Down AND } U_Y = 1) \\ \text{Open otherwise} \end{cases} \tag{6.4c}$$

$$f_Z : Z = \begin{cases} \text{On IF } (Y = \text{Closed AND } U_Z = 0) \text{ OR } (Y = \text{Open AND } U_Z = 1) \\ \text{Off otherwise} \end{cases} \tag{6.4d}$$

We can represent this model using graphical nodes and arrows, as depicted in Figure 6.8. That is to say, the DAG is an elegant graphical tool to represent structural relations. It makes use of notions like the “backdoor” criterion, chains and colliders to isolate relationships that are otherwise modeled via equations like 6.4.

### The Role of Mechanisms

Causal reasoning is generally mechanistic in nature, as has been pointed out, e.g., by [Beach and Pedersen, 2019, pp. 841ff]. Thus elements that are causally related are assumed to hold a deterministic relationship. Similarly, the causal reasoning developed in the 1920s by [Wright, 1921] “stand[s] for a value-assignment process — an autonomous mechanism by which the value of  $Y$  (not  $X$ ) is determined. In this assignment process,  $Y$  is committed to track changes in  $X$ , while  $X$  is not subject to such commitment.” [Pearl, 2001, p. 33] Thus, a question of the effect of a shift from coercive to democratic choice mechanisms would see the researcher tracking changes in, e.g., self-efficacy as a result of the change, without the converse tracking of changes in democracy to changes in self-efficacy. This *unidirectional* quality is what is referred to by “mechanistic”. Moreover, as [Otte, 1981, pp. 173ff] shows, probabilistic and causal relationships are not necessarily identical. Thus, developing an adequate mechanistic syntax for describing different causal relationships is essential, as “causal models represent the *mechanisms* by which data were generated.” [Pearl et al., 2016, p. 35]

[Pearl et al., 2016] and [Pearl, 2009] advances so-called *do-calculus* as such a syntax. This can be derived from either structural equation models or from DAGs. In particular, non-parametric, e.g., graphical representations allow one to “to exploit the invariant characteristics of structural equations without committing to a specific functional form.” [Pearl, 2001, p. 34] By setting up equations or graphs in a modular way, one can then “delete” particular functions or nodes from the model or graph, replacing these with a term that “holds them constant”. [Pearl, 2001, pp. 34ff.], [Pearl, 2009, pp. 16ff, pp. 65ff], [Pearl et al., 2016, pp. 53ff] This way, we can iteratively discover relationships between psycho-social norms, mental processes and various institutions including firm governance.

For instance, if we take the following model:

$$z = f_z(w) \tag{6.5a}$$

$$x = f_x(z, v) \tag{6.5b}$$

$$y = f_y(x, u) \tag{6.5c}$$

where  $z$  might represent various environmental conditions,  $y$  psycho-social processes and  $x$  the governance architecture, and set  $x$  equal to the constant  $x_0$ , then we get the following model:

$$z = f_z(w) \tag{6.6a}$$

$$x = x_0 \tag{6.6b}$$

$$y = f_y(x, u) \tag{6.6c}$$

In this modified model, the distributions of both  $z$  and  $y$  represent the causal impact of the intervention ( $X = x_0$ ), which may refer to a shift to a democratic governance regime. This effect is denoted by  $P(z, y|do[x_0])$ , as we are literally testing what we expect to occur when we *do* democracy within the parameters we specify.

### Necessary versus Sufficient Causes

Pearl argues that “the precise relationship between causes and explanations is still a topic of much discussion”. Moreover, “[h]aving a formal theory of causality and counterfactuals in both deterministic and probabilistic settings casts new light on the question of what constitutes an adequate explanation.” In general, advanced computing power has made possible the combination of parameters like causal effects and counterfactuals with classical probabilistic parameters. “These possibilities trigger an important basic question: Is ‘explanation’ a concept based on *general causes* (e.g., ‘Drinking hemlock causes death’) or *singular causes* (e.g., ‘Socrates drinking hemlock caused his death’)?” [Pearl, 2009, p. 222] This question is highly significant for our enterprise, as it may be argued that the results of causal inquiries of the impact of (varieties of) democratic governance mechanisms in particular settings may not offer general insight. Pearl answers this question with reference to the relationship between the cause and effect:

The proper classification of explanation into a general or singular category depends on whether the cause  $c$  attains its explanatory power relative to its effect  $e$  by virtue of  $c$ 's general tendency to produce  $e$  (as compared with the weaker tendencies of  $c$ 's alternatives) or by virtue of  $c$  being necessary for triggering a specific chain of events leading to  $e$  in the specific situation at hand (as characterized by  $e$  and perhaps other facts and observations). *Formally, the difference hinges on whether, in evaluating explanatory powers of various hypotheses, we should condition our beliefs on the events  $c$  and  $e$  that actually occurred.* [Pearl, 2009, p. 222, emphasis added]

Thus, the language of causality takes on a rich and varied semantics, depending on whether one is interested in general tendencies, specific events, immediacy and a number of other factors, meaning that, similar to Aquinas' pantheon of causes (final, efficient, etc.), one can speak of “general cause”, “singular cause”, “direct” and “indirect cause”, “necessary”, “likely” and “actual cause”, as well as related concepts such as “enablement” and “disablement”.<sup>39</sup>

<sup>39</sup>See [Pearl, 2009, pp. 222–3, 286–7, 319] for specific details.

As we are in the sequel interested in distinguishing necessary and sufficient causes, we spend some time at present formally discussing these concepts. We begin with *necessary causes*: in a probabilistic setting, these represent “the probability... that event  $y$  would not have occurred in the absence of event  $x$ , given that  $x$  and  $y$  did in fact occur.” [Pearl, 2009, p. 286]. This can be represented in the following way: what is the probability that a worker at a company recently converted to a democratic governance structure, who reports having higher feelings of self-efficacy after the shift, would not have experienced such increased feelings of self-efficacy if the company had remained the same? Thus, necessary causes are represented by counterfactual logic and are thus quite difficult to test in social settings.

*Sufficient causes*, on the other hand, represent “the probability that setting  $x$  would produce  $y$  in a situation where  $x$  and  $y$  are in fact absent.” Thus, it “measures the capacity of  $x$  to produce  $y$ . (*Id.*) It is represented in the following way: what is the probability that a worker in a firm with a coercive governance structure would experience higher self-efficacy if the firm were to introduce democratic governance mechanisms? Thus, sufficient conditions also imply counterfactual thinking, but reverse the arrangement.

Lastly the notion of *necessity and sufficiency* “stands for the probability that  $y$  would respond to  $x$  in both ways, and therefore measures both the sufficiency and necessity of  $x$  to produce  $y$ . Thus, the “N&S” condition would be represented by the question of the probability that both a worker in a firm converting to a democratic structure would increase their self-efficacy and at the same time the probability that, if the firm were not to convert its structure, would not experience any increases.<sup>40</sup>

### 6.6.5 Conclusion: Connecting Correlated Equilibrium and Causal Inference

The limitations of Bayesian updating on facilitating increased social welfare are notable. The importance of communication and of common priors has been confirmed in subsequent research<sup>41</sup>. Models aiming to foreground “like-mindedness” and “dialogue” are essential elements of this. As useful as such tools are, they point to the strict limitations of game theoretical precepts in explaining human social behavior. Notions of “like-mindedness” and “dialogue” essentially point to the important role of psycho-social norms in shaping beliefs, preferences and behaviors. They also point to the inevitable weakness of any theory failing to integrate such elements.

<sup>40</sup>For the interrelationship of the three models, cf. [Pearl, 2009, Lemma 9.2.6 on p. 287].

<sup>41</sup>Cf. [Bacharach, 1985] and [Tsakas, 2008].

On the other hand, Pearl’s causal inference presents a useful tool in analyzing (real or imagined) interventions with respect to their effect on particular parameters of interest. We welcome the new causal calculus pioneered by Pearl, and which has been adapted in a number of different directions, e.g., by [Chvykov and Hoel, 2021]. Its ease of use and its powerful ability to disentangle confounding effects while at the same time requiring little knowledge about the form of equation involved allow a relatively wide use and application. Thus, “not only can we start with a causal model and generate a data set—but we can start with a data set, and reason back to a causal model.” [Pearl et al., 2016, p. 50]

Of interest to the present project, and to future research of the cooperative economy, is the study of how notions of correlated equilibrium, whether “coarse” or “fine” [Moulin et al., 2014] can be marshaled together with the tools of causal inference in order to perform both qualitative causes-of-effects research and quantitative effects-of-causes research on the varieties of permutations of parameters that may occur. In particular, the first endeavor has the potential to contribute to an understanding of the particular parameters, states and characteristics (e.g., self-efficacy) that could be considered as relevant causal factors after establishing a mechanistic understanding of the basic causal relations. Meanwhile, the latter application has the potential to more clearly specify both the existence and intensity of the effects of particular causal parameters, after these have been established [Mahoney and Goertz, 2006]<sup>42</sup>.

The benefit of incorporating correlation *a la* Aumann in these efforts is to provide a suitable domain for introducing psycho-social norms into behavioral research<sup>43</sup>. The advantage of incorporating causal inference is the ability of connecting these psycho-social norms and the institutions they generate (and which generate them) with a logical context in which these can be easily analyzed in terms of counterfactual interventions. Bringing the two concepts together provides a set of tools for clearly ideating and expressing the impacts of particular social practices compared with others. In

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<sup>42</sup>It should be noted that such an ambitious research agenda remains outside the confines of this – very broad – study. However, it should be noted that recent scholarship has found the research trajectory initiated by Aumann to be simultaneously illuminating and also unpromising – at least as regards *social* environments. For example, [Barman and Ligett, 2015, p. 79] conclude that “while one can efficiently compute an approximate CE and CCE, one cannot provide any nontrivial welfare guarantees for the resulting equilibria, unless  $P = NP$ .” Meanwhile, where the notion appears to have contributed to advances in knowledge is in the study of cellular networks: [Samarakoon et al., 2015], which unfortunately does not aid us in our search for the appropriate tools for analyzing *human* cooperation.

<sup>43</sup>Again, [Aumann, 1974]’s original point was that any commitments and contracts occur *outside* the domain of strategic interaction.

other words, by connecting the analytical framework of epistemic correlation (epistemology) with the concepts and tools of causal inference (methodology), we are able to develop synthetic models that enable us to actually measure the impact of differing social norms on organizational (and individual) outcomes. Thus, we are able to move from the realm of abstract or general speculation to the realm of making concrete proposals as to improving certain social outcomes on the basis of concrete interventions.

In the remainder of the chapter, we aim to construct some basic models along the lines spelled out in this section towards enabling, in the following chapters, pursue the agenda of making concrete policy proposals based on both the historical and normative discussions of the preceding chapter and the formal (epistemological and methodological) tools developed in this chapter. We start this task in the next section by distilling the values associated with democracy in basic epistemic parameters/categories. These we develop in dialog with the events outlined in the preceding chapter. After developing this epistemic wardrobe, which will equip us to understand what to look for in a democratic choice mechanism, we in the following sections outline both necessary and sufficient conditions for such mechanisms to exist. Certainly, beyond “democratic values”, certain behavioral, environmental and preferential factors are requisite, with differing degrees of importance.

Thus, we attempt to develop synthetic models along the lines spelled out in this section, combining the epistemic notion of correlation with the methodological apparatus of causal inference to demonstrate a number of central necessary and sufficient conditions for democratic choice to be possible. Finally, in a concluding section, we are interested in homing in on a particular issue introduced in Chapter 3: the importance of phenomenological experience in terms of preparing the grounds for the development of the psycho-social norms democratic choice requires.

**Example: Cooperatives** The purpose of this project is to develop analytical tools to understand both the cooperative economy and cooperation in the economy more generally. At this point, it may help to demonstrate what it is we mean by connecting correlated equilibrium and causal inference. We mean, for instance, that cooperatives serve, by means of the values they represent and the principles that constrain their agency, as elements within an anticipatory system. That the principles are a coordinating device means that we may seek to build causal models that attempt to perform a surgery on effects or outcomes of those principles. As such, it would behoove us to understand these outcomes and similar parameters. That is what we do immediately below. We proceed to outline a substantive definition of

democracy, reflecting on necessary and sufficient conditions for democracy, before synthesizing these into 3 fundamental democratic values, inclusion, equity and accountability. Indicators for estimating these values are suggested.

The idea is to apply these tools to cooperatives in a research agenda spelled out in Part III.

## 6.7 Necessary Conditions for Democracy

Now that we have developed suitable epistemic concepts for democracy and briefly outlined several traditions connecting democracy with economy, we now move on to connecting these concepts with democratic practices studied above. In particular, we are interested in abstracting from the case studies presented in Chapter 3 and discovering some general *necessary* conditions for democracy to emerge. To remind the reader, *necessary condition* refers to propositions of the nature *if p, then q*, where *p* is considered a *necessary* condition of *q*. That means that in this section, we are interested in those conditions which typically give rise to or facilitate democracy. As necessary conditions do not *suffice* to generate or maintain democracy, they are to be distinguished from *sufficient conditions*, which can be said to produce the said event *in the case of its absence otherwise*.

Thus, the structure of the section is as follows. We derive a number of necessary conditions from reflection on the above discussion. These include communication, cooperation and autonomy, followed by merit and trust. We derive each of these in turn, giving several examples of each from prior discussions. The section on autonomy is the most extensive, and contains an argument in several steps. It in turn prepares the ground for the discussion of hierarchy in Chapter 7.

### 6.7.1 Communication

One of the most important achievements of social institutions is to meet the needs of members. This of course requires communication. Communication involves both the making and executing of plans. As [Cockshott et al., 2009, p. 12-13] observe, “If by collective labour civilized humans can put up structures more complex than bees, it is because they can read, write and draw. A plan – whether on paper or, as in earlier epochs, scribed on stone – coordinates the individual efforts of many humans into a collective effort.”

Moreover,

What is really unique to humans here is, first, the social division of labour between the labour of conception by the architects and

the work of execution by the builders, and second, the existence of *materialized plans*, configurations of matter that can control and direct the labour of groups of humans.

While insect societies may have a division of labour between ‘castes’ – for example between worker and soldier termites – they do not have a comparable division between conception and execution, between issuers and followers of orders. Nor do insects have technologies of record and writing. They can communicate with each other. Dancing bees describe to others the whereabouts of flowers. Walking ants leave scent trails for their companions. These messages, like human speech, coordinate labour. Like our tales, they vanish in the telling. But, not restricted to telling tales, we can make records that persist, communicated over space and time. (Id., p. 13)

This implies that human communication, different from other forms, is *cumulative*, allowing subsequent generations to learn from the mistakes of prior ones, and *persistent*, outlasting individual contexts. Lastly, the authors emphasize that “[t]he set of messages that can be expressed in our languages is exponentially greater than in the language of bees.”

This complexity in both form and content of communication means a much more complex process of coordinating among stakeholders and trading off among different priorities. A going concern obviously has the primary goal of continuing its existence as a network of relationships. This establishes an initial trajectory. However, in what sort of *regime* such a trajectory is embedded, resp., how the dynamic process of planning and executing selects which mechanisms and logics operate on another in which hierarchical relation is itself a matter of communication. It requires certain criteria and these must necessarily involve recognition of the needs of individual stakeholders.

As mentioned above in 4.6, the relational view considers firms as entities *sui generis*, in which stakeholders both invest and receive value (cf. Figure 5.1 above). Moreover, we argued that firms are interpreted by the relational view as concerned with both private and social value-creation and that firms have implicit social contracts with society. [Wieland, 2018, p. 76] Therefore,

The ultimate goal of shared value production is therefore not *the strategic management of previously established market activities, but the normativity [...] of societally legitimated future markets, which are characterised by their unpredictability*. Managing normativity is a form of risk management and can only succeed if a given firm is truly capable of accurately interpreting society’s



preferences, both for the present and for the foreseeable future and of translating said preferences into products, services and management methods that are desired and legitimated by society—in short: into business models, policies and programmes. (Id., p. 92)

This process of interpreting and translating involves a *polylingual* process, which, in the relational view, refers to “the ability to understand and integrate the various language games used in society by managing all organisations within it, including firms, is a requisite competency that must be anchored in the firm’s structures and staff.” (Id.) In order to , must be realized that stakeholders are also involved in governance (Id., p. 75), as the firm is viewed as a network. This renders a focus on stakeholder interests of central importance. As we saw in the discussion in the prior chapter, moving away from a master-servant logic involves recognizing the mutuality and polycontextuality of membership, law and the practice of shared value creation. The alternative risks instability, as the discussion of the *secessio plebis* in 3.6 exemplifies. Thus,

“In addition to polylingualism, a firm requires transcontextual competency: the ability to create governance structures for relational (because they involve various societally embedded interests and resources) transactions, which require adaptive structures in order to efficiently and effectively cope with the diversity of contexts. In other words, the goal is to identify, mobilise and integrate all of the resources and competencies to be found in various corners of society for the consummation of a specific transaction and which are vital to efficient and effective shared value creation (SVC).” (Id., p. 92-3)

In this regard, we wish to close this discussion of communication with reference to Maslow’s notion of *self-actualization*. [Sacchetti et al., 2016, p. 7] argue that “[s]elf-actualization, in particular, is what human psychology has identified as the aim towards which individuals strive. Building on Maslow’s seminal work, self-actualization is what determines the becoming of a healthy human being. It can be ultimately thought as the flourishing of what the full potential of each person allows him/her[self] to be.”

Within this domain of *flourishing*, “discovery and creativity are primary functions, since without discovering and reinterpreting what we desire it would be difficult to start making steps towards our self-actualization. The discovery of what we wish for points at what our needs are.” (Id., p. 8) Thus, the need for self-actualization involves an empirical process, It is as

though the process of self-actualization is both its own cause and effect. [Leydesdorff, 2021, Chapter 5]

Communication is what mediates this recursive process, which is thoroughly social in nature: “Acting on private needs includes also acting collectively ‘with’ others, or ‘on’ the needs of others, so that self-actualization occurs ‘to others’ as well. Think about individuals that fulfill their need for belonging and even their need for creativity by engaging with the political realm, with community initiatives, or by volunteering in third sector organizations”<sup>44</sup>.

A cooperative economy therefore rests on a polylingual and polycontextual process of communicating in existing hierarchies and contexts with the aim of fine-tuning these to the dynamic needs of stakeholders, given the fundamental existential interests of the going concern.

### 6.7.2 Cooperation

Cooperation is one of the, if not the, most important behavioral antecedents to democracy, but as we saw in our discussion in 4.2, cooperation does not necessarily occur in non-coercive ways. Moreover, we also learned in 4.6 that it is clearly incorrect to simply assume the existence of a propensity to cooperate and that one must be constantly attuned to both willingness, ability and opportunities for cooperation. On the other hand, many make the mistake of treating cooperation as an incidental factor, an afterthought. Historically, for instance, game theory has worked with the Prisoner’s Dilemma as the benchmark model of social interaction.[Davis, 2003b], [Aumann, 1974] However, it is clear that this model’s focus on individual, non-cooperative agents in utility-maximizing strategic interaction is wholly unsuited to describe a discursive, dynamic and polycontextual approach to cooperation. That is to say, in its striving for universality, traditional (in particular, non-evolutionary) game theory appears unsuitable to describe all but the most elementary rational organisms. Indeed, cooperation is possible in non-cooperative situations, then with reference to *credible threats* and other forms of coercion. These forms of coercion require considerable costs, however, including monitoring, and may not ultimately be sustainable.

The much more interesting and meaningful question regards the ability to sustain cooperation in fundamentally dynamic, *communicative* scenarios. As [Aumann, 2019] tells us, in order to represent this type of cooperation, we must shift from the *act rationality* of utility-maximization to *rule rationality*. This type of rationality is generally in line with what Herbert Simon referred to as *satisficing*. Indeed, the necessity of cooperation for democratic choice to

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<sup>44</sup>Id., see also [Warren, 2015].

occur is clear. Without some form of cooperation, only the world Machiavelli painted in *The Prince* is possible, in which fear governs.

Therefore, in order for an evolutionary, non-strategic process of cooperation (allowing achievement of mutual rents beyond the Nash equilibrium) to occur, an organization must be able to determine the needs of its members. One also needs principles according to which cooperation occurs. In keeping with the relational view, we argue that polycontextu(rality) captures such a discursive view towards codification, which “takes place in and through societal discourses, standards and procedures, which include the discussion on CSR [Corporate Social Responsibility] and firms’ obligation to shared value creation (SVC)—which can be seen as the operationalising translation of moral or legal demands for pursuing the common good.” [Wieland, 2018, p. 94]

Thus, there are multiple logics operating simultaneously, both within and external to individual focal organizations: e.g., “civil society refers to the community of free citizens who work for the common good. Independence (free citizens) and the process of self-activation (engagement) on the part of the actors are fundamental criteria for transactions oriented on the common good. The common good is embedded in the Constitutional Act of the Federal Republic of Germany as an unspecified legal term and its concrete, local meaning is defined on a case-by-case basis by courts of law. Consequently, other basic rights—like the right to private property or, more generally, to pursue private interests—may be curtailed in favour of the common good. (Id., p. 93-4)

Prioritizing these different logics is a matter for governance (in firms, executed by managers). The question we have continually raised throughout the present work is *to whom these are accountable?* we argue they are accountable in varying degrees to all stakeholders – both internal and external – with the overarching goal being securing the autonomy of these in as far as the survival of the going concern allows it. The relational view here emphasizes a *partnership logic*<sup>45</sup> as well as a *deliberative discourse culture*<sup>46</sup>, which each involve “individuals’ and organisations’ willingness and ability to engage in cooperation and to abandon sectoralism as their mental model in favour of joint benefits [. . . as well as] communal sharing and equity matching”. [Wieland, 2018, p. 95]

Important to fulfilling these logics is a sense of autonomy on the part of stakeholders. We next turn to this issue, which contains multiple dimensions.

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<sup>45</sup>Cf. [Selsky and Parker, 2005, p. 853 ff.].

<sup>46</sup>cf. [Clarke and Fuller, 2010, p. 88 ff.].

### 6.7.3 Autonomy

“...better to rule in hell than serve in heaven” John Milton,  
*Paradise Lost*

Writers on the topic of democracy have historically been deeply interested in the dichotomy *autonomy-heteronomy*. Cornelius Castoriadis, who introduced the last chapter, asserted that it was the Greek notion of autonomy that was responsible for the advent of philosophy and politics. However, as we are in this chapter interested in moving on to formal models of choice under the rubric of *democratic choice*, we now return to the question of autonomy with the purpose of developing formal models (able to test causal effects or interventions intended to shed light on this issue).

Autonomy has several characteristics that are welfare-enhancing. These we derive from several related but distinct behavioral properties. In particular, autonomy speaks to the dignity of the human personality and its nearly unlimited ability to learn and adapt to new environments. Beginning with the issue of control (a manifestation of autonomy in practice), we look firstly at the relationship between control and responsibility, followed respectively by the relationship between control and rationality, motivation and imagination.<sup>47</sup> In unravelling the implication of autonomy on these parameters, we employ primarily psychological theories and concepts. Beyond this, we argue there are several deontological, as well as instrumental, reasons for extending control more broadly in organizations. Again, returning to discussions from Chapter 4, as well as themes continually discussed in Chapter 3, we see that self-reflecting, intelligent consciousness endowed with responsible agency is a special phenomenon that must be treated with due consideration.

Thus, we first survey some ethical values that encourage egalitarian decision-making, before looking at some instrumental reasons for egalitarianism being associated with mutual benefit.

#### The Relationship between Control and Agency

While autonomy may not be directly measurable, its analogs are. Considerable research efforts have been devoted in recent decades to understanding context-dependent phenomena like the “spillover” of democratic values from the workplace into the political arena. However, a recent meta-survey of

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<sup>47</sup>The latter is of significance in an economic setting, as firms and other economic units are exposed to differing degrees to market forces and are so required to innovate continuously. Imagination is clearly a central aspect of innovation, as Schumpeter espoused: according to Schumpeter, innovation occurs “through imagination not calculation alone” [Shionoya and Nishizawa, 2009, p. 135].

quantitative research on workplace democracy found a significant relationship between IPD and increased feelings of agency. However, the more remarkable finding of the survey was the relative lack of analysis of strictly *democratic* workplaces. This speaks to a lack of connection between the particular research agenda of analyzing and interpreting the connections between democracy and notions like agency and an overarching *typology* by means of which to distinguish appropriate environments for carrying out such research.

Thus, the current discussion seeks to fill this research gap by developing such a typology. In order to do so, we must have a more explicitly understanding of theoretical mechanisms by which the connection between democracy and autonomy can be manifested. We argue here that the connection is on the level of *agency*, in particular autonomous agency: commonly referred to as *responsibility*. Following this line of argument, this discussion is divided into two parts. The first introduces some ethical notions that were discussed in Chapter 5, in particular in the discussion of labor as responsible agency. The second section deals with the psychological aspects of control.

**Ethical Notions of Agency** We must first restate some principles dealt with in the prior Chapter, particularly the synthetic tradition of rights dating back to the ancient Greeks. This tradition declares that there is something distinct and *inalienable* about the human personality affecting “such things as the rules touching kinship (marriage—family), good faith, adjustment or weighing of interests (*suum cuique*), the real meaning of the actual will of the legal subject as opposed to the formalism of the law governing expression of will, [as well as] the original freedom and equality of all men, and the right of self-defense (*vim vi repellere*).” [Heinrich, 1936, Chpt. 1]

Moreover, one must distinguish human beings as intelligent, responsible agents endowed with the ability to discern and choose. Thus, as Wollaston remarked in the following passage, the ability of referring to acts as “moral” itself stipulates an intelligent, self-reflecting agent:

That act, which may be denominated morally good or evil, must be the act being capable distinguishing, choosing, and acting for himself 'or more, briefly, an intelligent and free agent. Because in proper speaking no act at all can be ascribed to that, which not imbued with these capacities. For that, which cannot distinguish, cannot choose and that, which has not the opportunity, or liberty of choosing for itself, and acting accordingly, from an internal principle, 'acts, acts at all, under a necessity incumbent ab extra. But that, which acts thus, is in reality only an instrument in the hand of something which imposes the necessity; and cannot

properly be said to act, but to be acted. The act must be the act of an agent: therefore not of his instrument. (Wollaston 1759, pp. 3–4) [Ellerman, 2021b, p. 109]

Many of these concepts were introduced in Chapters 3, 4 and 5. Therefore, we do not elaborate them further here. We only recall notion of Universal Turing Machine and emphasize the connection between the ability to imagine counterfactuals as a fundamental human quality that necessitates granting a degree of (non-instrumental) autonomy. However, ethical notions of agency are just one half of the picture. To understand where such values emerge from, we must investigate the connection(s) between human psychology and agency.

**Psychological Notions of Agency** A recent meta-study of 60 quantitative studies of organizational participation found strong evidence of the validity of psychological ownership theory. Among others, the study found that “frequent direct participation (IPD) shows the proposed effect on work-related attitudes and experiences, prosocial/civic orientations and behaviours, and perception of a supportive climate. These results confirm the proposition that ongoing IPD satisfies basic human needs, which in turn induces positive psychological and organisational outcomes as deduced from self-determination theory and psychological ownership theory.” [Weber et al., 2020, p. 30]

These results appear to confirm the concepts of *social learning* proposed one generation ago by Albert Bandura. [Bandura, 1977, p. 79] wrote that “[t]he apparent divergence of theory and practice is reconciled by recognizing that change is mediated through cognitive processes, but the cognitive events are induced and altered most readily by experiences of mastery arising from successful performance.” Bandura focuses attention on the concept of *self-efficacy*, which he distinguishes from an *outcome*<sup>48</sup>.

The two notions are distinct as, on the one hand, “[a]n outcome expectancy is defined here as a person’s estimate that a given behavior will lead to certain outcomes”, whereas “[a]n efficacy expectation is the conviction that one can successfully execute the behavior required to produce the outcomes.” (Id.) For Bandura, “[o]utcome and efficacy expectations are differentiated because individuals can come to believe that a particular course of action will produce certain outcomes, but question whether they can perform those actions.” (Id.) Thus, “[p]erceived self-efficacy not only reduces anticipatory fears and inhibitions but, through expectations of eventual success, it affects coping

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<sup>48</sup>We again return to these issues when we introduce the notion of *moral competence* in 6.8.1.

efforts once they are initiated. *Efficacy expectations determine how much effort people will expend, and how long they will persist in the face of obstacles and aversive experiences. The stronger the efficacy or mastery expectations, the more active the efforts.*” [Bandura, 1977, p. 80, own emphasis]

Thus, Bandura underlines the recursive process of social learning that autonomy instills:

Those who persist in performing activities that are subjectively threatening but relatively safe objectively will gain corrective experiences that further reinforce their sense of efficacy thereby eventually eliminating their fears and defensive behavior. Those who give up prematurely will retain their self-debilitating expectations and fears for a long time. (Id.)

This process of social learning that guides self-efficacy is vital for dynamic organizational governance and it is particularly central for a dynamic and *functional* notion of leadership, i.e., a relational as opposed to a personal notion of leadership. [Wieland, 2018, pp. 105ff.] Organizations interested in promoting democratic or relational forms of governance must therefore consider both ethical notions of autonomous agency and the psychological processes that underlie these.

### **The Relationship Between Control and Rationality**

We discussed above in 6.4.7 the importance of closely investigating the qualitative content of rationality, determining multiple *types* of rationality to exist that in practice are generally *non-separable*, or co-determinative. Particularly, at this stage, it is useful to understand how *rationality* interacts with control. In particular, as rationality can mean multiple things in multiple disciplines [Kacelnik, 2006], we restrict ourselves to the interaction of control with co-determinative act- and norm-based rationality.

Certainly, a lack of control is associated with feelings of helplessness, psychosis, etc. In organizational contexts, this is associated with phenomena like the “short side” bargaining that [Bowles and Gintis, 1993] speak of. In a view embracing the “struggle over rights”<sup>49</sup> and connecting this view with a systems-view, a regime entailing situations where typically, factual or perceptual lack of control exists, can have debilitating effects on both the organization and its stakeholders. The effect on stakeholders is clear with reference to the above discussions of psychological theories such as self-efficacy. Meanwhile, the organizational aspect can be derived from the fact

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<sup>49</sup>[Bowles and Gintis, 1996]

that coercive regimes have brittle trajectories and, thus, are less able to adapt to changes in the environment, particularly as they are unable to motivate their stakeholders to invest the time and resources to adapt. The collapse of the USSR’s productive apparatus is just one such example.

As Braudel points out, one of capitalism’s main features is its ability to “control and manipulate the market economy as a whole” [Braudel, 1979, p. 40] Indeed, we see how this relates to our research ambitions. If one of the main use values of capitalism is its well-documented ability to marshal resources towards the particular end of growing the gross product<sup>50</sup> – the *wealth of a nation* – then this degree of control is only useful in as far as the particular type of rationality associated with this process of growth in productive capacities is in keeping with the general good. [Sen, 2004] points this out, and has developed his *capability* approach to develop indicators other than GDP growth by which to measure economic development.

In fact, Sen’s distinction between *freedom* and *opportunity* should be remarked here and should recall notions like the Easterlin paradox<sup>51</sup>. However, to anticipate a point from Chapter 8, complex systems feature ascendancy, and at some point in their evolution shift the emphasis from growth to development. Thus, there is reason to suspect that, as economies develop, the goals of economic development must shift from “scaling up” to “scaling deep”: at later stages, qualitative connections and relations among options are more significant determinants of the pure number of options. Perceiving the market economy, the social economy and capitalism as separate but interdependent complex systems, we may argue that the current imminent climate crisis and severe reduction in global biodiversity is significant evidence of two things. Firstly, it is evidence that the emphasis on growth is anachronistic. Secondly, it is evidence that more resources should flow from capitalism into the social economy, either by means of self-organized activity or by some centralized coordinating mechanism (e.g., the state).

We can see the reasoning for both of these points. The first point has been made variously, famously by [Wilkinson and Pickett, 2010] and [Wilkinson and Pickett, 2020], but has historically also been made by Erich Fromm, Herbert Marcuse and others who have lamented the deleterious effects of unchecked growth in consumption, a natural outcome of a solitary emphasis on growth. These authors have all pointed out that a certain level of material comfort is associated with increased health and sanity, but beyond this level ([Wilkinson and Pickett, 2010] speak roughly of the GDP of Portugal),

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<sup>50</sup>Even Marx agreed on this point.[Marx, 1867].

<sup>51</sup>Cf. [EASTERLIN, 1974] and more recently, [Stelzner, 2021], [Wilkinson and Pickett, 2020] and [Wilkinson and Pickett, 2010].



increased wealth is not significantly associated with more happiness.

The second point is a bit more subtle. It observes the demographic shifts the increasing insinuation of market forces into ever more sectors of life necessitates and laments the lopsided developments this implies. For instance, while it is certainly to be greeted with approval that women have become economically emancipated in recent decades via introduction into the labor market, the lack of adequate complementary institutions to compensate for the resources now no longer available for care work has led market forces to insinuate itself here, as well<sup>52</sup>. This process has met with mixed results, at best. In many ways, market forces and the motives of care work are mutually exclusive. Particularly, the volatility that market forces entail<sup>53</sup> bode very poorly for the consistent and various needs that the care economy, which is also present in many natural ecosystems, entails. This is why, increasingly, states are turning to new legal forms for dealing with care work, and a growing sector of the market economy is labeling itself as *social economy*. [Borzaga and Defourny, 2001]

We will return to this topic again throughout the present work, but suffice it to say at present that adopting reformed conceptions of rationality when interpreting economic action may very well impel policymakers and researchers to advocate for new forms of control: particularly, more local, granular forms of control that are able to harness tacit knowledge and better balance the distinct interests of different stakeholders. [Bowles, 2016] While the historical era of industrial production in the 19th century was able to gloss over these distinctions on the premise of providing ever higher standards of living [Smith, 1776], this premise 1) no longer holds and 2) is not satisfactory, for reasons spelled out immediately above.

Therefore, and to conclude, one of the fundamental questions scientists should be asking prior to conducting their research is *what conception of rationality do they attribute to human beings?* In fact, this question is often insufficiently explicitly addressed, and economists beginning with J.S. Mill have opted to restrict their analyses to what can be called an artificially constrained domain of inquiry: the pursuit of wealth. [Mill, 2006] Clearly, as has been established in recent decades, and as we have recounted in 6.4.7, this view of rationality is extremely limiting, as it falsely assumes *separable preferences*. We do not have time here to address issues of *performativity*, but suffice it to say that theories can take a life of their own and become “self-fulfilling prophecies”.<sup>54</sup>

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<sup>52</sup>Cf. [Cameron and Gibson-Graham, 2003] and [Schulz-Nieswandt, 2010, p. 31].

<sup>53</sup>We discuss these in further detail in 8.2.1.

<sup>54</sup>Cf. [Bowles, 2016], [MacKenzie et al., 2007], [Ostrom, 1990].

### The Relationship Between Control and Motivation

It is a well-known fact that human agency is hard to corral. People often resist odious tasks, even when their life depends on executing them. Moreover, evidence from behavioral experiments has shown a stronger ethical proclivity when people are directly responsible for unappealing actions. Thus, [Bowles, 2016] introduces an experiment conducted by [Falk and Szech, 2013]:

Armin Falk and Nora Szech entrusted University of Bonn students with the care of “their” healthy young mouse, showing each a picture of one of the very cute mice. They then offered them a payment if they would allow the mouse to be gassed to death. Before making their decision, the subjects were shown a very disturbing video of a mouse being gassed. In addition to this “individual treatment,” they also implemented a “market treatment” in which the subject could sell her mouse to another student, who would then allow the mouse to be killed. They hypothesized that a student who was reluctant to surrender her mouse as simply an individual choice might be more willing to let the mouse die in the market treatment because the sale to another student distanced her from the deed. Forty-six percent of the subjects in the individual (nonmarket) treatment were willing to surrender their mice for ten euros or less. When the mouse trustee could sell the mouse to a buyer, however, 72 percent were willing to let their mice die for that price or less.

The experimenters furthermore discovered that, for the students in the non-market variation to agree at a comparable level, an offer of around 5 times that of the market variation was required. This indeed demonstrates a connection between control and motivation, in that market transactions appear to present individuals with a context in which they are at least able to think less directly in terms of deontological categories of right and wrong. Similar results have been discovered in offers to pay individuals to help actors playing strangers supposedly move furniture into a new apartment and also in the case of unfair offers in Ultimatum games [Bowles and Polania-Reyes, 2012].

Thus, delegation (*translatio*) often leads to a reduction in what Adam Smith termed the principle of sympathy: it renders the interaction more abstract, complex and less prone to ethical co-determination. This is in itself a normative argument for framing organizational decisions in terms of *concessio* rather than *translatio*, as the affected individuals are more likely to take a non-instrumental view on the various decision factors before them.

E

### The Relationship Between Control and Imagination

Here, the question is posed, whether there is an essential relationship between feelings of control and imagination. At first glance, this theory would contradict our prior exposition of *constraint theory*, which specifically locates creativity within the restriction of the domain of agency (cf. 6.5). However, we should distinguish between control and “freedom” in the abstract. Just as hypothetically limitless daydreaming is seldom associated with significant artistic output<sup>55</sup>, the relationship between control and imagination is not one of linear increase. In fact, there is a non-linear relation between processes promoting self-efficacy and imagination.

Thus, “daydreams have a ‘shortage of scarcity’ that makes them intrinsically unsatisfactory” [Elster, 2001, p. 183], a situation Schelling attributes to the fact that they have “no suspense, no surprise, no danger” [Elster, 1987, p. 178]. Individuals must feel recognition for the risks they take and even more so for the achievements they make, else they will not partake in imaginative or risky activity. The adage “no risk, no reward” can, in fact, be turned on its head: “if people don’t feel they will be rewarded, they will not engage in risky (i.e., imaginative) activity”.<sup>56</sup>

Castoriadis also found the correlation between democracy and speculative philosophy to be significant. He remarks, for instance, on Herodotus’ self-deprecating attitude in his *Histories* towards his own culture when confronted with cases where the Other simply outperforms the Greeks. It is this detached speculation and *curiosity* regarding a malleable nature (*natura naturans*) that, for Castoriadis, distinguished the Greeks from their contemporaries. Thus, he speaks of both the creation of a *public space* and a *public time* which promoted both individual citizens’ feeling of control over their fate and created the opportunity to develop the imagination. Thus, writes Castoriadis of the former:

Only the education (*paideia*) of the citizens as citizens can give valuable, substantive content to the “public space.” This *paideia* is not primarily a matter of books and academic credits. First and foremost, it involves becoming conscious that the *polis* is also oneself and that its fate also depends on one’s mind, behavior, and decisions; in other words, it is participation in political life.

Of the *public time*, Castoriadis has the following to say:

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<sup>55</sup>Cf. [Elster, 2001, pp. 181ff.].

<sup>56</sup>Note discussions on the “hedonic treadmill” or also [Brennan et al., 2004]’s discussion of the “hedonic paradox”, which we outline below in 6.7.6.

It is a striking fact that historiography properly speaking has existed only during two periods of human history: in ancient Greece, and in modern Europe - that is, in the cases of the two societies where questioning of the existing institutions has occurred. In other societies, there is only the undisputed reign of tradition, and/or simple “recording of events” by the priests or the chroniclers of the kings. But Herodotus starts with the declaration that the traditions of the Greeks are not trustworthy. The disruption of tradition and critical inquiry into “true causes” of course go together. Moreover, this knowledge of the past is open to all. Herodotus, for example, is reported to have read his *Histories* to the Greeks assembled for the Olympic games [...]

There is even some allusion to this relationship between control and imagination in the pages of Smith’s *Wealth of Nations*. Smith describes the following example:

Whoever has been much accustomed to visit such manufactures must frequently have been shown very pretty machines, which were the inventions of such workmen in order to facilitate and quicken their particular part of the work. In the first fire-engines, a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve which opened this communication to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty to divert himself with his playfellows. One of the greatest improvements that has been made upon this machine, since it was first invented, was in this manner the discovery of a boy who wanted to save his own labour. [Smith, 1776, Book I]

While Smith focuses his analysis on the Utilitarian logic of *pleasure-pain*, he may just have well have attributed the boy’s ingenuity to the large degree of freedom his employer left him. As such, there was an emphasis on producing a certain output (opening and closing the door), without the concomitant focus on controlling and supervising the particular *manner* in which this was done. Whereas Smith paints an idealistic picture of technological innovation lessening burdensome labor, one may just as well describe the story as a result of imagination, spurred on by a relatively high degree of control, allowing the flexible application of labor to a particular end.

### 6.7.4 Merit & Esteem

Pericles' *Funeral Oration* refers to meritocratic aspects of democracy. It is worth quoting this most important speech by a man whom Plutarch referred to as "the greatest statesman Athens ever had" [Buchner, 1960]:

Our form of government does not enter into rivalry with the institutions of others. Our government does not copy our neighbors', but is an example to them. It is true that we are called a democracy, for the administration is in the hands of the many and not of the few. *But while there exists equal justice to all and alike in their private disputes, the claim of excellence is also recognized; and when a citizen is in any way distinguished, he is preferred to the public service, not as a matter of privilege, but as the reward of merit.* Neither is poverty an obstacle, but a man may benefit his country whatever the obscurity of his condition. There is no exclusiveness in our public life, and in our private business we are not suspicious of one another, nor angry with our neighbor if he does what he likes [...]

At the same time, merit is tied to esteem, which is governed by a certain paradoxical relation. We introduce the concept of esteem below and then describe what [Brennan et al., 2004] refer to as the "hedonistic paradox."

### 6.7.5 Origins & Characteristics of Esteem

We cannot talk about merit without discussing esteem. Esteem<sup>57</sup> is a word rich with meanings, evoking Nietzsche's claim from *The Genealogy of Morals* that "words are like pockets: they hold now one thing, now another". It should be seen as a sentiment of approbation felt towards a particular individual. In common usage, one speaks, on the one hand, of "self-esteem" (which is related to self-efficacy) and, on the other, of the esteem of others, what is referred to as "social esteem". "The latter is the core concern of the *economic* study of esteem, though as [Brennan et al., 2004, p. 16] argue, the two are closely correlated." [Warren, 2015, p. 122] Moreover, as discussed above, self-esteem is also an integral part of the realization of autonomy in individual organizational stakeholders, as discussed above.

"The origins of esteem are of recent interest in the psychological and sociological literature and play an important role in the discussion surrounding the development of preferences. Indeed, the entire field of *moral epistemology*

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<sup>57</sup>This discussion and the following on the "hedonistic paradox" are adapted from [Warren, 2015].

has arisen in recent years, wherein a chief aim is to discover *why* it is collectives develop a sense of good and bad behavior, and *how* these are engendered in individual agents<sup>58</sup>. Certainly, esteem alone would be a poor answer as to the 'what' of human morality, or even its ends, but it is likely a good starting point – and perhaps a good model for capturing – the 'how' of how seemingly unlikely developments in behavior and morality occur and spread throughout populations:" the ascendant macrocultures discussed above. (*Id.*)

"We have already discussed at various points above, in concepts such as *multi-level selection*, how activities which are individually costly can nevertheless be beneficial at the higher level of the group or the organization. The question of the *motor* or *facilitator* of the spread of these types of macrocultures can be addressed by changing perceptions of merit. For example, the effectiveness of gossip at eliciting socially desirable behavior is itself likely the result of the evolutionary advantage of having a "gossip receptor", broadly seen. While what is gossiped about obviously changes based on place, context and time (consider housewives in the 1950s gossiping about a new washing machine, versus school children in 2015 gossiping about whose parents have the more polluting car at home) the mechanics are the same. For theoretical and empirical data on the origins of morality (and, by extension, of esteem), see 2.6." (*Id.*)

"[Brennan et al., 2004, pp. 2ff., 15ff., own emphasis] describe esteem as being an *attitudinal good*, which are "goods... that come into being by virtue of what people think and feel about the person esteemed: that is, by virtue of their *attitudes* rather than their actions". However, esteem is not *only* an attitudinal good. It consists as well of *evaluative* components, i.e., judging or "ranking" individuals according to either carrying out – *per se* or to a certain extent<sup>59</sup> – an action. In addition to this, esteem also comprises *comparative* components, i.e., placing individuals and their actions into a specific context in relation to those of others or to certain standards: for instance, that of average and ideal performances or outputs. For instance, I cannot disesteem a mechanic for his poor pedagogical skills when comparing him with a high school teacher or college professor, but I can esteem one teacher more meritorious than another, for the reason that their career aspirations as teachers should be fairly similar: i.e., they are *comparable*. This comparative element also creates scarcity with respect to merit. Giving one teacher a higher level of esteem naturally eliminates the ability to view all teachers who perform at less than this level an equal level of merit. Finally, esteem consists of *directive* components, i.e., being directed at particular

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<sup>58</sup>Cf., e.g., [Greene, 2014].

<sup>59</sup>Consider Cicero's measures of right action in Chapter 4.

actions, and generally those with regard to which the individual being judged has some degree of self-efficacy. I don't esteem someone *in toto*, but in so far as they engage in activities deemed estimable. This is again a path by which self-esteem and social esteem connect, as the process by which individuals gain the skill required to elicit merit involves a complex process of agonic self-mastery and increasing levels of self-efficacy." (*Id.*)

### 6.7.6 The Hedonistic Paradox

"The attitudinal quality of esteem is further colored by the fact that, given that esteem can be interpreted as a good, it is not a "normal" good: it cannot be given as a gift or traded voluntarily, therefore one cannot let off or eliminate "excess esteem" (pardon the pun) by supplying it via an external market, and so on<sup>60</sup>. It should thus be seen as a fictitious commodity.[Polanyi, 1944] Moreover, esteem is a social good, meaning it is not generally given or received privately or bilaterally, but publicly, like Pericles' *Funeral Oration* above, which was not held at fallen soldier's graves, but before the Athenian public. Likewise, prizes and honors are conveyed at public ceremonies and usually involve committees employing apparently transparent criteria. All of this means that individuals cannot simply freely (cf. arbitrarily) confer esteem upon others." (*Id.*)

"Ultimately, these attitudinal dispositions are – at the individual level – given, to a large extent, exogenously: "we cannot help but be sources of light or gloom in [the] lives [of those whom we esteem or disesteem]" [Brennan et al., 2004, p. 54]. Meanwhile, at the social or organizational level, they are usually products of discursive processes, such as the selection of the Nobel Peace prize [Levinovitz and Ringertz, 2001]. This, combined with the fact that the active seeking of esteem usually results in the opposite reaction (namely, disesteem), creates a problem which in philosophy is referred to as the "hedonistic paradox" or what [Brennan et al., 2004] refer to as the "teleological paradox": like pleasure or fear or any number of attitudinal goods (or bads), one cannot offer or receive esteem directly.<sup>61</sup>" (*Id.*)

"To illustrate this, take the example of pleasure. In most cases, it is true that one receives pleasure from doing something pleasurable. Pleasure is then an indirect consequence (a payoff) of engaging in the activity. This is easy to imagine. Picture the person smiling and laughing while eating an ice cream cone with a friend on a riverbank on a sunny day in summer. The pleasure in this case is derivative of eating the ice cream, being with the friend, and

<sup>60</sup>[Brennan et al., 2004, pp. 51ff.]

<sup>61</sup>For the problem viz. "open demand" of esteem, see [Brennan et al., 2004, pp. 36ff.], for the case of supply, see pp. 58ff. *ibid*

enjoying a sunny summer's day. Seeking pleasure *per se* (“plaisir pour la plaisir”) is more difficult to imagine: “It is incoherent to think of making spontaneity a targeted goal: spontaneity consists precisely in not having such a self-focused aim.” [Brennan et al., 2004, p. 36] (*Id.*)

“The same thing that obtains for pleasure or spontaneity is arguably also the case for esteem and merit. Demanding esteem directly is a contradiction in terms as demanding spontaneity or pleasure is one. Not only is this a contradiction in terms, it is also likely self-defeating. The reasoning behind this is clear: someone who plays a virtuoso piece merely for the purpose of impressing an audience reduces or even eliminates the esteem he may have accrued, as soon as his true intent is revealed. However, on the other hand, little or no publicity removes the ability for the individual to have his/her behavior esteemed in the first place.” (*Id.*) The anonymity of the Internet has reduced the potential of such mechanisms, as the ability of DAOs to “hack” online reputation systems. At the same time, research has shown that many online reviews at websites like Amazon are the result of material incentives, e.g., free product samples, as opposed to authentic testimonials of quality.

These recent developments place an increasing focus on the centrality of *trust* in transactions. We turn to this issue next.

### 6.7.7 Trust

Trust is one of the most important value antecedents to democracy – including organizational democracy –, as a system of broad and popular government requires a high degree of trust in one's fellow citizens. Moreover, in order for communication and *non-coercive* cooperation to occur, stakeholders must be able to rely on informal or implicit contracts. As [Durkheim, 1893] remarked a century ago, most of what we label “contracts” occurs external to what formal contracts stipulate, and require a high degree of trust. Moreover, [Granovetter, 1985] has also established that, in practice, firms base most of their relations with suppliers and other external stakeholders not on contracts, but on long-term relations of trust.<sup>62</sup>

Organizational stakeholders, like citizens, need to be able to trust their leaders. The twelfth book of Homer's *Odyssey* begins with the crew's encounter with the Sirens near the island of Ios. Circe warns Odysseus, that he should “have his crew fill their ears with soft bee's wax” and advises him that he “may hear the beautiful song” but that his crew must bind him, “and if he asks to be unbound, let his crew bind him all the tighter.” [Homerus et al., 2009, p.

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<sup>62</sup>“A trait common to all these aspects is trust: the bridging social capital” (Granovetter, 1973; Sabatini, 2009)



210] A typical lesson drawn from this episode, as seen in Adorno’s contribution to *Dialectic of Enlightenment*, is the restrictions that must accompany the special privileges of leadership<sup>63</sup>. If leaders aren’t bound by those they lead (by rules, sanctions, limits to power, discursive elements of accountability, etc.), they very quickly befall the temptations of arbitrary rule and lose the trust of those they are supposed to govern. [Weidner II and Purohit, 2009].

Solon’s extant poems appear to underline this element of trust as a necessity. Recall Solon reflecting on feeling “*like a wolf among many dogs*.” Thus, leadership requires trust, and trust requires an inclusive process of dialogue. Institutional structures can more influence sentiments of trust. One must only recall Hume’s notion of a “Constitution of knaves” [Bowles, 2016] to conceptualize the self-defeating effects of a generalized lack of trust, manifested in strict formal rules regulating behavior. [Ostrom, 1990] discusses an institution as not merely pertaining to rules requiring or forbidding certain activities, but also of *permission*<sup>64</sup>. Clearly, permitting institutions require a high degree of trust, as opposed to Hume’s notion. There is a connection between dynamic processes of self-efficacy engendered by informal relational contracts and trust.

Therefore, institutions must be constructed in a manner to allow trust and merit to flow from those (groups, organizations and individuals) able to provide to those deserving of these distinctions. Network perspectives can help translate such flows into models. “More specifically, in each group, a member gains good reputation and benefits from it; [this] reputation [either good or bad] is transmitted along the links in the network by virtue of the transitivity of trust”<sup>65</sup> Thus, autonomy, communication, cooperation, merit and trust exist in complementary relationships to one another. Depending on which parameter one draws a focus on, the respective causal relationships will be directed in different directions between the different elements along the network.

Within groups, and to a lesser extent, within organizations, trust is a central conduit by which communication, cooperation and autonomy can be effectively developed and applied. Merit can be a tool to distribute trust, but it requires a medium. In productive relationships, this may be given by both by a reputation for reliability and honesty (“conservative” values), as it is through developing innovative means of breaking with existing relations (“progressive” values). As the discussion of the prior chapter has shown, each of these contributes to value creation. They should also facilitate the

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<sup>63</sup>Cf. also [Elster, 2001].

<sup>64</sup>Recall Kant’s notion of *permissive law*.

<sup>65</sup>[Bruni and Sugden, 2000, p. 23]”, cited in [Migheli, 2017, p. 1220]

establishment of trust, which “can not be bought” and is “an important lubricant of the social system.” [Arrow, 1974, pp. 23, 26]

Thus, we are in agreement with [Arrow, 1974] that authority, bargaining and consensus are the primary typologies for resolving conflict and that these are each associated, with [Rapoport, 1960], with different logics: fight, game and debate.<sup>66</sup> In closing this discussion of the *necessary* conditions for democracy, we advocate for consensus and debate as typology and logic, respectively. The question that arises in such a declaration is how to *measure* the success of the current *state* of an organization, but also – importantly – how to measure its dynamic *development* toward the ends of consensus and debate. We address this in the next section, where we introduce *sufficient* conditions of democracy.

## 6.8 Sufficient Conditions

In this section, we move beyond the realm of necessary and into the realm of sufficient conditions. This means we move from the realm of “p, then q” to “q only if p”. That is, the overriding question we ask ourselves in this section is, instead of last section’s *what conditions and phenomena does democracy require?* rather *without which conditions and phenomena is democracy impossible?* While this question may sound identical to the previous one, it is logically distinct. The necessary conditions derived in the prior chapter can also generate choice mechanisms besides democratic ones. However, the conditions we derive in this section go beyond those in the last section. In the following section, we synthesize these into *necessary and sufficient conditions*, which we merely term “democratic values” for the sake of simplicity.

This section is organized as follows: we begin by refreshing the discussion on socialization introduced above, referring to Georg Lind’s notion of the *Constance Method of Dilemma Discussion* as a tool for measuring *moral competence*, itself a sufficient condition. Next, we discuss tools for enforcing and maintaining democracy, each a sufficient condition in their own right. These include transparency, monitoring, sanctioning and legitimacy.

### 6.8.1 Moral Competence

As developmental psychologists from Vygotsky, Piaget and Kohlberg have demonstrated the eliciting of behavior in line with norm rationality requires a socialization process. In particular, while individuals may be endowed

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<sup>66</sup>Cf. also [Zartman, 2007].

from birth with the necessary “pre-adaptations” for democratic thought and practice, they aren’t born “democratic”<sup>67</sup> and need to experience the elements discussed in the previous section extensively and intensively in order to judge for themselves right action [Lind, 2017, p. 32]. In recent decades, psychologist Georg Lind has introduced an entire conceptual apparatus around the term *moral competence*, which we outline below. Lind has claimed “Moralkompetenz ist eine wichtige, vielleicht sogar die wichtigste Voraussetzung für ein demokratisches Zusammenleben.” [Lind, 2017, p. 18]

We briefly introduced concepts relating to moral competence in the discussion of macrocultures above. However, as we consider it an integral component of democratic choice, we now return to the topic at length. The concept has a long and storied tradition, with Socrates referring to “virtue” or “the ability to be or do good” as distinct from “the desire to be or do good.”<sup>68</sup> Oscar Wilde went to great lengths advancing a similar notion in his political writings.<sup>69</sup> Moreover, the psychoanalyst Max Levy-Suhl similarly spoke of the concept of “moral maturity”.[Levy-Suhl, 1912] However, Lind argues that “wir wissen heute, dass wir Unterschiede des Verhaltens von Menschen nur richtig verstehen können, wenn wir ihre Moralkompetenz kennen.” Moreover, this notion of *moral competence* can be considered “eine *Schlüsselqualifikation* [...] in vielen Lebensbereichen [...] dar, der mindestens einne so hohe Bedeutung zukommt wie Lesen, Schreiben und Rechnen.” [Lind, 2019, p. 31]

This is particularly the case in *dilemmas*: “Die Art, wie mit Dilemmas [...] umgegangen wird, hat, wie jeder an sich selbst feststellen kann, eine enorme Bedeutung für unser Verhalten in der Familie, in allen sozialen Beziehungen, in Schule und Beruf, und im öffentlichen Leben.” (*Id.*) [Lind, 2020, p. 156] uses the example of accountants as a practical manifestation of the difficult situations moral dilemmas pose in practice:

firms want [their] accountants to maximize [their] profits but also to respect the legal constraints. They want to utilize all tricks for saving revenues but also want to be considered honest. Besides, accountants are confronted with their own dilemmas. They want to make a sufficient income that supports them and their families and protects them against future poverty, but also to stay out of

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<sup>67</sup>I.e., to return to Arrow’s typology from above, they don’t naturally choose the strategy “consensus” and the logic “debate” over alternatives, but must learn the – long-term – benefits of this logic. Recalling both our discussion of the long-term benefits of cooperation and the high costs of initiating it and also reflecting on Kant’s statement that “peace is not the natural state of humanity” should serve to underline this argument.

<sup>68</sup>Cf. Plato’s *Menon.*, as cited in [Lind, 2019, pp. 3, 31].

<sup>69</sup>Cf. [Wilde, 1997, pp. 1079ff.].

trouble. They need to be loyal to their employers and do a good job, but also to report errors and rule breaking of their firm.

Lind defines *moral competence* as the ability to convert ethical or moral precepts into appropriate action, or, more explicitly, “die Fähigkeit, Probleme und Konflikte auf der Grundlage von universellen Moralprinzipien durch Denken und Diskussion zu lösen, statt durch Gewalt, Betrug und Macht.” [Lind, 2019, p. 63] Thus, moral competence is a dynamic measure related to individuals’ ability to engage in the strategy of consensus and to follow the logic of debate, the requirement for which entails, among others, what Adam Smith would call the “principle of sympathy”. Moreover, Lind distinguishes this ability into two separate, but analogous competences: “moral capability”, which concerns “die Fähigkeit des Einzelnen [...], ein moralisches Dilemma allein auf sich gestellt zu entscheiden” [Lind, 2019, p. 31] and, on the other hand, “democratic capability”, which refers to “social functions [...] and] muss die Fähigkeit umfassen, sich in der Auseinandersetzung mit anderen Personen und anderen Meinungen an moralischen Prinzipien zu orientieren.” (*Id.*)

Moral competence is therefore important because it guides citizens to make the right decisions in a diverse array of contexts and situations, from helping others, abiding by rules (not blindly, but by becoming actively engaged with one’s environment), to correctly assessing and judging actions and decisions, all of which can help reduce dependency on drugs, facilitate learning, reduce the incidence of stereotyping and “pluralistic ignorance”<sup>70</sup>, evaluate the moral competence of others, as well as facilitate living a more engaged and participatory life within democratic societies. [Lind, 2019, pp. 80-92]

### **Lind: KMDD**

Based on extending the shortcomings of past tests of moral competence, Lind and a number of colleagues have developed a number of useful tools to measure and teach moral competence. This package of tools, which includes the so-called *Moral Competence Test* (MCT), is referred to as the Constance Method of Dilemma Discussion (KMDD). According to the theory, “ist die grundlegende moralische Tugend nicht die Fähigkeit, sich an externen Erwartungen zu orientieren, sondern die Fähigkeit, sich an eigenen Moralprinzipien zu orientieren und moralische Konflikte und Probleme durch Denken und Diskussion zu lösen,” which for Lind and co. means, in practice, “sich mit Argumenten auseinander zu setzen und Prinzipien gegeneinander

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<sup>70</sup>Compare this notion with what [Pek, 2019] refers to as the “representativeness” of organizations.

abzuwägen.” [Lind, 2019, p. 68] Thus, the idea is “Moralkompetenz von Menschen dadurch zu messen, dass wir beobachten, wie sie die Aufgabe lösen, sich mit Argumenten auseinander zusetzen, und zwar *besonders mit Argumenten, die dem eigenen Standpunkt widersprechen*. (*Id.*, p. 69, *own emphasis*)

The MKT is designed to confront “Teilnehmer mit zwei Dilemmageschichten [...] in denen die Protagonisten eine Entscheidung treffen.” Participants “bewerten diese Entscheidung auf einer Skala.” Afterwards, the investigator(s) “präsentieren [...] ihnen *Argumente für und gegen ihre Entscheidung*.” These arguments are “so [...] konstruiert, dass es jeweils eine bestimmte Ausprägung von drei möglichen Orientierungs-Faktoren repräsentiert”, in particular a) a dilemma context, b) a position or standpoint viz. the protagonist’s decision and c) a certain type of moral orientation. [Lind, 2019, p. 69] Respondents then judge their agreement or disagreement with each particular argument on a scale between -4 and 4.

The test takes between 8 and 15 minutes to complete, requires basic literacy, can be carried out in person in groups or individually, online or via a mailed form, and carries over [Kohlberg, 1984]’s six types of moral orientation. (*Id.*) In evaluating the test, a numerical “*C-value*” is generated, which is a normed value derived from the provided answers. It is intended to measure test-takers’ moral competence:

Die Moralkompetenz eines Testteilnehmers zeigt sich in dem *Muster seines Antwortverhaltens*. Von Moralkompetenz sprechen wir dann, wenn das Muster der individuellen Antworten erkennen lässt, dass der Teilnehmer fähig ist, die vorgegebenen Argumente nach ihrer moralischen Qualität zu beurteilen, statt danach, ob die Argumente mit der eigenen Meinung zum geschilderten Fall übereinstimmen oder ihr widersprechen. [Lind, 2019, p. 70]

Thus, our first argument, in agreement with Lind and a long tradition of thinkers, including philosophers, economists, psychologists theologians and others is, that without a generally high level of moral competence, measured using methods like the *C-value*, “bottom up”<sup>71</sup> governance is impossible.

### 6.8.2 Enforcing and Maintaining Democracy

As research by numerous behavioral scholars over decades has shown, ideal social outcomes are not self-enforcing.<sup>72</sup> If individual group members do not

<sup>71</sup>Cf. [Dahl et al., 1956, p. 47].

<sup>72</sup>Cf., e.g., [Axelrod and Hamilton, 1981], who emphasizes that cooperation requires “provocability”.

have the ability to monitor and sanction misbehavior, then the foundation for democratic choice and for cooperation quickly erodes. Thus, we below recount the essential mechanisms for enforcing and maintaining democracy, including transparency, monitoring and sanctioning.

### 6.8.3 Transparency

[Kiriyazis, 2005] attempts to view governing systems according to principles outlined by Claude Shannon. In a 1948 paper [Shannon, 1948] defined information as “a well-defined and, above all, *measurable* quantity.” [Stone, 2015, p. 2] This definition “describes precisely how much information can be communicated between different elements of a system.” (*ibid*) It cannot be stressed how significant Shannon’s findings were and it has been suggested that “Shannon’s theory ranks alongside those of Darwin-Wallace, Newton, and Einstein.” (*ibid*) According to Shannon, “information” refers to the smallest reducible way to communicate a particular phenomenon (like a series of numbers).

[Kiriyazis, 2005] adapts Shannon’s notion – which itself is related to Boltzmann’s equation – in order to develop an “energy conception of political power” [Kiriyazis, 2005, p. 48], the most important characteristic of which is *concentration of political power*. This is represented by putting the number of power carriers in relation to the total population. First, derive the abstract “potency” of a state with the equation

$$P_S = N * P_O \tag{6.7}$$

where  $P_S$  is the potency,  $N$  the number of citizens and  $P_O$  represents the impact of each citizen. Dividing this function by a factor  $N_\eta$ , which represents *power carriers* we get the function

$$\frac{P_S}{N_\eta} = \frac{N * P_O}{N_\eta} = \frac{N}{N_\eta} * P_O \tag{6.8}$$

which represents the power concentration in the representatives. We will refer to the first term in Equation 6.8 as  $O$ , referring to “oligarchization”<sup>73</sup>. This terminology is a very useful means of measuring actual power in differing forms of government. One can, for instance, infer that monarchies would have a rather high  $O$ -value, given for instance by a factor of 1 million in the case where there is a population of one million and a single monarch,  $O = \frac{1,000,000}{1} = 1,000,000$ . On the other hand, a democracy would see a much

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<sup>73</sup>[Kiriyazis, 2005] refers to the first term on the far right as  $C$ , which represents power concentration. However, this notion clashes with the  $C$ -value derived above.

lower level of  $O$ . For example, a city like Athens had around 25,000 citizens, among a population of around 400,000, meaning  $O = \frac{400,000}{25,000} = 16$ . It is easy to see that, for instance, if we were dealing with a firm with 5,000 workers, 500 of which are member owners<sup>74</sup>, we would get a level of concentration of  $O = \frac{5,000}{500} = 10$ .

The reason the Boltzmann equation and Shannon are alluded to is that, while Shannon information refers to the smallest reducible way to communicate some datum, the  $O$ -value describes the smallest number of individuals who must be included to collectively make decisions. The  $O$ -value thus stands in inverse relation to the number of people who may be effectively excluded. Thus, smaller  $O$ -values speak for higher degrees of transparency.

We return to the  $O$ -value again in the discussion of democratic values.

#### 6.8.4 Mutual Monitoring

In addition to transparency, democracy is additionally impossible without a high degree of mutual monitoring. As [Axelrod and Hamilton, 1981, p. 69] writes, “for a nice strategy to be stable in the collective sense, it must be provokable.” Thus, he concludes that “mutual cooperation can emerge in a world of egoists without central control by starting with a cluster of individuals who rely on reciprocity.” To remind the reader of the discussion of the prior chapter, we derived that cooperation has both benefits and costs. It is clear that such costs can be borne by single individuals in a “top down” form of cooperation, such as the classical industrial firm that Marx and others described, or they can be borne by a broader array of stakeholders, cooperating in reciprocally beneficial ways (“bottom up”). It is arguable that monitoring costs in the latter case are reduced.

In this vein, in a path-breaking paper [Bowles and Gintis, 1993] discuss mutual monitoring as an advantage of worker-owned enterprises. Looking at a situation in a traditional enterprise employing a “contingent enforcement” approach, the authors argue that “in a world of asymmetric information and credit-constrained agents, optimal [contingent enforcement] contracting [where the distribution of fixed wages depends on the worker carrying out a particular action] cannot replace systems of endogenous enforcement.” (Id., p. 91) This is because “[c]ontingent renewal enforcement strategies involve two components: resource-using monitoring inputs such as surveillance personnel and equipment, and non-resource-using distributive payments, such as enforcement rents. Both are costly to the enforcer” (Id., p. 92) Thus, a firm like Amazon spends a great deal of money supervising and surveilling its

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<sup>74</sup>This is roughly equivalent to the (demutualized) Italian industrial cooperative Sacmi.

employees' activities, money that could have been spent, e.g., educating or training the workforce, improving local infrastructure, etc.

Meanwhile, the authors argue that “placing workers in control of the monitoring structure, in addition to changing their status from fixed to residual claimants, provides a powerful incentive for them to cooperate with the monitoring system in enforcing a high level of effort by one’s fellow workers, and may take advantage of the private information held by workers about the work activities of their workmates”. (93) Thus, mutual monitoring is not only a necessary requirement for cooperation and democracy to occur, it is actually an *efficiency-enhancing* reform over and against a contested scenario. Robert Owen’s experiences in treating employees as partners had similar effects by increasing productivity that actually increased profitability<sup>75</sup>. Experiences of firms that have successfully converted to ownership, such as VME Coop, have reported similar experiences<sup>76</sup>.

### 6.8.5 Sanctioning

Sanctioning is an empirically and historically apparent part of cooperation. Theoretically, we argued above for viewing cooperation as a necessary condition for democracy. Historically, we saw in the Chapter 3 that all democratic societies featured various types of sanctioning devices, whether ostracism and *Graphé Paranomon* in Athens, the penitentiaries and shunning among the Quakers, or similar phenomena among the Haudenosaunee.

Sanctioning can impact both norm-based and act-based rationality. It is therefore important to design sanctioning policies to be fair, transparent and flexible. One example is *ostracism*. Not only Greece, but virtually every democratic polity uses some form of ostracism. However, drawing from [Ostrom, 1990]’s observation that the benefits of self-organization are the ability to implement graded sanctions (and on occasion consider the context and be forgiving), we must turn our attention to the ancient Athenian practice of *amnestia*, or forgiveness. Pericles in his funeral oration praises the Athenians for their tolerance, “perhaps implicitly criticizing the Spartan practice of ostracizing those who have incurred some kind of dishonor.” [Harris, 2006, 34] In fact, as Kenney argues, the practice of ostracism was largely replaced by that of *graphe paranomon* by the 5th century BCE ([Aristotle, 2011].

Thus, one of the most important challenges to sanctioning is knowing *when not to sanction*. Facilitating a “bottom up” governance structure increases the likelihood that tacit knowledge and context is incorporated into any possible

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<sup>75</sup>Cf. above in 2.6.

<sup>76</sup>See below in 11.3.



punishment. In theory, juries are designed to feature such a “bottom up” approach. [Elster, 1989]

### 6.8.6 Legitimacy

Legitimacy is always a result and not itself a cause. [Habermas, 1975] It requires a shared view of agency and a balance of stakeholder interests. Legitimacy may strongly depend on autonomy or association with decisions. Thus, increased surveillance may displace or crowd out motivation to contribute to common resources. This is pictured in Figure 6.9, where the graph depicting the volume of effort at different combinations of positive and negative reinforcements as well as feelings of self-efficacy, collapses at a particular range of ensembles (towards the center of the figure). This figure reflects the sensitive quality of legitimacy and how it can only be maintained by continuously re-calibrating resources according to shifting stakeholder interests.

A good example of the importance of legitimacy for continuing relations is an experiment which [Schotter et al., 1996] report on. In this experiment, [Güth et al., 1982] were looking to test various precepts of game theory. The researchers found that

contrary to the game theoretic predictions, Guth et al.’s results indicated that choosers made positive offers, and that the modal offer was close to the equal split division. In addition, the acceptance behavior of receivers was also at odds with the theory in that positive but small offers tended to be rejected despite the theory’s prediction of acceptance. Guth et al. interpreted these data as suggesting that experimental choosers might form their choice of the correct offer by employing some notions of equity which are at odds with the rationality of backward induction, while receivers reject offers that offend their basic sense of fairness. [Schotter et al., 1996, p. 39]

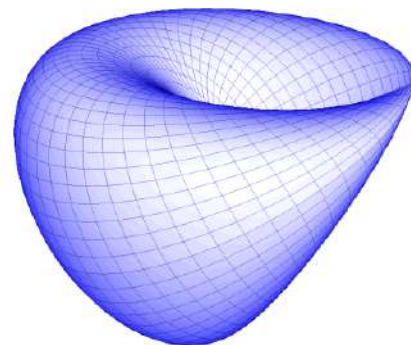


Figure 6.9: The three-dimensional function reacts in a non-linear fashion as we move to the center of the graph.

Thus, we see that without moral competence, transparency, mutual monitoring, sanctioning and legitimacy, a consensus-based, “bottom up” governance regime like democracy is not possible.

## 6.9 Democracy and Democratic Values

Now that we have derived the basic epistemological and methodological architecture for describing and interpreting democratic choice, we may begin filling in that framework with discrete content. Thus, the remainder of the dissertation, we turn away from general questions of understanding preference development, from epistemic questions of representing the role of norms as constraints or from methodological questions of representing such phenomena analytically towards the concrete task of applying these lessons to the analysis of *democratic choice*. In order to begin this task, however, we must first ask what on what concrete foundations democratic choice must rest. In order to do so, we continually shift from the events, ideas and concepts from Chapter 3 and the analytical toolkit developed above to the development of suitable tools to the task, which we argue are not necessarily available at present.<sup>77</sup>

As we saw above, in appeals like Pericles’ *Funeral Oration*, democracy has a deontological, or intrinsic, value. For Pericles, democracy was a value worth sacrificing one’s life for, and this certainly beyond any utilitarian or consequentialist notions. For him, democracy is worth dying for because it is the best system of governance. As such, Pericles’ *Funeral Oration* actually prefigures much of the Reformation and Enlightenment doctrine of the inviolability of personality. At the same time, we saw in 6.5 that democracy also imposes constraints on the same citizenry. Thus, the question remains of which values, norms and principles democracy ultimately comprises, and in what way they interact. Before answering this question, we may not advance to the next task of outlining democratic choice mechanisms. Doing so would be like providing recipes without first understanding what food provides (nourishment).

The importance of values for generating and sustaining any social institution, whether democracy or religious communities, is of an essential quality and has been long-recognized in the humanities. For instance, sociologist of religion Peter L Berger writes that “the socially constructed world is, above all, an ordering of experience. A meaningful order, or *nomos*, is imposed upon the discrete experiences and meanings of individuals. To say that society is a world-building enterprise is to say that it is ordering, or *nomizing*, activity.[Berger, 2011, p. 27] Berger uses the metaphor of clothes to describe

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<sup>77</sup>[Zartman, 2007, p. 51]

the *nomos*: most of us do not manufacture or design our own clothes, but we do identify ourselves with our favorite T-shirt or sunglasses, nonetheless.

Thus, in recognition of the impact values have on constraining and shaping agency and on producing meaning, in this section, we attempt to start connecting deontological appeals like those of Pericles with the analytical tools developed immediately above. In this connection, the efforts of this section entail analytically translating the abstract language of the prior discussions into parameters that can be employed in any organization to measure its degree of democratization. In short, the categories we derive in this section will act as disciplining tools or lenses (*epistemes*) to reframe the discussions of the previous chapter into simpler analytical categories that will contribute to meaningful knowledge-generation about phenomena like organizational democratization. They will do this in particular by serving as bases from which to discover meaningful interventions for deriving causal inferences later on.

We begin as simply as possible, referring to values that are frequently repeated in the literature on democracy. After introducing and modeling inclusion, we do the same with equity and accountability, before turning our gaze to the risk of *hybris* and how democratic values stand in relation to this risk. After this, we look at the issue of scaling democracy, referring explicitly to the need for creating *political* communities.

### 6.9.1 Inclusion

One of Pericles' famous quotes is that democracy is just because it allows "the many to govern". Thus, a progressive value of *inclusion* obviously lies at the center of democracy. Whether in the form of the Athenian *boule*, the Roman Plebeian consuls, the assemblies of the Northern Italian popular republics or the Swiss cantons, in the "indigenous critique" of European Absolutism, the Haitian revolution, certain strands of the European liberal tradition (e.g., the Chartist movement, the movements of 1848, the Paris Commune etc.) and so on, each of these democratic traditions places at its center two principles: 1) the natural rights of human beings as citizens and 2) the self-determination of (at least) the majority of those citizens and their sovereignty over laws, customs and practices. Thus, democracy is always a practice of *concessio*, not of *translatio*.

One way to model inclusion was derived in the model of the "public organization" introduced in 2.5.7. While this model is useful for comprehending the basic ideas of inclusion, it is not suitable to our purposes. In particular, the model has no way of embedding epistemic features, norms, into the actions of group members. It is thus epistemically limited. It is moreover not able

to represent the causal effects and interventions we will later be interested in modeling. It is thus also methodologically limited. Thus, turning back to prior sections, we attempt to derive a model using the tools introduced above.

We can in fact use the tools of cooperative game theory to model the norm of inclusion. Under coalitional games, players are able to coordinate their activities and reach “pacts”.<sup>78</sup> However, this approach does little to offer minority or “non-coalitional” members any benefit and has been described as “zero sum”.<sup>79</sup> At the same time, we will be interested in causal or counterfactual analysis, so we must find some way of representing inclusion using a DAG. In order to do this, we need to establish an instrumental variable which is measurable, by means of which we may intervene upon a population and observe the outcomes from this intervention. Instrumental variables for inclusion may include both the costs and benefits of increased membership.

In order to discover this, we must first ask *who are members?*

### Who Are Members?

As we saw in the example of Greece in Chapter 3, the question of *who are the members?* is a significant one. Following Aristotle’s utilitarian argument for slavery, one must ask to whom the privilege or right of development of personality is accessible<sup>80</sup>. Since the era of the Reformation, the notion of the inviolability and inalienability of conscience has driven the idea of individual freedom and equality of human beings, a development that was further promoted during the encounter with the indigenous Critique during the Enlightenment. Thus, in keeping with the progressive vision of democracy outlined in the prior chapter, we state an axiom which we analyze in further detail in Chapter 7: *that membership should be extended as far as possible*.

[Sacchetti and Borzaga, 2020b] devise a “total cost model”, which seeks to extend control rights to non-members in order to align net utility production with the demanded general welfare. In a following step, the model asks to what extent does the organization continue increasing its member ranks? That is, according to the relational view, they first assess the going concern’s survival and then engage in a multi-stakeholder dialogue in order to assess the possibility of including more stakeholders in organizational governance. As the authors correctly point out, there exists “a trade-off between the costs of extending membership on the one hand and the persistence of negative external costs that reduce net public utility on the other”.<sup>81</sup> Therefore,

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<sup>78</sup>Cf. [Gul, 1989].

<sup>79</sup>Cf. [Zartman, 2007, p. 52f.]

<sup>80</sup>Cf. the discussion in the closing chapter of [Benanav, 2020].

<sup>81</sup>This as distinct from [Hansmann, 2000]’s model, which sees only costs of contracting

instead of costs of ownership (CO) and costs of contracting (CC), the authors introduce *membership costs*, CM and *external costs of exclusion*, CE. CEs “include the costs of contracting”.<sup>82</sup>

The benefit of this model is that it internalizes otherwise external costs. CE=CC in the case of only a single market failure. Putting these elements together, a total cost is represented as follows:

$$TC = \sum_m CM + \sum_{N-m} CE. \quad (6.9)$$

Thus, the sum of membership costs of all patron and non-patron members, as well as the costs of excluding external contracted and non-contracted non-members is the function to be minimized.

Thus, the calculus of whether to extend membership to another member or class of members depends on minimizing the sum of CMs and CEs: “an additional patron can be included if, for each added person, the sum of CEs is lower than the sum of CMs.” An advantage of the model in comparison with Hansmann’s is that it is dynamic, as a shift from non-member to member reduces one value and increases another, and vice versa. The authors conclude that “[t]he total cost model indicates that the inclusion of an additional patron in the strategic control of the organisation increases societal welfare if it reduces the sum of CEs more than it raises the sum of CMs.”

We wish to develop an indicator of inclusion. We thus divide Equation 6.9 by the factor CM, and get

$$\frac{TC}{\sum_m CM} = 1 + \frac{\sum_{N-m} CE}{\sum_m CM}. \quad (6.10)$$

Rearranging this equation, we get

$$\frac{TC - \sum_m CM}{\sum_m CM} = \frac{\sum_{N-m} CE}{\sum_m CM}. \quad (6.11)$$

Substituting  $r_e$  for the second term, we get the “ratio of exclusion”, which gives us the relative share of exclusion costs to membership costs. If we recall the observation in footnote 82 above that “costs of exclusion” can be interpreted inversely as the “benefits of inclusion” (an analogue of the cooperative rent introduced in Chapter 5) and represented as  $CR$  (cooperative rent), then we can rewrite the equation as the *ratio of inclusion*:

$$r_i = \frac{\sum_{N-m} CR}{\sum_m CM}. \quad (6.12)$$

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and ownership. Cf. 2.3.1.

<sup>82</sup>Costs of exclusion can alternatively be interpreted as the *benefits of inclusion*, viz. the relational view. We return to this point again below.

This general indicator can be filled with both discrete costs and benefits, such as the increased value anticipated by the take-up of a particular member with respect to the numerator, including factors like the increased likelihood of mutual monitoring, intrinsic motivation and self-efficacy. On the other hand, the costs in the denominator include wage and/or salary rates and training costs<sup>83</sup>. What becomes clear from the relation is that firms that focus more fully on informal contracts will, on average, have lower costs of membership. At the same time, quantifying the anticipated value-creation of their additional members is more difficult and necessarily takes on a stochastic nature. Thus, relational governance reduces the costs of acquiring new members in governance and at the same time, renders the estimation of the benefits more challenging. This is likely due to the fact that notions like *shared value creation* place emphasis on discursive notions of valuation and so forego explicitly instrumental indicators like quarterly profit.

Here again, we see both the benefits and costs of “bottom up” forms of cooperation.

### 6.9.2 Equity

Equity refers both to what the Greeks referred to as *isonomia* (the right to have the law applied equally to all) and to *isogoria* (the right to all to speak their mind freely and without fear of retribution). Thus, while the value of inclusion involves the translation of a relational perspective into an organization’s cost-benefit calculation, equity involves the equal *application* of laws, duties and privileges. Thus, it is inextricably tied to the next value of *accountability*. but is separate from it, in as far as equity is an *internal* value, whereas accountability can also be an *external* value.

As we saw in 3.5, one of the principle features of Athenian, and likely Greek, democracy was *isonomia*. In order to model this attribute, we have to ask the question whether changing certain attributes in the individual or group changes the outcome of a decision referring to that individual

		Hypothesis	
		Factually True	Factually False
Decision About Hypothesis	Accept (not rejected)	True positive	False positive (Type II error)
	Reject	False negative (Type I error)	True negative

Figure 6.10: A figure representing the classical “type I” and “type II” errors in statistics, taken from [Ellerman, 2021b, p. 38].

<sup>83</sup>This ratio leaves the governance structure as is.

or group, e.g., legal decisions. For instance, are citizens of a polity treated similarly in comparable legal or criminal proceedings. In this case, it behooves us to refer to [Ellerman, 2021b], [Ellerman, 2021c]’s reference to the Type I and Type II errors from statistics (seen in Figure 6.10).

Table of injustices due to mismatch of factual and legal responsibility		Factual Responsibility	
		Factually responsible for X	Not factually responsible for X
Legal Responsibility	Held legally responsible for X	True positive	Type II injustice: Innocent party legally guilty
	Not held legally responsible for X	Type I injustice: Guilty party legally innocent	True negative

Figure 6.11: A figure representing an adaptation of Figure 6.10 applied to divergence between factual and legal responsibility, taken from [Ellerman, 2021b, p. 44].

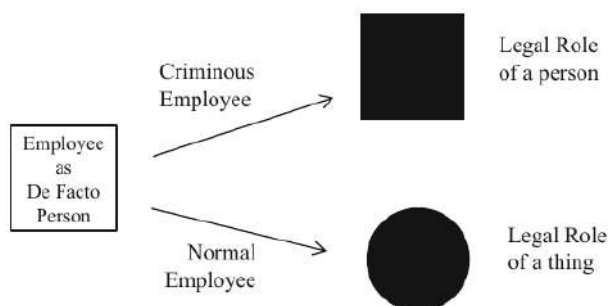


Figure 6.12: A figure representing the distinction in treatment between a single individual: here an employee acting normally versus one acting criminally. Taken from [Ellerman, 2021b, p. 50].

This notion in its original form refers, for the Type I error, to the likelihood of rejecting a hypothesis that is actually true and for the Type II error of accepting a hypothesis that is actually false. These concepts are useful heuristics in statistics, yet the structural arguments behind them have a logical consistency that can easily be appropriated for measuring social traits like equity. Thus, referring to Figure 6.11, we see that instead of referring to false acceptance or rejection of hypotheses, the errors

in this case refer, on the one hand, to rendering a “guilty” verdict in the case of innocence (“Type I”) and, on the other, to rendering a “not guilty” verdict in the case of guilt (“Type II”). Reflection on the graphic reveals that it is a graphical representation of the imputation principle introduced in the prior

chapter.

In order to bring the discussion back to the issue of equity, we refer to one further social application of the “Type I”/“Type II” error thinking: *tort*. The principle of equity (*isonomia*) should apply not only to interpersonal applications of law, but also to *intrapersonal* ones: an individual should not be considered a subject of the law in one setting and an object in another. Thus, Figure 6.12 refers to a typical case of tort, where an employee is considered responsible for a criminous act, but under normal circumstances is considered an external labor supplier, whose ability to responsibly act is reassigned to the employer. Clearly, such a situation violates the principle of equity. Reiterating the conclusions of the prior chapter, the employee must be considered a person in both instances, and this must be reflected in the labor contract.

Thus, we derive an *equity indicator*, which is an instrument to translate the above reasoning into an organizational logic, in the following way:

$$I_e = \frac{\sum \text{Employee}}{\sum \text{Members}}, \quad (6.13)$$

that is to say, the equity indicator,  $I_e$ , gives us the rate of representation of employees in the organization’s membership<sup>84</sup>. The *equity indicator* is flexible, in that it can be applied to any class of stakeholders. For instance, in the case of platform enterprises, it may be useful to consider the equity of users, so Equation 6.13 would be formulated as follows:

$$I_e = \frac{\sum \text{Users}}{\sum \text{Members}}, \quad (6.14)$$

### 6.9.3 Accountability

Accountability is an instrumental value in that it is the result of interventions in the mechanisms employed in governance. This is what renders it a methodological rather than an epistemic value. At the same time, observed in the other direction, accountability ensures that grievances are actually redressed. As Bandura points out,

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<sup>84</sup>By membership, we mean those individuals who wield control over strategic management in the organization. This can be interpreted broadly or acutely. The broad definition of inclusion would consider membership to mean those entitled to select the leadership, while the acute definition would refer to the apex institution of a firm, usually the board of an enterprise. For instance, in the case of Isthmus Engineering, a company in Minnesota, 40 of its 80 members are on the board, so it would have an (acute) equity indicator of 1/2. However, its (broad) indicator would be much higher, as a higher share of its workforce are members. Both versions of the indicator provide useful insight.



Awareness alone, however, is a weak countervailance. Most people are quite aware that advertisers attempt to influence their behavior by exaggerated claims, modeled testimonials, pseudo-experiments demonstrating the superiority of their products, paired association of events, and portrayal of benefits accruing to product users. Such knowledge does not make people immune to advertising influences. The same is true of persuasion through response consequences. Coercion can extract compliance and rewards can induce accommodating behavior, even though people recognize that the incentives are prompting their actions. [Bandura, 1977, pp. 208-9]

The discussion above on transparency is also related to the democratic value of accountability. Just as a high  $O$ -value<sup>85</sup> means a restriction of information flow to a small circle of individuals, it also means a lack of accountability. Thus we see in Figure 6.13, a low- $O$ -value, i.e., democratic government is accountable to the citizens. Meanwhile, in the oligarchic government depicted in Figure 6.14, the power carriers stand above the laws. As the information flow essential for governing is concentrated, in the oligarchy in the restricted set of *optimates* and in the monarchy in the monarch and his or her court, there is a lack of accountability. In Chapter 7, we will return to the distinction between these two forms of hierarchy.

For the time being, we introduce a last formal concept, which has been variously termed “the iron law of oligarchy” [Michels, 1925], and which [Kiryiazis, 2005, p. 74] refers to as “the deterministic instability of indirect democracies”<sup>86</sup>. It deals with the observation that, so-called “indirect” or “representative democracies” are governed by a smaller class of representatives than, say, a Parliament. In theory and in school textbooks, this form of government is described by Figure 6.15. But, as anyone can observe in practice, parliaments are generally powerless against governments,

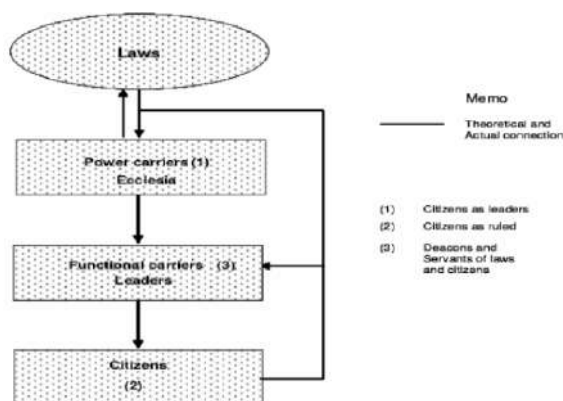


Figure 6.13: A schematic of democratic governance, taken from [Kiryiazis, 2005, p. 53].

<sup>85</sup>Cf. above in 6.8.3.

<sup>86</sup>We remind the reader of Machiavelli’s concept of *vera repubblica* and *vera principate*.

and the latter only *ex post* accountable to the former and to the general population (i.e., unpopular governments get voted out in the next election).

Thus, the actual concentration of power in “indirect democracies” is actually much higher than what is given in theory. Thus, while theoretically, an “indirect democracy” might be represented by  $O = \frac{82,000,000}{750} = 109,333$ <sup>87</sup>, in actuality, it is the government who are the actual power carriers, thus the practical power concentration rather resembles, e.g.,  $O = \frac{82,000,000}{380} = 215,789$ , i.e., more than double the amount of power concentration. This actual and theoretical distinction can be seen by comparing Figures 6.15 and 6.16. As [Kiryiazis, 2005] points out in many practical circumstances, power concentration can be even higher. For instance, one frequently speaks of a “governing majority”, which may refer to a cadre of ministers and their allies (sometimes referred to as “frontbenchers” to refer to their physical position in the Parliament) who are actually responsible for framing and drafting legislation. Thus, in such cases, the power concentration may be as high as, e.g.,  $C = \frac{82,000,000}{15} = 5,466,666$ . We can see immediately that there is a trivial distinction between this level of  $O$  and that representing a “true” oligarchy. This situation is represented by Figure 6.17.

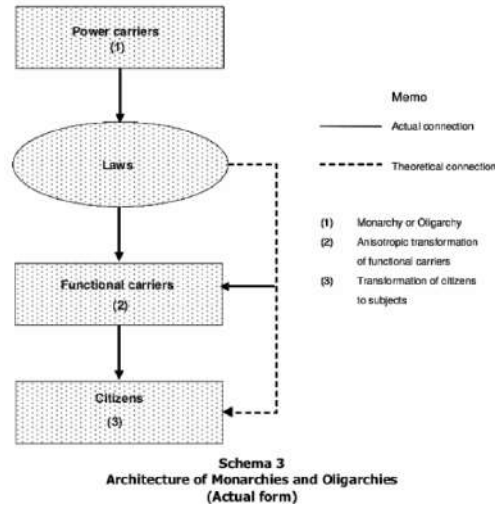


Figure 6.14: A schematic of oligarchic or monarchic governance, taken from [Kiryiazis, 2005, p. 51].

<sup>87</sup>This is roughly the number of Parliamentarians in the German Bundestag.

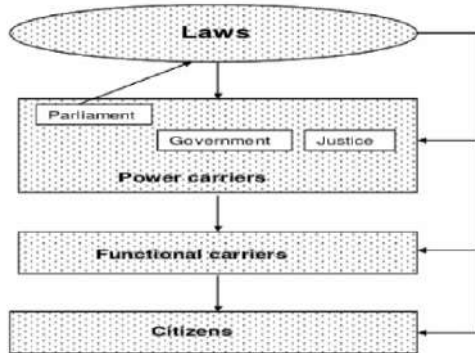


Figure 6.15: The theoretical image of “indirect” or “representative democratic” governance, taken from [Kiryiazis, 2005, p. 57].

Turning back to the examples in Chapter 3, we see many examples of an unfolding democratic civic imaginary introducing new mechanisms for increasing accountability, or re-instituting former ones to restore the same. The Athenian institution of the *graphe paranomon* can be interpreted in just such a way. The recall function of *Sachems* in the Haudenosaunee lodged in local matriarchs is another example.

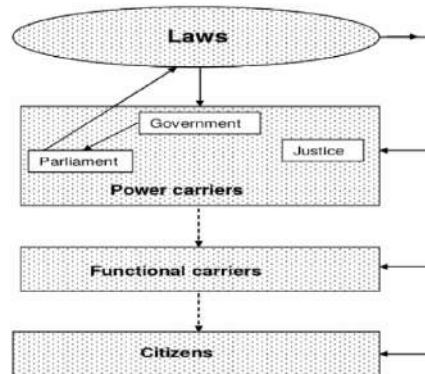


Figure 6.16: A more reasonable image of “indirect” or “representative democratic” governance, with the government more powerful than the Parliament, taken from [Kiryiazis, 2005, p. 78].

### 6.9.4 The Risk of *Hybris*

Castoriadis attributes Athen’s downfall in the Peloponnesse War to  $\eta\psi\beta\rho\iota\varsigma$  (*hybris*):

Der Untergang Athens – seine Niederlage im Peloponnesischen Krieg – resultierte aus der *hybris* der Athener: *Hybris* setzt nicht einfach Freiheit voraus, sondern das Fehlen festen Normen, die grundsätzliche Unklarheit der letzten Orien-

tierungspunkte unseres Handelns. [...] Die Übertretung des Gesetzes ist kein *hybris*, sondern ein konkretes und begrenztes Delikt. *Hybris* liegt vor, wenn Selbstbeschränkung die einzige “Norm” ist, wenn also “Grenzen” überschritten werden, die nirgendwo definiert werden.” [Castoriadis, 2011a, p. 50]

It is clear from this message that, in Castoriadis’ eyes, the problem of *hybris* relates to the systematic encroachment upon norms of behavior. The sentiment reflects Aischines’ observation, cited above, that “democra[cies] are governed by the established laws”. Certainly, this risk is higher when particular groups within the polity engage in consistent rule-breaking. It is important to bear in mind, as we have reflected above, that there is a dynamic relationship between issues of trust, transparency, autonomy and factors like moral competence, monitoring and sanctions. We put forth the argument that the risk of  $\eta\psi\beta\rho\iota\varsigma$  increases in as far as the O-value increases and the values  $I_e$  and  $r_e$  decrease. It would seem reasonable to assume, moreover, that these values are not independent of each other, such that they exist as a system of cybernetic couplings or triads [Leydesdorff, 2021, Chapter 5].

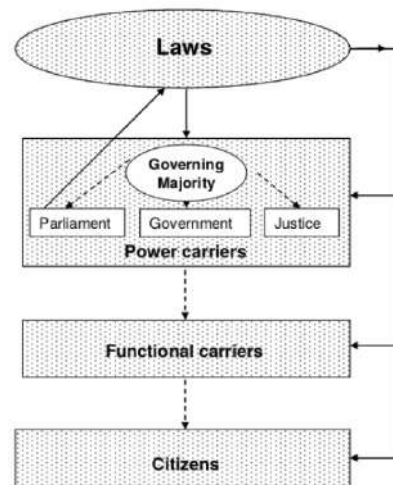


Figure 6.17: Parliamentary systems often result in further concentration in a so-called “governing majority”, taken from [Kyriazis, 2005, p. 79].

### 6.9.5 Size, Scale and Complexity of a Polity as Indicative of Inclusive Rights

As [Kyriazis and Metaxas, 2013] argue, “The extension of military service and the associated emerging value system were preconditions for the emergence of ancient direct democracy.” This of course required a society of a particular size and scale. Authors like M.I. Finley have already commented on the necessary relation between grain imports and the maintenance of Athenian democracy. Moreover, [Kyriazis and Metaxas, 2013] continue that the role of scale is “[a] point recognized already by Aristotle who wrote: ‘when however,

states began to increase in size and infantry forces acquired a greater degree of strength, more persons were admitted to the enjoyment of political rights' (Pol. 1297b 16-28) and taken over by Weber (1899 p. 1311): 'The decisive criterion (for the voting right in the assembly) was initially the capacity to quip oneself for service in the hoplite infantry'."

This dual point of the centrality of scale and at the same time the need to apply rules fairly and transparently to prevent the deleterious impact of *hybris* reminds one of the point we made above, underlining the importance of creating a *political* community in complex polities. Just as Cleisthenes reorganized the Athenians along new political fault lines, as did the Cherokee and Haudonosaunee, we see, following the relational viewpoint, that the recalibration of stakeholders in accordance with both the underlying objectives of the going concern, as well as with respect to a discursive stakeholder dialogue, is essential for balancing democratic accountability with the long-term viability of an organization.

Organizations contemplating democratization should consider starting "smaller republics" within the firm, employing tools like sociocracy in order to generate feedback effects in stakeholders dynamically increasing their self-efficacy in the act of agonistic practice. Thus, we believe it is suitable to apply concepts like Machiavelli's *vera repubblica* and *vera principate* to the case of firms. Such reforms have the potential of creating epistemic communities, that in turn serve as assets from a relational governance perspective. We briefly outline how this is the case, again reflecting on the Athenian experience.

### **Civic Consciousness and Epistemic Communities**

The notion of epistemic communities, which we introduced in the first chapter, is useful in developing a dynamic concept of social action. For instance, we can infer that programs intended to stigmatize long-term unemployment have the perverse effect of stimulating *ressentiments* in the groups impacted by this legislation. Thus, the intended effect is crowded out by a revulsion at the policy that is perceived by the recipient to signal distrust. Instead of such "top down" policies, the relational view advocated for stakeholder dialogue. Such dialogue mediates among ranks, orders and classes. Thus, Solon, referred to in the *Constitution* as the "first champion of the demos", in many ways saw his role as a mediator between various classes, writing in one poem "neither taking from or adding to the people's honor. . . that they should have no dishonor, yet. . . no side be allowed an unjust victory" [Carey, 2017, p. 20]

Solon also introduced the *graphe*, which "gave the weak a measure of protection against the strong through the justice system by allowing a po-

tential prosecutor to intervene on behalf of someone who was unable or unwilling to take action on grounds of age, status, financial or social position or gender.” [Carey, 2017, p. 32]. We see here again manifest examples of antecedent values that a functioning democracy requires, and we see that, in the case of Athens, they preceded the introduction of democracy by a number of generations, reinforcing the notion that values must first be internalized before they can effectively displace old practices. Enabling the lower ranks to bring suits against those otherwise deemed socially superior contributes to equity, inclusion and accountability.

More significant, however, were Solon’s reforms of political office. “The middle-ranking public offices were opened up to the top three property classes: the *pentekosiomedimnoi* (five hundred bushel men, i.e., those whose land yielded five hundred bushels of dry or liquid produce); the *hippeis* (‘cavalry’); and *zeugitai* (‘yokemen’). . . it is [also] probable (but not certain) that Solon opened the archonship to the top two classes.” Carey suggests, “the change was of enormous significance in the long term; it introduced flexibility into a closed and fixed political system, creating a path for access to office for those with wealth derived from trade.” (*Ibid*) The *Athenaion Politeion* also states that Solon created a Council of 400, with 100 from each class of citizens.

We see immediately how these reforms would create a sense of civic community via epistemic communities: by creating an inter-tribe Council with limited executive powers, Solon was laying the groundwork for the development of a collective consciousness of the tribes not as members of particular tribes, but *as Athenians*. After the restoration of democracy in wake of the tyranny, this move towards civic consciousness was given a great impulse by Cleisthenes, arguably the formal initiator of Athenian democracy. Cleisthenes reorganized the basis of citizenry in a new, smaller local unit called the *deme*, cut through the aristocratic power base. To quote Carey,

The four Ioninan tribes, through which the aristocracy had exercised influence, were replaced by ten new tribes. Cleisthenes additionally loosened the local allegiances which had formed the nucleus of the factions. . . by dividing up Attica into three areas – city, inland and coast – and mixing *demoi*, ‘demes’ (urban districts or rural villages), from all three to create new tribes. These new tribes were to form the basis for the selection of a number of officials and for the organization of the citizen army. The subdivisions of the old tribes, the *gene* and the *phratriai* were left in place. . . but the basis of citizenship from now on was the *deme*, the smallest formal subdivision of the state.” [Carey, 2017, pp. 24-5]

Cleisthenes reordered the Athenian citizenry in accordance to new tribes, of which he devised three, roughly adhering to the farmers and shepherds of the Attic mountains, the fisherman on the coast and the artisans of the city. We see in this maneuver to an early successful attempt at creating a *public organization*, a topic which we will return to in Chapter in 7 when we discuss Multi-Stakeholder Cooperatives (MSCs).

### 6.9.6 Moving Away from Impossibility Results

As [Sen, 2017] has shown, and as we discussed above in 4.5.4, there is no imperative in reading Arrow’s “impossibility theorem” as an indictment of any collective choice mechanisms. Tim Rogan suggests, “[Arrow’s] ‘impossibility theorem’ was not designed to frustrate reformers or delegitimize social policy—to negate the possibility of social choice *per se*. Indeed, it can be seen as an attempt to facilitate social choice. The conditions economists were insisting that any estimable process for aggregating individual preferences must meet were in fact too demanding.” [Rogan, 2017a, p. 193]

In fact, Sen himself comments that “Arrow’s impossibility result was ultimately a constructive beginning of a systematic subject that needed further pursuit and development, rather than being the ‘end’ of an enquiry – an elegant demolition of the hope of reasoned democratic politics, as it was so often being interpreted.” [Sen, 2017, p. xvi] Perhaps due to other priorities or for other reasons, Sen however fails to develop a notion of democratic choice beyond the notion of majority voting, which he refers to as the *Method of Majority Decision* (MMD). This is strange as our cursory glance at the history of democratic thought and practice revealed an “archive” and “arsenal” of ideas, processes, concepts and mechanisms that go far beyond mere voting. In fact, Aristotle associates voting with tyranny, suggesting that merely “collecting votes” leads to a situation where “demagogues and flatterers [...] hold in their hands the votes of the people, who are too ready to listen to them.” [Aristotle, 2003, Book IV, 1292a]

Thus, a suitable relational framework for organizational governance – whether in a polity or firm – should both move beyond the Impossibility Theorem *as well as* include and recognize *emergent* properties of preference formation. We seek to do that in the remainder of this work. In fact, one of the historically most practiced DCMs helps move away from Arrow’s impossibility result. Again, accepting the logic of Arrow’s reasoning, one can remove the constraint of being *non-dictatorial* by adding an additional agent to the set, encompassing *nobody*, or, if one is so inclined, *God*. God is a random number generator, using as inputs the relevant outcome space: whether candidates or options. Forcing “God’s” will on the population would allow us to both meet

and break the *non-dictatorship* constraint, in that the lot mechanism was a historical phenomenon associated with democracy and at the same time, its implementation can be modeled as a form of dictatorship, a dictatorship of random assignment.<sup>88</sup>

How can such a dictatorship be considered democratic? In order to answer this question, we may ask the ancient Greeks. Herodotus, in his *Histories*, for instance, suggests that democracy means that “[t]hose in office have their authority courtesy of a lottery, and wield it in a way that is strictly accountable”<sup>89</sup>. Alternatively, we may also attempt to model the “Godly dictatorship”, where other agents appear as the focal agent’s environment, as the “fairest” outcome, as it is stochastic, therefore relatively unpredictable and random; therefore not prone to human judgment; therefore privy to neither conspiracies or discrimination. Thus, Euripides has the victorious Greeks split the Trojan women among themselves according to lot in the eponymous play.

Moreover, lotteries have the unique feature of being amenable to an infinite range of parameters based on prior knowledge. This ranges from the case of a “pure” lottery, where each outcome is equally likely, all the way to weighted lotteries, where weights may be the result of tacit information or norms (for instance, one may weight outcomes that are considered preferably higher, e.g., selecting persons of special prestige or with longevity within an organization with higher chance). The point is that it is easy to design a lottery mechanism to be transparent. In the following chapter, we discuss why this is the case, and in what situations such a mechanism may be useful as DCM.

## 6.10 Conclusion

We hope in this chapter to have contributed to an understanding of collective choice, in particular we’ve attempted to contribute to the discussion around *democratic collective choice*, a focus which is nearly entirely lacking in the collective and public choice literature. We began by discussing the emergence of collective preferences, where we have noted some basic principles calling into question the traditional aggregative method. In particular, recent research has shown that emergent phenomena can often-times be directed by a form of “top-down” causality.

From this discussion, we moved on to discussing so-called constraint theory and compared it, among others, with Kantian deontology. In the sequel we

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<sup>88</sup>Cf. [Gataker, 2013]’s discussion of lot as “God’s will”.

<sup>89</sup>Herodotus, *Histories*, 3.80, cited in [Buchstein, 2015, p. 131]. Cf. also [Kosmetatou, 2013].



attempted to establish a basic epistemic and methodological framework for representing the coordinating role social norms plays in practice. We then moved on to outlining necessary and sufficient conditions for democratic choice to occur.

The concepts discussed and the methods developed in this chapter will assist in carrying out the agendas of the following chapters. In the next chapter, we begin by outlining what a *cooperative microeconomics* would look like on the basis of the tools developed in this chapter. We will refer to qualitative distinctions in hierarchy and will attempt to interpret the firm as an anticipatory system, following the relational view. This we supplement with an outline of several distinct *democratic choice mechanisms* (DCMs). The core of the chapter will consist of an attempt to connect five of the seven *cooperative principles* to DCMs.

# Chapter 7

## Cooperative Microeconomics

Beginning with this chapter, we would like to begin to apply the lessons spelled out in Chapters 3 to 6 in the construction of what [Simon et al., 2009] referred to as “empirical microeconomics”. In particular, we are interested in extending the latter’s relevance to organizations with elective hierarchies. In particular, we will see that many of the alleged reasons for numerous empirical outcomes, such as the relative dearth of cooperatively organized enterprises, are insufficient in their explanatory power. Especially when applying the lessons of Chapter 6, we will see that these reasons are attributable to an insufficient knowledge of the breadth and depth of DCMs. We thus attempt to rectify these shortcomings with new formal theories intended to reflect really existing empirical distinctions between organizations featuring elective versus coercive hierarchies. In addition to incorporating lessons from Simon, *cooperative microeconomics* will position itself with respect to an emerging literature on *relational economics*, and in particular that strand stemming from the *resource dependence theory* developed by [Pfeffer and Salancik, 2003], et al.

We begin by outlining Dow’s *replication principle*, a powerful theoretical principle that enables us to focus the ensuing discussion. We then outline a number of different ways to organize and legitimate hierarchy within organizations, based not on the assumptions of Transaction Cost Economics or other forms of neoclassical Economics<sup>1</sup>, but based on the notions discussed in the preceding chapters, in which public values like inclusion and equity play a role and a central, deontological value like democracy, rather than notions tied to property rights, drive decision-making. Following, e.g., Lucio Biggiero, we propose to outline a notion of *elective* hierarchy whose content and agency is determined by the DCM selected and by the level of development

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<sup>1</sup>Particularly, we wish to back away from the tradition of the theory of the firm as seen by Ronald Coase, 1937.

of democratic values within an organization.

After doing this, we move on to interpreting firms as anticipatory systems. This discussion anticipates that of Chapter 8, and includes issues of non-ergodicity and emergence, as well as a shift from static to dynamic views of the role of the firm. After this, we look at the contribution cooperative firms can play as coordinating mechanisms within the context of anticipatory systems. We do this by recalling the historical role cooperatives have played in solving particular dilemmas. We look at ICA's principles as anticipatory elements for eliciting coordinated equilibria.

Following this discussion, and recalling Fleck's observation that "[w]hen two thoughts are in disagreement... a third thought succeeds: one derived from an exoteric disparate collective, but which has managed to merge with the two competing thoughts", we investigate the potential of the *multi-stakeholder cooperative* (MSC) to serve as a transitional tool towards relational governance practices. In particular, we will argue that the MSC can contribute to such a transition by instilling a sense of shared agency in firm actors, helping move from a status quo of *principal-agent* relations, where workers are viewed as external labor suppliers, to more active stakeholder dialogue. Lastly, we interpret the prospects for a "public organization", along the lines of [Sacchetti and Borzaga, 2020b], as a fulfillment of the principle of a democratic civic imaginary in organizations.

## 7.1 Organizations are Emergent (from Groups)

Groups are emergent phenomena, and as such exhibit certain emergent behavior. [Biggiero, 2016, p. 25] For instance, it wouldn't make sense to simply interpret a firm as a collection of individuals, as most firms are organized in teams. In a similar way as biology moves up in stages, depending on the questions one is asking (from the molecular, to the cell, tissue, organ and organism levels, before entering complex levels of systems biology and ecology) and as we have introduced concepts like *multi-level selection*, organizational behavior must reflect such emergent processes. That's why tools like complex systems analysis, linear algebra and cybernetics become relevant when interpreting organizational behavior and one cannot merely "scale up" concepts from individual psychology. It is also important to distinguish groups from networks, as does not always occur in economics, even in network economics, being that "a significant part of network economics is based on a misinterpretation of what networks are." (*Id.*, p. 11)

Thus, for us it is first important to establish definitions of *groups* as well as *networks*. As we saw in our discussion of collective choice in the previous

chapter, collective choice is frequently organized in hierarchies. However, the question is raised, of what these consist of. If the examples of sociocracy and voting serve as an example, we see that choice in hierarchies arises between *groups*, which are closely aligned units of individuals or other groups. And such groups are organized in a particular hierarchical relationships, with certain members of certain groups reporting to certain members of other groups. The relationships that emerge from these interactions we may dub a *network*. Organizations may consist of one or several networks and may themselves be nodes within networks. Before discussing in 7.2 how these networks may be organized qualitatively, we first briefly return to what Dow refers to as the “replication principle”.

### 7.1.1 The Replication Principle

As [Dow, 2018] elegantly shows, one cannot explain or account for the empirical differences in the relative proliferation of qualitatively different firm types using the specifications of the neoclassical Walrasian firm. This means, if we assume a convex production function employing two factors of production, labor and capital, and one assumes both production factors to be rentable on a market, then each factor should be able to hire managers to lead the organization. Toward this end, Dow’s *replication principle* merely asserts that essentializing non-intrinsic characteristics of firms when attempting to account for empirical divergences in different firm type’s market saturation and longevity provides insufficient explanation for such divergences. For example,

“it would not be satisfactory to explain [hypothetical productivity advantages of capital-managed firms (KMFs)] by asserting that KMFs have managerial hierarchies but labor-managed firms (LMFs) do not. There is nothing about the principle of ultimate control by labor suppliers that rules out the use of a managerial hierarchy.” [Dow, 2018, p. 9]

Dow says that one instead “would have to show that control by labor suppliers makes managerial hierarchy more costly or less effective than it would be in an otherwise identical KMF.” (*ibid*)

Thus, it is incorrect to infer from the fact that in most economies cooperatives have not managed to proliferate that this is merely the result of some intrinsic weakness in the cooperative form. The long-standing history of the plywood cooperatives of the Pacific Northwest and their continued resilience against their KMF counterparts<sup>2</sup>; the success and proliferation of Mondragon

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<sup>2</sup>Cf. [Pencavel, 2002].

in Spain, a collective of some €26 billion in capitalization<sup>3</sup>; and the continued growth and success of the Legacoop and the combined cooperative sector in Italy (moving from 2.5% to 8% of GDP between the 1990s to the present day)<sup>4</sup> put lie to this claim. The replication principle anchors this rejection in an analytical frame: if an LMF can do it, then it will do it, given the opportunity.

Concepts like the replication principle are useful analytical tools to gauge the efficacy of the type of “eclecticism” that would attempt to apply the lens of the neoclassical firm (perhaps in modified form) to an enterprise founded on an entirely different epistemological basis, and requiring a different set of tools, or tools calibrated for the qualitative differences. It is this question we turn to next, as we discuss the varieties of hierarchy.

## 7.2 Varieties of Hierarchy

There is evidence that a change in governing structure causes changes in transaction costs.<sup>5</sup> This evidence underlines the need to move beyond the “markets vs. hierarchy” question which New Institutional Economics, and particularly Oliver Williamson, focused upon in the last century. Instead, a focus on the *varieties of hierarchy* is needed. As following the logic of the replication principle and by casting a glance at many a cooperative around the world supports, a variety of firms, whether LMF, KMF, multi-stakeholder or of the social or charity type, can be governed by an equal variety of hierarchies. We wish at present to separate these many types into two main classes according to the democratic values we established in 6.9, particularly *accountability*, but also *inclusion* and *equity*. Thus, our main distinction is between so-called *elective* and *coercive* hierarchy.

### 7.2.1 What Does Accountable Power Look Like?

With respect to answering the question of what types of hierarchy exist, we saw the interdependent nature of such a discussion. We now return to the distinction between *concessio* and *translatio* and the inability to delegate responsible labor to third parties. Indeed, with respect to slavery, this realization has been made centuries prior. As [Ellerman, 2021b, p. 131] says bitingly of the standard approach to dealing with the similarities between the traditional labor contract and the institution of slavery, the idea that many

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<sup>3</sup>Cf. [Altuna Gabilondo, 2008].

<sup>4</sup>Cf. [Ammirato, 2018].

<sup>5</sup>Cf. [Dow, 2021, pp. 3ff].

intellectuals have is that, while injustices may have existed with respect to illegitimate labor relations in the past, the present is just and we have arrived at “the end of history”:

Yesterday, there indeed were inherent human rights violations by institutions based on coercion but today we happily live in a liberal society where all the institutions are founded on consent. Yes, even today there probably are cases where workers are overworked, underpaid, and even treated coercively by their employers, and these abuses really need to be regulated and corrected. But such acknowledged abuses do not amount to any inherent rights violation in the voluntary contract for giving people jobs — so there is no call to abolish the employment contract

Indeed, the classical dichotomy of “coercion” vs. “consent” does not help in defining the distinction between coercive and elective hierarchy. To remind the reader of the problem with this distinction, [Ellerman, 2021c, p. 161] comments,

democratic theory ha[s] to go beyond the simplistic idea of democracy as “government with the consent of the governed” and differentiate those voluntary pacts of subjection [*translatio*] from democratic constitutions. The difference [lies] in the theory of inalienability.

Instead, we must employ network analysis and observe the dependency relations of the nodes in a network: is the apex of the hierarchy *accountable* to the nodes and networks below it, or is there a disconnect? In order to answer this question, we introduce the respective categories below.

### 7.2.2 *Translative versus Inalienable Hierarchy*

Thus, we introduce the concept of the *inalienable hierarchy*, which we may more generally call *accountabile hierarchy* has an O-value  $> \delta$ , an  $r_i \geq \sigma$  and a  $I_e \geq \gamma$ . The discrete values of the three parameters stand for the maximum level of constrained flow a democracy can withstand. It is likely a sliding scale and has no discrete “breaking point”.<sup>6</sup> Nevertheless, we can fashion a spectrum for *democratic*, *oligarchic* and *monarchic* hierarchies by setting up a spectrum. We would describe a company like SACMI, with an

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<sup>6</sup>As was seen in the Greek case, before the takeover after Alexander’s death, there had been significant incursions on the democratic imaginary in Athens. Thus, one speaks of a “golden era” that roughly ended with Athens’ defeat in the Peloponnesian war.

O-value of 10, as featuring an inalienable hierarchy. A company like Axel Springer, with an O between 143 and 6,652<sup>7</sup> would be described as having an oligarchic hierarchy (though the less conservative estimate of 6,652 would place it in the camp of monarchical). Meanwhile, a company like Walmart, which features 93.56% share ownership by the Walton family and a O=32,900, can be described as monarchical.

Thus,  $\delta$  appears to lie between 10-20. Organizations whose O-value lies below this threshold are clearly inalienable, while as they rise beyond it, are turning more into translative hierarchies. As the number rises to 100, we clearly enter oligarchical territory and around 1,000 again enter monarchical territory. The O-value is thus a logarithmic value, which changes qualitatively according to power laws. We may devise similar scales for both  $\sigma$  and  $\gamma$ , where the targets for inalienable hierarchies appear to be  $\sigma \geq 1$  and  $\gamma \geq .1$ . In the former case, this means that the relational rent is equal to or greater than the additional costs of membership. In the latter case, it means that at least 10% of the stakeholder group, e.g., workers, are included in the membership. Again, these are rough estimates and, as dynamic indicators, organizations can use them to assess to what extent they are succeeding in democratization efforts.

Figure 7.1 displays a 3-dimensional graph (cube) along the axes of *accountability*, *inclusion* and *equity*.<sup>8</sup> It is along these three parameters we wish to place organizations with respect to their being either *inalienable* or *translative* hierarchies. The values on these axes are given respectively by the *O-value*, (*y*-axis); the *ratio of inclusion*,  $r_I$  (*x*-axis), which we derived in 6.9.1; and the *indicator of equity*,  $I_e$  (*y*-axis), derived in 6.9.2.

The graph contains two smaller cubes,  $T$  and  $C$ , each representing respectively the domain of *translative* and *inalienable* hierarchies. We see that, in general, translative (i.e., “coercive”) hierarchies have lower values of accountability, equity and inclusion, whereas inalienable (i.e., “elective”) hierarchies have higher values of each of these. There is a point in the middle of the graph where both cubes meet. It is this area which we will refer to as the “tipping point”, where organizations in the neighborhood of this point are at risk of degenerating into the other respective organizational type. The “tipping point” should remind the reader of Machiavelli’s notions of *vera repubblica*

<sup>7</sup>Derived using the ownership structure: [https://www.axelspringer.com/data/uploads/2021/05/aktionarsstruktur\\_de-21-05.png](https://www.axelspringer.com/data/uploads/2021/05/aktionarsstruktur_de-21-05.png).

<sup>8</sup>Keep in mind that the scales of each axis are different: while the X-axis, associated with *inclusion* and the  $r_i$  has a scale normalized between 0 and 10; the Y-axis, associated with *accountability* and the *O-value* has a logarithmic scale; and the Z-axis, associated with *equity* and the  $I_e$  is between 0 and 1.

and *vero principato*<sup>9</sup>.

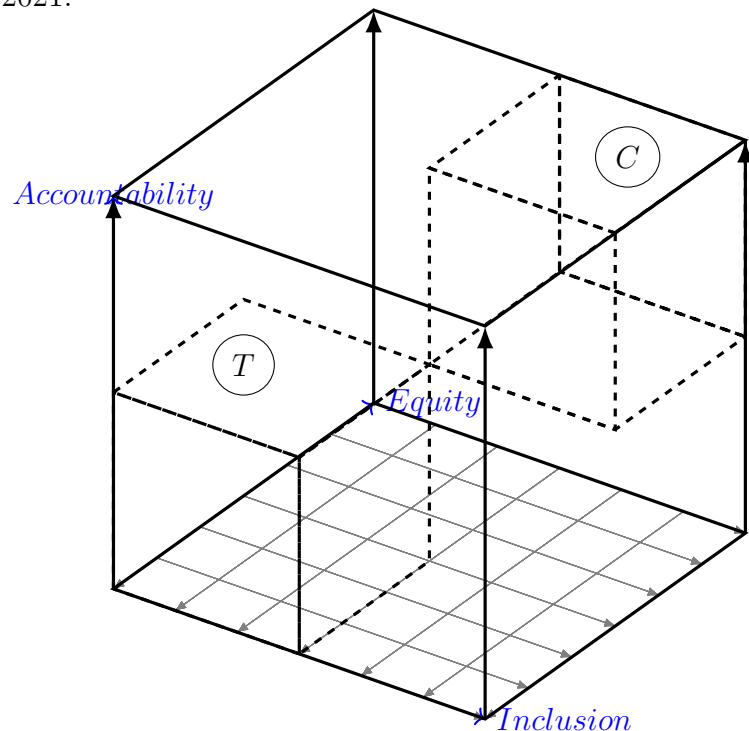
Thus, returning to our categories of *inalienable* versus *translative* hierarchies, we can say that the *elective ideal* is  $O=1$ , with that meaning the hierarchy is truly accountable to and inclusive of all organizational members. An inalienable hierarchy can potentially exist at higher  $O$ -values, which we assume to be in the domain approaching the “tipping point” to translative hierarchies around  $O=20$ . Just to represent this value:  $O=20$  means that power carriers are only directly accountable to 5% of organizational stakeholders. While this is far from “governing by the majority”, there is some evidence that actual practices in organizations with “middling”  $O$ -values “work much better in practice than the theorists would expect” [Birchall and Office, 2013, p. 40] with respect to being representative of a wider group of shareholders.

These values have the benefit of being calculable in most organizations. We believe they, as well as the categories of inalienable versus translative hierarchy are useful tools for organizations to frame such debates and also to orient themselves with respect to democratization efforts.

### 7.2.3 Inalienable Hierarchy and DCMs

Having introduced and discussed the  $O$ -value, the ratio of inclusion and the indicator of equity, we can now return to the issue of *democratic choice*, which

Figure 7.1: A 3-dimensional graph attempting to map the spectrum of *coervive* versus *elective* hierarchy. Derived from a presentation by Lucio Biggiero at the Club of Remy, 14 April, 2021.



<sup>9</sup>Cf. [Benner, 2009, p. 57].



we introduced in the prior chapter. As we will learn in the discussion in 7.5, a wide variety of *democratic choice mechanisms* (DCMs) exists, each with distinct strengths and weaknesses. We also learned that DCMs can, in theory, be mixed. In this section, our task is to analyze the interactions between various DCMs and the parameters by which we establish a hierarchy as being inalienable. In particular, we see that achieving an inalienable hierarchy is not simply a task of having members vote for their leaders. For instance, as we will learn in 7.5.3, “a representative [choice mechanism] always tends towards coercive choice mechanism (CCM)”, which is a category we oppose to DCM<sup>10</sup>. This because it tends to lead to higher O-values. That is, a “naive” representative choice mechanism has essential oligarchizing characteristics.

Thus, elections are not the sole distinguishing feature between DCMs and CCMs. For an organization to maintain an elective hierarchy, its groups need inter- and intra-group accountability (low O), have to extend group membership if possible ( $1 < r_I \leq 10$ ) and also be equitable ( $.5 < I_e \leq 1$ ). We showed in the discussion in the prior chapter how to calculate these values for an individual organization.

As to the assertion that DCMs are more time-consuming than CCMs: to this argument, we may presently offer two counterarguments, one deontological and couched in the language we developed in the prior chapter, particularly in 6.7.3, the other with reference to the discussion of DCMs. The first argument can be summarized by a comment by Sam Bowles and Herbert Gintis in [Pagano and Rowthorn, 2002, pp. 64ff.], who suggest that there is a non-instrumental value in democracy that outweighs the efficiency gains of a dictatorship. Thus, the authors conclude that, even if the trains are on time in a dictatorship, that democracy would nevertheless be the preferable option. The second refers to the fact that the pantheon of DCMs is equipped with mechanisms to reduce the time-cost in case of dilemmas or impasses. Particularly sortition lends itself to usefully choosing either a team of individuals tasked with making a choice in case of a high degree of conflict, or to making a decision in case of radical uncertainty (no prior information; equiprobable estimation of outcome, etc.).

#### 7.2.4 The Inter-Generational Problem: The Problem of Succession

Firms operating with CCMs may have an incentive to switch to DCMs. This, because they may be interested in the long-run succession plan and have

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<sup>10</sup>A CCM is any choice mechanism that does not promote inclusion, equity and accountability. As we will see in the discussion below, voting can be considered a CCM.

a vision of transferring the enterprise to the stakeholders with the most direct contact to the enterprise, e.g., the workers or other local stakeholders. The market for labor cannot guarantee high quality management and so “grooming” is typical. However, it would appear that preparing a wider pool of candidates for management, or in general delegating authority more broadly within the firm, would be strategies that would lower the cost of a high quality succession.<sup>11</sup>

If we represent the “market succession” option (hiring a professional manager at the going rate) by  $S_m$  and the “grooming option” by  $S_i$ , where  $i$  represents the candidates “groomed”, then we can define  $S_m$  as a combination of the probability of finding an appropriate candidate by the going wage. Meanwhile,  $S_i$  depends both on the number of individuals “groomed” (is increasing in  $i$ , and yet is also a function of the longevity of  $i$ : clearly some of those “groomed” will not remain with the company until the founder retires.<sup>12</sup>

Therefore, depending on the market price and the availability of good candidates, it might be “cheaper” to “groom” candidates internally. Particularly in companies with high turnover, it might be better to increase the pool of candidates to groom, such that large, dynamic organizations display some pathways to moving away from CCMs to DCMs.

Firms operating via DCMs have a problem of transferring the democratic culture that functioning DCMs require to subsequent generations. While founding generations may have experienced the events, crises and tumult of the firm’s founding and thus have a direct connection with the related *mythos*, inducting subsequent generations into this *mythos* has presented a significant challenge in a variety of democratic firms like cooperatives. [Hafner, 2009]

Greg Dow spends Chapter 11 of [Dow, 2018] highlighting a particular theoretical problem. Particularly, he is concerned with the problem of a firm’s succession. The discussion can be summed up with the idea that in a partnership, where two individuals share a firm’s assets and together produce a good, a dilemma occurs when selecting successor candidates to fill vacancies. As prior experience of candidates is unavailable, Dow argues that candidates have an incentive to signal being high quality in all cases, even when they are low quality candidates. As partners have strong rights in the firm, it is assumed the remaining partner cannot simply fire the new partner. Thus, assuming adverse selection, the rate to which the new member’s wage contract

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<sup>11</sup>Cf. [Dow, 2018, Chapter 10 and 11].

<sup>12</sup>Of course, there is an argument to be made that increasing the remuneration and/or status of those to be “groomed” may increase the likelihood of remaining in the firm, but at some point, the increase in privileges will be greater than the additional cost of increasing the pool of those “groomed”.

approaches tends to be less than that of a high quality member.<sup>13</sup>

It is clear that the cooperative form offers solutions to this succession problem. By offering the candidate a probationary period, the risk of choosing the wrong candidate is reduced. Certainly, any private law practice can also impose such a probationary rule, as well. However, the cooperative form, by the fact of operating on a particular set of principles like one-member-one-vote privileges non-strategic (in the sense of non-opportunistic) behavior. It does this by offering membership as the norm instead of the exception. This fact discourages strategic behavior, as we will discuss below. Furthermore, as we argue in the next section, the mechanism responsible for motivating this authentic behavior is the convergence of discount rates that occurs as a result of the prospect of psychological ownership.

### 7.3 The Firm as Anticipatory System

There are many ways to view economic organizations (firms). Generally, standard, neoclassical economics of the Walrasian type views firms as price-taking profit-maximizers. Obviously, this model is not sufficient, considering the parameters of interest in the 21st century world. Just to remind the reader of the study represented in Figure 1.1: the questions of contemporary relevance go far beyond the model of the price-taking, Walrasian firm.

Thus, it would appear that the Walrasian image of a firm as a single-minded profit-maximizing machine is anachronistic with the social aims of contemporary economics.<sup>14</sup> We thus advocate for the view of a firm as *anticipatory system* [Leydesdorff, 2021]. This change has several consequences: firstly, it allows firms to be viewed dynamically instead of just as static recipients of orders and prices from suppliers. Secondly, this allows us to adapt the model to a wide range of firms. This moves us away from the “Samuelsonian vice” of adapting the question to suit the methods of analysis. It also facilitates a dialogue with ecology, via the route of such “environmental” theories, such as [Pfeffer and Salancik, 2003]’s. All of this means, as Lucio Biggiero has commented, that recognition of complexity, interaction and interdependence “vanishes [sic] approaches based on optimization algorithms” and ‘crowds out mainstreams in economics and operation research.’” [Biggiero, 2001, p. 15]

One of the interesting results of viewing a firm as an anticipatory system is that one becomes quickly aware of the benefit of information flow. As Popper felt that an open society requires the free flow of information, a resilient

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<sup>13</sup>[Dow, 2018, p. 179]

<sup>14</sup>This single-mindedness has even been referred by authors like [Bakan, 2012] as being “psychopathic”.

and adaptive firm requires a reciprocal flow of information. As we saw in the previous chapter, this is best guaranteed by ensuring trust and other pro-social values are actively cultivated. We return to this question both later in this chapter in 7.6 and continue the discussion in Chapter 8. Suffice it to say, the view of a firm as an anticipatory system or network encourages the sorts of perspectives that generate complex, dynamic and interdependent views of the activities of firms and their stakeholders. Instead of interpreting economic outcomes as “spontaneous order” in the nomenclature of Hayek, we may introduce concepts like “negotiated coordination”. And it allows us to furthermore ask what types of firms operate better as anticipatory systems, given a particular context.

### 7.3.1 Time, Risk and Uncertainty

“the availability of time and energy are the fundamental constraints that any economy has to obey.”[Cockshott, 2020, p. 21]

As the above quote suggests, those resources which impose the most immediate constraints on any organization are time and energy. These constraints manifest themselves not only in the form of what economists call *opportunity costs*, but also in the form of what [Pfeffer and Salancik, 2003] refers to as *resource constraint*, the idea that “if you wanted to understand organizational choices and actions, one place to begin this inquiry was to focus less on internal dynamics and the values and beliefs of leaders and more on the situations in which organization were located and the pressures and constraints that emanated from those situations”<sup>15</sup>. Indeed, over and against these constraints, time constrains organizations in the non-ergodic sense: the past and past decisions have certain binding, as well as shaping, characteristics. They bind organizations in that they create sunk costs, not only in materials, but also associations with other organizations. And they shape the expectations of their members and the external organizations with whom they associate.

Thus, in this section, we return both to the concepts of co-determination and (non)ergodicity. These two concepts can interact. In fact, co-determination can be interpreted as a means of dealing with the complexity and indeterminacy which non-ergodicity implies. We thus begin this section by briefly returning to the ergodicity debate, refreshing a debate we introduced in 2.6.7 on the evolution of cooperation. Following this, we connect the issues raised with notions of moral co-determination.

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<sup>15</sup>[Pfeffer and Salancik, 2003, p. xi]

A recent paper by Ole Peters and Alex Adamou argues that cooperation has advantages in terms of reducing risk and uncertainty that go even beyond deontological principles. In this vein, [Peters and Adamou, 2015] return to the question raised by [Axelrod and Hamilton, 1981] and others, asking the nature of the mechanism by which net fitness gain accrues to individuals cooperating toward some end. Their main finding is that, whereas long-term growth rates are volatile, multiplicative and noisy, a benefit can be postulated to exist where individuals who pool resources reduce the aforementioned volatility, thus securing a higher overall long-term growth rate

The impact of risk reduction on long-time growth suggests that risk management has a rarely recognized significance. Fluctuation reduction, or good risk management, does not merely reduce the likelihood of disaster or the size of up and down swings. It also improves the long-time performance of the structure whose risks are being managed. While the effect of reducing fluctuations depends on the specific setup, it is tantalizing to see that the simple and universal setting of multiplicative growth favors structure in the form of large cooperative units. [Peters and Adamou, 2015, p. 14]

This conclusion, which underlines the idea of a firm as an anticipatory system, is congruent with the notion of *multi-level selection* introduced above.

Turning now to the question of how the above discussion relates to co-determination, we must reject the notion that economic phenomena, e.g., savings behavior, must necessarily have a “pecuniary” character, using the language of J.S. Mill. Thus, “[n]eoclassical economists explain the level of saving mainly by the size of one’s income (the higher one’s income the more one saves), by the desire to provide for consumption in retirement, and by the level of interest rates.” [Etzioni, 2010, p. 53] However, as Etzioni argues and research in psychology and behavioral economics continually confirms, savings behavior is not only determined by such phenomena. Thus,

There are at least three moral values that also affect the amount saved: the extent to which one believes that it is immoral to be in debt; that one ought to save (for its own sake) and in order not to be dependent on the government or one’s children; and that one ought to help one’s children “start off in life.” These moral commitments are affected in turn by the content and level of morality in society, by the values of one’s subculture (for example, these pro-saving values seem stronger in small towns than in the big cities), and by other non-economic factors. (*Id.*, pp. 53-4)

Thus, while savings are traditionally considered by economists as a vehicle to balance risk and uncertainty as constrained by income, there are two points that can be made to establish an alternative explanation. The first is the point made by [Peters and Adamou, 2015], that groups and individuals who display pro-social behavior like saving may over the longer-run be better able to sustain themselves. The second, to reiterate Etzioni's counterargument to the neoclassical vision, can be summarized with the phrase "[i]t seems much more plausible to assume that people have a moral commitment to help their children." [Etzioni, 2010, p. 54]

To return to the above discussion of coordinated equilibria, they can clearly serve as tools to increase both collective and individual welfare. They do this by implementing an external mechanism like a social norm or principle that choreographs the transaction to achieve outcomes that "mere" strategic interaction of the kind bacteria are capable of cannot achieve [Axelrod and Hamilton, 1981, pp. 94ff]. They sustain themselves via a mix of symbolic and vicarious learning and communication. Such mechanisms could be a product of repeated interaction. Social norms are examples of such mechanisms. Our gene-cultural co-evolution equipped us at some point with the emotional intelligence to "read" many emotions and sentiments from our neighbors and those we interact with. These faculties are the result of millions of years of evolution that greatly reduces the costs associated with communication and coordination. Thus, social norms like saving can be interpreted as risk-reducing mechanisms that increase total welfare by smoothing out long-term growth rates (e.g., of income). We return to this issue again in the next chapter in the guise of a qualitative approach to money, following [Zelizer, 1989].

These concerns obviously carry over to the level of the firm:

The utilitarian[...] and methodological (need for one common denominator) pressures, and the disregard of the role of values, evident in the neoclassical economic theory concerning individual choices, are also very much in evidence in the theory of the firm. Here, the concept of "profit" instead of pleasure is applied as the single over-arching goal. Neoclassical writings often read as if the firm is nothing but an oversized individual who seeks to maximize the utility of his or her investments, as if the firm embodies the entrepreneur or "the owner." [Etzioni, 2010, p. 55]

However, as we have said at the outset, firms should be interpreted more as anticipatory systems and, thus, we agree with Etzioni when he argues that

Large amounts of research have shown that firms do not pursue one over-arching goal, but that they have mixed goals; they do

not maximize any one utility, and are internally divided rather than acting in unison [...]. Among the goals that compel executives are those prescribed as morally appropriate by their peers, communities, and society as a whole. These are rarely limited to maximizing profit [...] (*Id.*)

Thus, in agreement with the bent of relational economics, multiple logics drive organizational behavior. These multiple logics are driven by different interest groups, as [Ferreras, 2017] and [Wieland, 2018] argue. At the same time, they are also the result of environmental constraints on organizations. However, “[d]espite the importance of the environment for organizations,” [Pfeffer and Salancik, 2003, p. 3] writes,

relatively little attention has been focused there. Rather than dealing with problems of acquiring resources, most writers have dealt with the problem of using resources. Theories of individual behavior in organizations, theories of motivation, leadership, interpersonal communication, theories of organizational design—each concerns the use of resources. The central goal of most theories is the maximization of output from given resources. Questions about how to motivate a worker to be productive are common. But questions about how resources come to be acquired are left unanswered or are completely neglected.

Thus, Pfeffer concludes,

if you wanted to understand organizational choices and actions, one place to begin this inquiry was to focus less on internal dynamics and the values and beliefs of leaders and more on the situations in which organizations were located and the pressures and constraints that emanated from those situations [...] and] although organizations were obviously constrained by their situations and environments, there were opportunities to do things, such as coopting [...] sources of constraint, to obtain, at least temporarily, more autonomy and the ability to pursue organizational interests. (*Id. pp. xi-xii*)

Thus, time, risk and uncertainty in the form of non-ergodicity motivate organizations to act *co-determinatively*, in accordance with multiple logics, rationalities and heuristics. As they face varying levels of uncertainty and risk, they are confronted with tests that often require a rapid shifting of logics, from one goal to another, and sometimes to multiple, competing goals. One is reminded of Nietzsche’s discussion of semantics, in which he argued that “a

word is like a pocket, it can hold now one thing, now another, and on occasion *many things at once!*"<sup>16</sup>. The Covid-19 pandemic has been a test for many firms' governance approaches, and has "offered insights into organisational readiness. For example, in a study by World Commerce and Contracting, 81% of respondents acknowledged the weaknesses in their contract management systems" in the wake of the pandemic. [Biggiero, 2022, p. 241]

In the next section, we discuss how this circumstance impels us to shift decidedly from static to dynamic models.

### 7.3.2 Moving from Static to Dynamic Models

Organizations bring multiple logics together in anticipatory systems. They serve in many instances to constrain time-inconsistency by imposing constraints on individual agency. They furthermore facilitate a high degree of cooperation and over the long-term facilitate trust. They are thus centers of varying levels and degrees of communication and cooperation.

Of course, on the other hand the case can be made for the need for "creative destruction" in the process of innovation. [Schumpeter, 2006] According to this version of the story, innovations are frequently accompanied by turbulences within existing markets and organizations. These are what [Shaikh, 2016] refers to as "turbulent macrodynamics." In the end, the notion of "creative destruction" is just a term to describe another of the many functions that firms embody. It, too, can be attributed to being a characteristic of an anticipatory system. As [Christensen and Bower, 1996, p. 205] described in discussing disruptive versus sustaining technologies, "the firms that led the industry in introducing disruptive architectural technologies ... tended overwhelmingly to be entrant rather than established firms".<sup>17</sup>

Thus, in addition to a question of resource constraints, anticipation and multiple logics, the notion of *competition* must also resurface in some form, even within the domain of *cooperative* microeconomics. We have already introduced the concept of the *agonic*, which we argued in the conclusion of Chapter 5 provides a solid foundation for re-introducing competition within the context of cooperation, or, alternatively, of framing competition within an overarching context of cooperation. At this point, it should suffice to say that when we move from static models and conceptions of what firms are to dynamic ones, we are in a better position to analyze and predict behaviors and outcomes of a wide range of functions, as well as firm types. In a world of pluralistic interchange and interdependence, where the most pressing issues

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<sup>16</sup>[Nietzsche, 1900]

<sup>17</sup>Cited in [Pfeffer and Salancik, 2003, p. xvii]



are not necessarily an increase in the wealth of nations but, e.g., achievement of ecological and social sustainability [Wieland, 2018], dynamic models are called for.

Thus, in the next section, we wish to investigate an important issue within the context of organizations: *the social context of agency*. There, we wish to re-introduce some of the concepts brought up in the prior chapter, especially those around social learning. These concepts will be marshaled towards the task of studying how alterations in the ownership structures in traditional firms can facilitate the achievement of new forms of agency and consciousness within organizations.

## 7.4 The Social Context of Agency

In this section, we are interested in the larger social context of agency. It will be our purpose to underline what significant role that context plays. Numerous social scientists have written on the role of context within agency, including [Weber, 2015], [Pfeffer and Salancik, 2003] and [Lewin, 1951] have underlined the role of context and much of Chapter 7.5 was concerned with spelling out concepts like *non-separable preferences*, which fundamentally implicate context in determining rationality<sup>18</sup>. A social context is of course determined by rules. These, in turn, are reflections of underlying relationships and, of course, power relations, as [Hirschman, 1970] and others<sup>19</sup> have pointed out. As these are polyvalent, there will always be multiple logics, rationalities and imaginaries in organizations, which cannot be captured by a utilitarian focus on interests. As Durkheim remarked,

While interest brings people closer together, this is a matter of a few moments only; it can only create an external tie among them . . . The consciences are only in superficial contact; they do not penetrate one another . . . every harmony of interest contains a latent or delayed conflict . . . *for interest is what is least constant in the world.* [Durkheim, 1893, 180-81, own emphasis], cited in [Hirschman, 1982]

Thus, we are concerned here with the greater social context in organizations – what Pfeffer refers to as the “external” context –, in as much as this has an impact on the logics of the various stakeholders and their ability to realize their interests within an organization. We thus join [Pfeffer and Salancik, 2003]’s call for moving away from merely using efficiency as a measure and adopt the

<sup>18</sup>Cf. also the discussion of *state-dependence* in [Warren, 2015].

<sup>19</sup>The author would be remiss to forego mentioning, e.g., [Marx et al., 2010].

dynamic qualities of *effectiveness*. E.g., an *effective* organization exhibits a certain balance between innovation, environmental change and adaptation on the one hand and stability and consistent expectations on the other. Environmental change, of course, has multiple causes. Two major sources of change are a) due to path-dependent processes of social and technological (including legal) development, but also b) due to “conjunctural”, e.g., business cycle, shifts<sup>20</sup>. Organizational efficacy viz a) reflects the practical embeddedness of organizations in both “deep” and “shallow” networks (e.g., associations, consortia, business groups, research projects, etc.). [Granovetter, 1985]

At the same time, in order to be effective viz. b), organizations must expend effort to align the agency of the various stakeholders and interest groups of which an organization consists (both in terms of roles: employees vs. management vs. equity stakeholders; as well as in terms of departments). Traditional economic and management literature mostly considers alignment viz b) via contracts and incentives. Therefore, and in order to compensate for this shortcoming in the literature, this section intends to examine the means available to shift fundamentally from principle-agent vantage points, with their focus on incentives, as well as from non-cooperative vantage points with their emphasis on contracts.<sup>21</sup>

Instead, we intend to apply a relational logic couched in the moral economy concepts introduced in the last chapters. This perspective embraces the notion of an organization as a (potential) vehicle for the provision of all stakeholders’ needs. The degree to which this can be achieved falls within the domain of effectiveness. According to [Pfeffer and Salancik, 2003, p. 34], this is what people are actually talking about when they speak of “efficiency”.<sup>22</sup>

Thus, the remainder of this section will in turn consider dynamic paths towards increasing general organizational effectiveness with respect to the two parameters raised in b) above: incentive-based reasoning and contract-based reasoning. Immediately below, we will develop in several stages arguments that, in many cases, benefits can be gained in terms of effectiveness by shifting from a non-cooperative view of organization to a cooperative view. Then, following this discussion, we apply a similar multi-stage analysis to arguing for benefits to shifting from a model of organizational contracting to one of partnership.

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<sup>20</sup>[Winter and Nelson, 1982] refer to these as the two aspects of “Schumpeterian” innovation. See also [Leydesdorff, 2021, p. 91f.] and [Biggiero, 2022, p. 52]. Moreover, Schumpeter spells these two aspects out more clearly in his “lost” seventh chapter of the *Theorie of Economic Development*; cf. [Peukert, 2002].

<sup>21</sup>The workhorse model of this vantage point is, of course, the Prisoner’s Dilemma.

<sup>22</sup>“Effectiveness as assessed by each organizational evaluator involves how well the organization is meeting the needs or satisfying the criteria of the evaluator.” (Id., *supra*).

After this, we attempt to abstract from a discussion led in [Vieta, 2019] on the qualitative paths towards the latter model of *cooperative partnership*, contrasting a *negotiated* path with a *struggle*-based path.

Following this, we conclude the section with reference to the theory of multi-stakeholding. Attempting to *sublimate* (*Aufheben*) Ellerman's neo-abolitionist appeal from Chapter 5, we reflect again on Ludwik Fleck's notion that "when two thoughts..." In this regard, we wish in the following to investigate the use or relevance of the idea of a *multi-stakeholder cooperative* as such a third idea or "third window".

Moving from a restrictive "internal", static firm calculus to a dynamic calculus that extends the analysis to phenomena beyond the scope of the firm offers us a vantage point that allows addressing many of the most critical issues of the present, including the looming and dangerous climate crisis. In the concluding two sections, we will analyze arguments for shifting towards a more "publicly"-oriented notion of organization, before concluding by drawing up the section's main arguments.

### 7.4.1 From Non-Cooperation to Cooperation

If pecuniary preferences are indeed autonomous (separable), then it should be possible to stimulate right action via the use of material incentives. The Prisoner's Dilemma is intended to show this notion. It assumes a rudimentary model of non-cooperating, self-interested agents, as close as we can theoretically get to the pecuniary-oriented agent Mill has in mind. These agents are placed in a situation where their choices are severely constrained. The resulting outcome, in which each agent confesses the guilt of the other, is in neither agent's interest, but is assumed to be inevitable, based on the perception that rational agents maximize utility based on expectations. However, as repeated experimental trials and proto-experimental settings in the field have shown, and as discussed in 6.4.7, real agents wildly diverge from the outcome predicted by the model.

These divergences in fact stimulated Elinor Ostrom's investigation of long-standing ?? projects across the world. [Ostrom, 1990] To the charge that "the model isn't realistic", one might also add that of *performativity*. As discussed, this consists of the mental impact theories have on shaping expectations. Examples such as [MacKenzie et al., 2007, pp. 54-86] have displayed quite vividly the normative and *performative* impact economic theories can have on diverse ranges of actors. We see generally that the social nature of scientific discovery has an impact on the perceived limits of social action, and this is the case for theories regarding economic interactions and firm governance as for many other disciplines. As stated in the initial problem statement in Chapter

1, due to the lack of suitable theoretical basis, many scientists working on the Third Sector, social economy or within non-traditional enterprises like cooperatives and foundations<sup>23</sup> frequently resort to theoretical constructs developed in inappropriate contexts.

Therefore, we wish to connect the general discussions of the last chapter with the specific environment of *democratic* organizational governance. In so doing, we seek to establish a firm theoretical basis for moving away from incentives as the primary motivation within organizations. The theories discussed and developed in Chapter 6 stressed the *non-separability* of pecuniary and non-pecuniary motivation and pointed to a model of *co-determination*, where the imposition of constraints can achieve mutually beneficial outcomes. As we saw, as long as these constraints respect the necessary and sufficient conditions for democracy, which we collapsed into *inclusion*, *equity* and *accountability* (the “I, E and A” conditions), with their respective measures, such constraints can receive wide-spread legitimacy from stakeholders.

Returning to the ideas introduced in the prior chapters, we ask here – *in general* – how can we begin describing, discussing or introducing causal mechanisms capable of achieving with a high *propensity* certain behaviors and environments within an organization? In particular, we are interested in causal models<sup>24</sup> not only emphasizing incentives. These should combine constraints, as well as respecting the three key parameters re-introduced immediately above, i.e., I, E and A. Agreeing with [Aumann, 1974], it appears also to make sense to introduce the environment as an agent into the model. Although we are not convinced the assumption of common knowledge is necessary, the notion of common priors can indeed capture a shared mental model.

### 7.4.2 From Prisoner’s Dilemma to Correlated Equilibrium

Where norm-based and act-based rationality meet in the traditional scheme of things is the *Prisoner’s Dilemma*. One of the main distinctions between real situations resembling a Prisoner’s Dilemma and the theoretical model is repeated interaction. This facilitates reputation. In economics jargon: the probability distribution of outcomes in a situation resembling a Prisoner’s Dilemma resembles a Nash equilibrium result, creating strong incentives to deviate from the socially optimal outcome, represented by the steep hyperbolic probability distribution function in Figure 7.2. Here the steep slope visualizes the strong incentive to deviate from socially optimal outcomes.

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<sup>23</sup>Not to speak of traditional entrepreneurs with more socially-inclined interests.

<sup>24</sup>We speak in the plural, as there may be several similar models.

Meanwhile, in a coordinated equilibrium, certain reputational effects or an honor codex choreograph stakeholder activity. The deviant outcome is still possible, but for many guided by an honor codex or other expression of norms, deviance is unimaginable. Thus, the slope in Figure 7.3 is much more gentle, reflecting the relative stability of the socially optimal behavior<sup>25</sup>. Thus the probabilities of scenarios where deviations occur are severely reduced by persons guided by such an equilibrium. The question obviously arises as to which mechanism is responsible for such regular deviation from what a model of self-interest predicts. Clearly, some combination of reputational effect and endogenous or intrinsic motivation is playing a role in producing such outcomes.

We again reproduce Equation 4.1 and remind the reader that the relational perspective renders (relational) transactions the basic unit of analysis. These depend on the complementarity of informal and formal, as well as organizational as well as individual parameters.

$$RT = f(I, O, SII, SFI). \quad (7.1)$$

We discussed many of these in the preceding chapter, including trust, transparency, communication, legitimacy and merit. To what extent these elements are relationalized in a particular setting depends on both the history of the relationships in existence in that setting and the goals of the organization in question. The point of the relational perspective is not to give formulas for

<sup>25</sup>Or merely that which is termed “right action” or some other such heuristic.

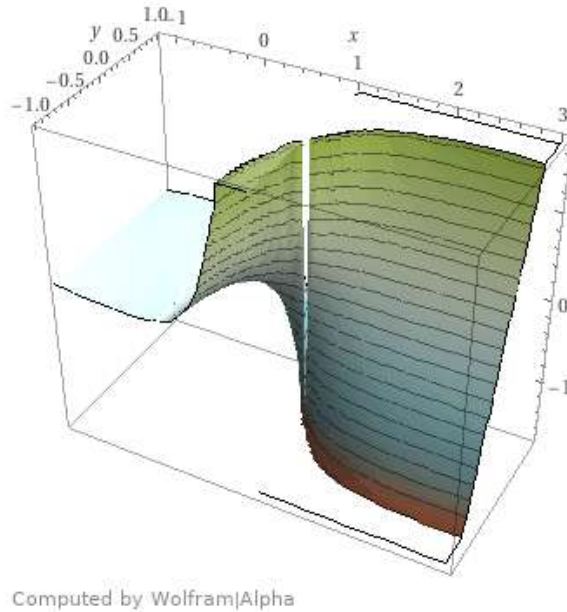


Figure 7.2: The strongly hyperbolic function represents the strong incentive to defect in the classical Prisoner's Dilemma scenario.

organizations to implement dogmatically, but to emphasize the importance of the *relationship* between elements, including relationships (e.g., viewing governance as a “relation of relations”). Thereby, it attempts to develop a mature perspective on both economics and organizational (i.e., management) theory.

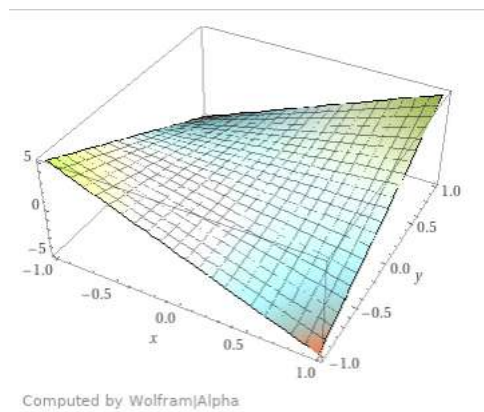


Figure 7.3: The weakly hyperbolic function represents the strong choreographic role social norms play in producing coordinated equilibria. Defections are still possible, but they are far less likely.

play and disregards the strong role these norms have in shaping behavior and preferences. [De Waal and de Waal, 1996]

Thus, constructing models reflecting this entangled nature of preferences – pecuniary, social and otherwise – appears to fit within the agenda of devising parsimonious perspectives that are nevertheless realistic and cohesive. Otherwise, social scientists run the risk of creating ever more complex exceptions to their models, which undermine the generality of those models. Just as Keynes developed a *General Theory of Employment, Interest and Money*, a *General Theory of Cooperation* must incorporate non-pecuniary, rules-based action.

<sup>26</sup>See a forthcoming paper by Fetchenhauer and Erbenraut at the University of Cologne, which confirms that relational approaches are valid even in anonymous online exchanges with little opportunity for developing reputational effects.

The fascinating contribution of the relational approach is to extend relationships beyond stable networks and its insistence that such relationalizing is a *general* phenomenon. Thus, even in situations with little opportunity for generating reputational effects, observed behavior often significantly diverges from the predictions of the Prisoner’s Dilemma. Thus, experiments like those of Fetchenhauer<sup>26</sup>, [Fehr and Camerer, 2007] and others have revealed a certain “preference for justice” among participants in anonymous experiments. Thus, social norms appear to choreograph a large degree of human behaviors, especially those governing social interactions. A purely pecuniary motivate cannot account for the richness of preferences most real agents display

### 7.4.3 From Contract to Association

The second way that traditional economics and management literature discusses aligning stakeholder interests is via contracts. [Ostrom, 1990] describes this perspective as “The Market Is The Only Solution”. This viewpoint is represented by entries like [De Soto, 2000], who advocates for a general extension of private property rights as a solution to various social dilemmas, including economic development. One can trace this tradition back to Hume and Montesquieu, “who offered thoroughly optimistic views toward the expanding of markets. As markets expand and more and more goods are produced as commodities on the market for trading via money, prices tend to decrease on the whole”<sup>27</sup>

But after money enters into all contracts and sales, and is everywhere the measure of exchange. . . all commodities are then on the market, the sphere of circulation is enlarged; it is as if that individual sum [of money] were to serve a larger kingdom; and therefore, the proportion being here lessened on the side of the money, everything must become cheaper, and the prices gradually fall.[Hume, 1907, p. 175]

Montesquieu similarly advanced a theory known as *deux commerces* [Hirschman, 1982]. However, there is a growing recognition of the limitation of contracts in aligning stakeholder behavior. Much of the Post-Walrasian tradition outlined in 2.3 focus on so-called *endogenous claim enforcement*. Much of this writing concerns the fact that contract enforcement introduces costs. A prominent example within this tradition is the notion of *contested exchange* introduced by Bowles and Gintis in [Bowles and Gintis, 1993]. Thus, there are costs of monitoring, and these actually reduce general welfare. Speaking generally, a relationship established contractually precludes forms of rationality and structures, both action and knowledge, besides instrumental ones, from flourishing. This does not mean such relationships cannot arise *nevertheless*, but the formal contractual exchange relation is generally a *substitute* and not a complement of relational approaches. [Wieland, 2018, pp. 43ff.] Such relationships furthermore constrain the deepening and broadening of the relationship beyond what the contract stipulates.

This can serve to handicap the organization’s resilience and adaptability in strongly volatile situations (e.g., economic crisis). It can also serve to hamper organizations in achieving innovation. This risk was clearly recognized by

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<sup>27</sup>From an unpublished essay, entitled Jerome Warren, *Interest Rates, Money Capital and Exploitation* and written under the supervision of Dr. Thomas Sablowski at the Rosa-Luxemburg-Stiftung.

[Schumpeter, 1976] in his notion of capitalism's tendency towards bureaucratization and stagnation. An example of this can be seen in both the offer and willingness to take up on-the-job training or education. Both employers and employees in traditional contractual labor relations are dis-incentivized from offering and taking up additional training, for much the same reason: employers because of the risk of free-riding on the part of workers. They may take up training and quit. Employees, on the other hand, are disincentivized because of moral hazard: they may be fired, or decide to quit their job<sup>28</sup>.

All forms of incentives do not eliminate this risk, they only displace it<sup>29</sup>. True partnership, what is in Spanish labor law referred to as “associational work”<sup>30</sup>, and in the sense satisfying IEA, offers a solution to the problem, not by displacing it, but by directly impacting more fundamental psychic processes, those which Bandura referred to as “self-efficacy” and which Maslow referred to as “self-actualization”. By side-stepping the terrain of external incentives, partnership or associational work operations in tandem with co-determination and effects crowding-in, tending to align cost-benefit analysis with moral reasoning. We see examples of this in the fact that decisions reached broadly are generally preceived as legitimate, whereas those made by a small cadre often tend to polarize. We have led much of the formal discussion on these topics in the prior chapter.

On the organizational level, benefits of the increased level of self-actualization on the part of workers can be seen in the likely increase (magnitude) and deepening (scope) in organizational commitment. This can be indicated by the degree of *informality* possible within the organization. As an example, the President of Metalcoop, a small industrial worker cooperative in Tuscany, recalled operating machines even in the company's insolvency, “to ensure we maintained a client pool and completed orders, even with very large delays”<sup>31</sup>. This kind of behavior can be explained with the inclusion of what [Ferrerias, 2017] refers to as “expressive rationality” that is stimulated by association, and can be considered a manifestation of a correlated equilibrium represented by Figure 7.3 above.

The benefits of “associational agency” are not limited to informality. As alluded to above, and as argued by Schumpeter, firms employing translative hierarchies tend in Weberian fashion to “bureaucratization” and thereby become less dynamic over time. One of the effects of associational agency is to foster intra-organizational dynamism. This is partly achieved in the increased

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<sup>28</sup>Certainly, such risks can be included in a formal contract, but, again these are associated with non-negligible enforcement costs.

<sup>29</sup>Cf. “grim trigger” strategies in [Gintis, 2000, p. 203f.].

<sup>30</sup>Cf. Chapter 10.

<sup>31</sup>Interview with Gabriella Barsottini at Metalcoop, March, 2019.



valorization which labor has in such organizations and at the same time a result of the heightened role of informality alluded to immediately above. The first effect can be identified by referring to the fact that cooperatives frequently refrain from firings or laying-off during downturns and in case of insolvency, preferring instead to redistribute losses broadly and in cases like Mondragon, reallocating workers to firms within the network. [Altuna Gabilondo, 2008] This obviously prevents useful skills from being wasted via business cycles and thereby contributes to organizational dynamism.

#### 7.4.4 From Principal-Agent to Associational Agency

In particular, we see that many of the effects of shifting from contract to association can be summarized by a theoretical shift away from the principal-agent (PA) model to a model of associational agency (AA). This shift can be described with reference to two metaphors. It is like comparing a front lawn in a rental property with an Alcoholics Anonymous meeting. In the first example, both the landlord and the renter have incentives to neglect the lawn: the landlord because she doesn't live on the rental property and doesn't see it; the renter because the state of the lawn doesn't necessarily reflect upon his character: it's not his lawn, and he may move next month.

On the other hand, a member of Alcoholics Anonymous has a "sponsor" who is – ideally – inextricably intertwined with the member's actions if she feels pangs of relapse, she is to call or meet with her sponsor (ideally at any time of day or night), who is then supposed to provide an environment in which the troubled member can work through their crisis [Emrick, 1987]. The point in comparing the two – metaphorical – examples is to demonstrate that the agency in the first case is independent of the other party, whereas in the second example is interdependent and reciprocally determinate, in the language of Bandura. There can be many reasons for preferring an AA arrangement over a PA arrangement, including efficiency, effectiveness and legitimacy.

Elinor Ostrom discusses the pitfalls of removing local actors' agencies in governing CPRs in [Ostrom, 1990], critiquing both the state- and market-oriented PA models as insufficient to coordinating all forms of social activity. Sam Bowles in [Bowles et al., 2012] similarly discusses the inadequacy of merely *ex-post* redistributive efforts of dealing with inequality. Fundamental analytical issues arise in any situation governed by a PA design, as discussed in 2.3. These include moral hazard, costs of enforcement, conflicts of interest, problems of accountability and transparency and generally divergent preferences. PA designs generally see no endogenous means for redressing these issues, and must generally rely therefore on exogenous enforcement

via contracting<sup>32</sup>. It has already repeatedly been shown that contracting is severely limited in what it can incorporate into the preference structure of the involved parties. *Incomplete contracts* is a term with few detractors, but as we have attempted to show in the preceding sections, there are far more parameters where a cooperatively organized AA model may be preferable.

Another argument is along the lines of [Jayadev, 2007], [Jayadev and Bowles, 2006] and [Bardhan et al., 2000]. This argument follows along the lines that PA situations contribute to waste by means of additional supervisory or surveillance costs. This raises the question as to the relative waste resulting in increasing numbers of laborers being employed to, e.g., prevent theft, surveillance, insure compliance and in other ways unproductively contribute to ensuring certain outcomes. Jayadev refers to this as “guard labor”, to distinguish it from productive labor. Within a framework of non-cooperation, regulated solely via contracts, such measures and their associated costs appears quite rational. Taking the perspective of association rather than contracting, however, reveals entirely different vistas and opportunities for AA-type agency.

Moreover, applying the PA dynamic in a general way in social settings raises fundamental *ethical* questions, including those of autonomy, sovereignty and subsidiarity, issues discussed in Chapter 6. One need only remind one’s self of Hegel’s *Master-Slave* dialectic (see 3.9.4) to think of deep dilemmas in any context of unequal information and asymmetric constraints on behavior, such as a PA situation. Whether irresponsible military officers ordering their soldiers into sure death or used car salesmen hawking lemons on unsuspecting customers, clear moral concerns arise in such situations [Akerlof, 1978]. Both the analytical and the moral reservations to PA situations serve as arguments for eliminating these wherever possible, in lieu of a situation of *shared* or *associational agency*, i.e., moving from PA to AA.

#### 7.4.5 Negotiation versus Struggle

The next question we asks relates to the *path* towards *associational agency*. It is one thing to describe the potential benefits to shifting from non-cooperation to cooperation and from contract to association. But, as the saying goes: “a bird in the hand beats two in the bush”. If organizations and their stakeholders, including managers, workers and/or owners are not informed as to the paths available to achieving such potentialities, they will tend to remain fringe phenomena and, for all intents and purposes, theoretical novelties [Bloch et al., 1959]. Thus, this section sets as its goal to delineate two such paths: firstly what can be referred to as *negotiation*, secondly what can be

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<sup>32</sup>Cf. [Bowles et al., 1993].

called *struggle*<sup>33</sup>. In each case, organizations originally established as translatable hierarchies are converted to inalienable hierarchies, with the particular path diverging.

### Negotiated Conversion

A *negotiated conversion* occurs, as the name would suggest, via negotiation. In this case, a proprietor or owner may decide that it is in her best interest to include stakeholders like workers and managers as active members of the organization, by selling or transferring part or all of the equity of the firm to these stakeholders. There may be many reasons for such a decision. Some of it may have to do with succession, i.e., that the owner is looking to step back from active participation and turn over the firm to other stakeholders and may see a benefit in transferring ownership and control to those with a history with the firm, who are inoculated to the firm culture. Another reason may be that the firm is troubled economically and no buyer can be located. A third reason may be ethical or ideological: many firm owners may prefer worker ownership as most desirable, not for instrumental reasons and even, perhaps, despite such reasons. [Bull and Ridley-Duff, 2016] A fourth reason may be pecuniary: there may be incentives for such a transfer.<sup>34</sup>

[Vieta, 2019] describes Italy as a territory where *negotiated conversions* regularly occur. These appear to occur for the most part for reason two above, that the underlying firm is struggling financially and local municipalities intervene together with Central Associations like Legacoop and with loans from the Labor Ministry and CFI, a funding agency for conversions financed by the three large cooperative federations. CFI claims to carry out between one and two such conversions a year and the average converted firm (which in Italy are referred to as *Worker Buyouts*) continue to exist for ca. twelve years.<sup>35</sup>

### Struggle Conversion

A *struggle conversion*, on the other hand, occurs *despite* (or, perhaps even *in contradiction to*) the efforts of owners. In this case, workers take over the firm adversely, often beginning with a *usufruct* occupation and ending in full appropriation of the firm and its assets. Such cases can be motivated by a “poisoned well”, where trust between employer and employees is at such a low level that employees see no other option but to take over. Additionally, the

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<sup>33</sup>These concepts are adapted from [Vieta, 2019].

<sup>34</sup>Cf. below in 11.4.2.

<sup>35</sup>Source: cfi.it

firm may be troubled and the owner owe workers back wages at such a level that they may be the largest creditors to the firm. In such a case, employees may have an immediate incentive to take over the firm, as the chance for recouping the lost wages may be higher by maintaining the firm than by liquidating whatever assets that may remain at the time of occupation.

For [Vieta, 2019, p. 136], Argentina presents a territory with considerable amounts of *struggle conversions*, particularly because this type of conversion tends to occur “especially in countries and communities hardest hit by the fallout of market failures, firm closures, and economic crises driven by neo-liberal policies. It is no coincidence, therefore,” writes Vieta, that such conversions are more prevalent in countries like Argentina.

Thus, while in the first case, the transformation from PA to AA is gradual and may never be fully accomplished, the second case presents an abrupt juncture between PA and AA. In each case, the conversion can be represented as a new macroculture supplanting an old one. In each case, as workers learn to take the reigns at the firm, they increase their level of self-efficacy.<sup>36</sup> The suitable model for describing the shift in macroculture for negotiated conversions appears to be the “vanguard” model, while the “whistleblower” model appears more suitable to describe the dynamics of a struggle conversion.

#### 7.4.6 Path-Dependence and Hysteresis

Ultimately, the path of a conversion matters. Whether an enterprise is designed from the outset to employ DCMs or employs a CCMs in an informal manner (perhaps the entrepreneur has sympathies for her employees and other stakeholders) makes a difference. For instance, the author spoke with a business owner at a conference for alternative business practices. The business owner described their enterprise in the following way:

We didn't put any thought into the legal form in which we founded the firm. . . a lawyer at the time [the 1980s] told us a limited liability [GmbH] would afford the least start-up costs, and so we chose that form [ . . . ] In our company, we always try to maintain a round table, where all stakeholders can express their opinions, even differences of opinion. But at the end of the day, a decision has to be made and then the table turns back into a square table.<sup>37</sup>

We see in this case that there is a CCM, but one that informally encourages discursive rationality. It can analytically be distinguished from a DCM

<sup>36</sup>A play written by students of the author emphasized the change in macroculture and the development of self-efficacy. The play was based on [Vieta, 2013].

<sup>37</sup>Discussion with entrepreneur at the GLS Geldgipfel, 2021.

organization, but maintains elements of democratic choice, in that trust, communication and cooperation are encouraged and, while accountability and equity may be lacking, inclusion occurs in the “round table” phase.

It would appear, then, that the path for an enterprise like that described in the above quote towards adopting a true DCM and elective hierarchy is easier than in a comparable organization without such features. This is because both of the prior cases together differ fundamentally from an enterprise with a formal CCM in place. In this case, a negotiated conversion will be difficult for multiple reasons. The first of these is that, while some of the necessary conditions may be in place (communication, cooperation, merit, and on occasion trust and autonomy), especially the latter two cannot be ensured within a CCM. Moreover, the sufficient conditions for a conversion, moral competence, transparency, mutual monitoring, sanctioning and legitimacy are frequently missing in such enterprises, or travel only in one direction (towards management or owners).

Thus, the more democratic values an organization displays *sui generis*, the easier a negotiated conversion will be, as the likelihood that the ratio of inclusion, the equity indicator and the O-value are sufficient is higher. A firm that bases its prerogative of cooperation strictly on non-cooperation and contractual relations, facilitated by a CCM is in the worst position for such a conversion to occur, and at greatest risk for a struggle conversion in the case that a crisis ensues. Thus, it may be in the best long-term interests of a far broader swathe of organizations than do so today to adopt DCMs or DCM-similar structures, as well as elective hierarchies, which may render the organization more flexible and crisis-resilient in the future.

In fact, returning to the (non)ergodicity question: if social reality is, in fact non-ergodic and neoclassical economics has had performative effects on entrepreneurs towards adopting ergodic frames of view, then a general shift in both economics and business school education towards time-average reasoning may have an impact on the nature of hierarchies and choice mechanisms in organizations. A focus on time-average rationality over and against ensemble averages could account for part of the preference for an entrepreneur to initially select, or later to switch to, a DCM and an elective hierarchy. Particularly, the boss may know a) the individual workers and teams and b) she may prefer “the devil she knows”, i.e., she may be risk-averse and unwilling to risk a significant change in the management “style” by selling the company to external investors or bringing in external professional managers if she knows, based on time-average experience, that the current setup is “good”.

Developing policies that encourage long-term thinking on the part of entrepreneurs like the one cited above would ensure that especially those entrepreneurs with a social mission, who, e.g., in the UK. make up roughly

one-third of all entrepreneurs<sup>38</sup>, are in the best position to realize these goals. Developing new curricula at business schools to emphasize team-based entrepreneurship and critical reflection on the (non) ergodicity question can further contribute to a shift in cultures. Consideration should also be given to granting tax exemptions for adopting DCMs or elective hierarchies or for employing policies which foster values of inclusion, equity and/or accountability according to the indicators laid out in the prior chapter.

## 7.5 Examples of Democratic Choice Mechanisms

One of the most puzzling gaps in the economics literature is a lack of analysis, understanding and interest in democracy, democratization and what we refer to as *democratic choice*<sup>39</sup>. Whereas [Ostrom, 1990] has correctly described and catalogued many examples of self-organization in an attempt to move away from the *NIE* framework and others, like [Arrow, 1974], have pointed to consensus as a legitimate form of collective decision-making, much of contemporary social choice theory (also including *collective choice* or *public choice*) does not explicitly endorse or emphasize democracy as an estimable goal<sup>40</sup>. Perhaps in the interests of appearing “value-neutral”, models have been constructed for describing and interpreting outcomes or for accounting for the absence of democratic processes in firms, but little attention has been paid to modeling dynamic situations with explicit reference to democratic processes of decision-making. Exceptions include [Habermas, 1981]. However, such literature is often methodologically strictly in the camp of philosophy or communications theory and has not reached into economics circles.

Here, we are in agreement with, e.g., [Sen, 2017], who suggests that the desire of being value-free is itself a value judgment and who, furthermore questions the validity of this desire, stating

For reasons that are somewhat obscure, being ‘value-free’ or ‘ethics-free’ has often been identified as being free from interpersonal conflict. The implicit assumption seems to be that if everyone

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<sup>38</sup>Source: private discussion with Rory Ridley-Duff.

<sup>39</sup>Where there is such a focus, it is the case that, as [Rogan, 2017a, p. 191] comments, “Economists began to think about decision-making less on the model of markets than on the model of the ballot box: decision by voting (directly at the ballot box; indirectly through legislative process) came to be regarded as integral to economic life.” Why voting and not other decision mechanisms? Is it another case of the “Samuelsonian vice”?

<sup>40</sup>Even the literature on “democratization” largely concerns an active “elite” and relatively passive “masses”, as in [Acemoglu and Robinson, 2006].

agrees on a value judgment, then it is not a value judgment at all, but is perfectly ‘objective’.<sup>41</sup>[Sen, 2017, p. 206]

Sen is also correct in expressing befuddlement at such a judgment, and he points out its superfluity, suggesting, while

[t]here is a clear difference between value judgments that everyone accepts and those that some do and some do not. . . [w]hat is, however, odd in all this is the fact that people should be at all moved to look for ‘value-free’ or ‘ethics-free’ welfare criteria. Unanimous value judgments may provide the basis of a great deal of welfare economics, but this is so not because these are not value judgments, but because these value judgments are acceptable to all. This banality would not be worth stating had the opposite not been asserted or implied in much of the literature.*Id.*, *ff.*

Where we seek to supersede Sen is the latter’s insistence on voting mechanisms as the only path for determining desirable social outcomes. In fact, our “genealogy of democracy” in Chapter 3 revealed that historically, most democracies used voting in a limited sense<sup>42</sup>. Other methods include(d) lotteries, coin tosses, appointment of dual heads of state, as well as mixed mechanisms like the *brevia* of Venice or the *scrutiny* of Florence in the Renaissance. Moreover, the above observation that collective discount rates involve emergent properties as well as the normative observation from Chapter 3 that democracy can be interpreted as a progressive value, which also entails emergent properties that cannot be explained or accounted for by linear methods, points to the need to extending the study of *democratic* choice beyond voting behavior.

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<sup>41</sup>Sen even expresses surprise at seeing Paul Samuelson supporting this endeavor: “It is remarkable that even Samuelson concluded his definitive article on New Welfare Economics by asserting that ‘the only consistent and ethics-free definition of an increase in potential real income of a group is that based upon a uniform shift of the utility possibility function for the group.’” *Id.*

<sup>42</sup>And, in fact, as [Castoriadis, 1983, p. 99] points out, voting was explicitly considered and aristocratic mechanism:

For Herodotus as well as for Aristotle, democracy is the power of the *demos*, unmitigated in matters of legislation, and the designation of magistrates (not “representatives”!) by sortition or rotation. Scholars merely repeat today that Aristotle’s preferred constitution, what he calls *politeia*, is a mixture of democracy and aristocracy, and forget to add that for Aristotle the “aristocratic” element in this *politeia* is the *election* of the magistrates-for Aristotle clearly and repeatedly defines election as an aristocratic principle.

Thus, it is all the more puzzling that so little progress has been made in the domain of collective choice theory to extending the domain of *democratic* collective choice to mechanisms beyond voting. Classic entries like [Condorcet, 1785], [Arrow, 2012], [Buchanan, 1954], [Rawls, 1967] and [Sen, 2017], as well as more contemporary treatments like [Tangian et al., 2014] fail to consider the possibility of alternative choice structures to voting.<sup>43</sup> An exception can be found by [Ostrom, 1990], who however is generally limited in her analysis of choice mechanisms, as her research focused mainly on the possibility of self-organization of common resource pools. That economic organizations in the sense of running concerns can be similarly organized is not addressed by her research. As we point out below, the consequence is a literature almost wholly focused on analyzing outcomes, to the detriment of concerns of the paths to those outcomes, and alternative paths to entirely different outcomes.

We thus intend to develop a taxonomy for DCMs, to accompany the typology of DCM versus CCM. In particular, they will be judged to the extent that they prioritize the development of preferences over expedient decisions. Again, in agreement with Sen and Gintis above, we believe there to be an intrinsic value in DCMs, and we have seen the importance of preference development in facilitating it.

The criterion we employ is a polylingual and polycontextual approach that seeks to evaluate DCMs according to their strengths and weaknesses with respect to their (theoretical) potential for fulfilling the indicators of *inclusion*, *equity* and *accountability*. Moreover, we attempt to integrate a *transformative* perspective<sup>44</sup> into the analysis, one where various DCMs are evaluated in accordance with particular missions, e.g., de-oligarchization, gender or racial equity, transparency, etc. [Pek, 2019] We close the section with a discussion of the potential for mixing DCMs in practice.

We begin with consensus and then move to progressively less “consensual” DCMs, ending with sortition.

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<sup>43</sup>Buchanan even insists on an “either-or” criterion for evaluating social choice as either individually aggregative or with respect to “an independent entity possessing its own value ordering”. [Buchanan, 1954, p. 116] Moreover, Buchanan’s insistence on unanimity is odious to the majoritarian notion of democracy. A polycontextual, polylingual DCM must not necessarily be unanimous, and in many instances, unanimity would be detrimental to the survival of the going concern. Such a dichotomy may thus intentionally be designed to set up deliberative methods “to fail”.

<sup>44</sup>Cf. [Chevalier and Buckles, 2019].



### 7.5.1 Consensus

Consensus has been advocated for by Habermas as a democratic value [Habermas, 1990], as well as by Buchanan<sup>45</sup>, but has been rejected as impractical by a number of theorists for its “impracticality”. [Habermas, 2015] In the following, we use Habermas’ notion of *discourse ethics* to ground consensus.

Referring to the tradition of ethics, [Habermas, 1990, p. 63] argues that “[i]n theoretical discourse the gap between particular observations and general hypotheses is bridged by some canon or other of induction. An analogous bridging principle is needed for practical discourse.” Habermas then continues: “[i]nterestingly enough, in trying to identify such a moral principle, philosophers of diverse backgrounds always come up with principles whose basic idea is the same. *All* variants of cognitivist ethics take their bearings from the basic intuition contained in Kant’s categorical imperative.”

Speaking of Kant’s imperative, Habermas observes that “[t]his bridging principle, which makes consensus possible, ensures that only those norms are accepted as valid that express a *general will*. As Kant noted time and again, moral norms must be suitable for expression as ‘universal laws.’ *The categorical imperative can be understood as a principle that requires the universalizability of modes of action and maxims, or of the interests furthered by them*”. (Id., own emphasis) It thus goes beyond terms like “impartiality” or a mere aggregation of “acceptable” points of view.

Instead, *universalizable* modes of actions are ultimately *moral* in nature and extend beyond a particular lifestyle. (Id., p. 178) Or, as Habermas argues, “[t]he intuition expressed in the idea of the generalizability of maxims intends something more than this, namely, that valid norms must *deserve* recognition by *all* concerned. It is not sufficient, therefore, for one person to test whether he can will the adoption of a contested norm after considering the consequences and the side effects that would occur if all persons followed that norm or whether every other person in an identical position could will the adoption of such a norm.” (p. 65) Such universalization is therefore not “state-dependent” in the language of behavioral theory and requires both a principle and a process, is thus a multi-stage process.

Borrowing from Mead, Habermas establishes the first principle:

“(U) All affected can accept the consequences and the side effects its general observance can be anticipated to have for the satisfaction of everyone’s interests (and these consequences are preferred

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<sup>45</sup>Although we find Buchanan’s interpretation of consensus as “unanimity after discussion” thoroughly unsatisfying.

to those of known alternative possibilities for regulation).” (Id.)

The second, process-based, stage requires a stronger principle, which is derivative of (U). It is derived is introduced by Habermas in the following manner:

“(D) Only those norms can claim to be valid that meet (or could meet) with the approval of all affected in their capacity as participants in a *practical discourse*.”

While (U) reflects a general exchange of arguments, i.e., “as a rule of argumentation that makes agreement in practical discourses possible whenever matters of concern to all are open to regulation in the equal interest of everyone” (p. 66), (D) establishes a normative framework, a *discourse* by means of which a consensus may be established once agreement on the rule in question has been reached. (U) is thus a manifestation of the *typology* of *consensus* (as opposed to *authority* or *bargaining*<sup>46</sup>), while (D) represents the *logic* of *argument* (as opposed to *fight* or *game*<sup>47</sup>) So Habermas:

By entering into a process of moral argumentation, the participants continue their communicative action in a reflexive attitude with the aim of restoring a consensus that has been disrupted. Moral argumentation thus serves to settle conflicts of action by consensual means. Conflicts in the domain of norm-guided interactions can be traced directly to some disruption of a normative consensus. Repairing a disrupted consensus can mean one of two things: restoring intersubjective recognition of a validity claim after it has become controversial or assuring intersubjective recognition for a new validity claim that is a substitute for the old one. Agreement of this kind expresses a common will. (p. 66)

But, argues Habermas, recognition is not enough for consensus to operate, as this could occur in authority relations, as well: a Congregation responding “Amen” to the priest’s sermon can also be argued to recognize, without that recognition being consensual. “What is needed is a ‘real’ process of argumentation in which the individuals concerned cooperate. *Only an intersubjective process of reaching understanding can produce an agreement that is reflexive in nature*; only it can give the participants the knowledge that they have collectively become convinced of something.” (p. 67, own emphasis)

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<sup>46</sup>Cf. [Arrow, 1974].

<sup>47</sup>Cf. [Rapoport, 1960].

Habermas at this stage reformulates Kant's *categorical imperative* according to discourse ethics: "Rather than ascribing as valid to all others any maxim that I can will to be a universal law, I must submit my maxim to all others for purposes of discursively testing its claim to universality. The emphasis shifts from what each can will without contradiction to be a general law, to what all can will in agreement to be a universal norm." (Id.)

This form of ethics, so Habermas, relies on two conditions: firstly, "that normative claims to validity have cognitive meaning and can be treated like claims to truth", meaning, stakeholders must share a common lexicon and understanding of meaning, what Popper would call a "context of justification"; secondly, "that the justification of norms and commands requires that a real discourse be carried out and thus cannot occur in a strictly monological form, i.e., in the form of a hypothetical process of argumentation occurring in the individual mind." (p. 68) Thus, [Hirschman, 1970]'s criticism of the lack of "voice" in most organizations is here manifest in the inverse requirement of *real* discourse, not mere consent. Instead, consensus requires participation in order to function, for the reasons spelled out in the prior chapter.

However, as Habermas argues, participation does not follow automatically. "Argumentation is designed to prevent some from simply suggesting or prescribing to others what is good for them. [Instead, it] is designed to make possible not impartiality of judgment but freedom from influence or autonomy in will formation. To that extent the rules of discourse themselves have a normative quality, for they neutralize imbalances of power and provide for equal opportunities to realize one's interests." (p. 71) This should remind of [Bowles and Gintis, 1993]'s notion of "contested exchange", with its "long" and "short" sides. It also underlines the formal distinction between equality and equity.<sup>48</sup>

Thus, consensus, in Habermas' view of *discourse ethics*, consists of a *commensurable discourse* (in the sense of Rorty)<sup>49</sup> based on an agreed upon ethical norm (e.g., *justice*, or A,E,I) that facilitates a participatory form of argumentation. If this reminds the reader of our discussion of *regimes*, *trajectories* and *events*, that is because these elements of *discursive knowledge* or strongly based on Habermasian premises (see 2.2.3).

Ultimately, we see that consensus is a strong DCM as it focuses both on moving beyond any "Impossibility results" and on the *emergent* process of preference formation. Additionally, it ensures that the necessary and sufficient conditions of democracy, as seen in the instrumental values of *equity*, *inclusion* and *accountability* are respected. An important question is how one reconciles

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<sup>48</sup>Cf. [Rawls, 1971].

<sup>49</sup>Cf. [Habermas, 1990, p. 13].

the *principle* of discourse ethics with the realities facing going concerns, with their underlying logic of earnings–costs constraining them in a real way. We next look at sociocracy as one option.

### Sociocracy

The term *sociocracy* has a storied history and was first employed by social science pioneer, August Comte [Comte, 1858]. It was defined by Kees Boeke as “an organisation of the community by the community itself.” [Boeke, 1945] More explicitly, it emphasizes the principle of consent (concession) based on clear intensities of preferences that organization members hold. It could thus be interpreted as following [Sen, 2017]’s suggestion to develop choice mechanisms that incorporate elements of cardinality.

As sociocracy employs a consent-based variation on consensus, it should be seen as a derivative of consensus. Governance in sociocracy is organized into circles of, typically, between 4 and 8 individuals. Each circle has a particular domain of activity (responsibility) and certain aims (authority) that befall it. [Rau, 2021, p. 15] One *general circle* consists of the leaders of all the individual circles. Leaders are selected within each group.

Decisions in a circle are made by having group members follow three steps: firstly, *understanding* the proposed choice, which is facilitated by reading or stating the proposal and having group members ask questions in order to clarify its parameters, antecedents and intended objective. In keeping with principle (D) above, discussion in the first round should be neutral, i.e., non-judgmental and focused on the goal of understanding the proposal. [Rau, 2021, p. 7]

Secondly, circle members are invited to react to the proposal, expressing their support, disdain, criticisms or other reflections on the proposal. After this round, participants “have the opportunity to amend the proposal.” (*Id.*, p. 8) In the third stage, consent is asked of the circle members. Similar to the Athenian aversion to neutrality in controversy, abstention is not an option. (*Id.*, p. 9) If members have reservations, they should voice an objection to a proposal at this stage. In the case objections are raised, sociocracy envisions three alternative routes: a) modification of the proposal, b) shortening the term of duration of the proposal (e.g., introducing the duration of the proposed policy to a “probationary” period) and c) agreeing to allow the objecting member(s) to monitor for incidence of the outcome they are objecting in regards to. (*Id.*, p. 10) It should be remarked at this point that even roles in individual circles are assigned on this basis, and not by voting. (*Id.*, pp. 28ff.) That means leadership positions are occupied via consensus and not, e.g., by voting.

Generalizing the model, we see that sociocracy allows individual group members to a) specify their preferences regarding particular choices; b) define their range of tolerance within these preferences<sup>50</sup>; and c) it allows them to define clear “red lines” via objections. [Rau, 2021, p. 4] Thus, it would appear that sociocracy offers an efficient mechanism for a consensus-oriented DCM to facilitate collective decision-making in organizations, in consideration of their underlying cost–earnings logic.

### Assessment of Consensus

A fair assessment of consensus in a relational perspective attempts to counterbalance both its advantages and disadvantages. While traditional arguments against consensus refer to its high costs (e.g., [Hsu and Sandford, 2007]), such criticisms are usually firmly situated in a monolingual perspective lodged in notions of *transaction costs*. As the discussion in 4.6 attempted to make clear, a relational view must always counterbalance the costs of cooperation with any *relational rent* that accrues on the basis of extending the cooperative corridor. We reproduce Equation 5.1 at present:

$$CR_t - RC_t > 0 \quad (7.2)$$

Again, Equation 7.2 simply states that a cooperative endeavor should be weighed both in relation to its *benefits* as well as its costs. In the case of consensus, one element of the relational rent is the improvement of moral competence on the basis of the practice of autonomy and self-efficacy. These benefits cannot be overstated, as the discussion in the prior chapter attempted to demonstrate. Moreover, incorporating notions like *macroculture*, with an emphasis on notions of self-efficacy and self-actualization serve as frames of reference for showcasing the effect of social learning: consensus can be seen as a capacity-building activity, with mutually beneficial effects, both on individual stakeholders as well as collective actors like firms.

Thus, with reference to consensus, we can state that it is at the same time the DCM with the highest relational cost,  $RC_{con} > RC_{\_con}$ . This is because consensus requires knowledge on the part of the individual actors. This knowledge relates to both the epistemic priors and knowledge of the actors, as well as of the relationships between the actors.

At the same time, the dialogical approach that is represented, e.g., by Habermas’s *discourse ethics*, facilitates the development of such knowledge by serving as both process and incentive. In this sense, consensus provides a basis from which redundancies may develop that feed back upon both the

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<sup>50</sup>This element allows for cardinality in the sense of [Sen, 2017].

focal organization and its members through a process of social learning and increasing levels of self-efficacy.<sup>51</sup> Thus, the relational rent for consensus is likely generally also higher than that for other DCMs:  $CR_{con} > CR_{con}$ .

Thus, where and when a particular organization adopts a consensus approach will depend on whether it is able to balance the short term costs with its logic of (costs-earnings). The asymmetry entailed in hysteresis means that organizations or individuals with experience with discourse ethics will be in better positions to pursue more general applications of consensus. At the same time, the need to recognize the (cost-earnings) logic may require organizations transitioning from CCMs to DCMs to move slowly in a transition, employing consensual decision-making first in limited settings, or combining consensus with a mix of other DCMs, like rotation or voting. We discuss such possibilities in the closing discussion in 7.5.6.

### 7.5.2 Bicameralism

While not strictly a variation of consensus, *bicameralism* is a term that has gained coinage in recent years as interest in new governing structures has grown and the costs of traditional perspectives like “scientific management”<sup>52</sup> become clearer to see. Perhaps inspired by the German law of *Mitbestimmung* (*co-determination*) or more general theories of democracy, the idea involves extending membership in governance to a larger set of stakeholders, in the sense of a *constitutional reform*<sup>53</sup>. The reasoning behind such a reform should be clear from the preceding discussion, but to review, [Ferrerias, 2017, pp. 129-30] writes, “In a service economy with high human added-value, in our innovation- and knowledge-based economy, where even manual labor requires more training and commitment than ever before, continuing to ignore the expressive rationality driving labor investors in firms risks damaging not only our democracies, but the productivity of firms, and the economy as a whole.”

Thus, “[i]n a bicameral governance structure, the firm’s main decisions, particularly all its strategic decisions, would be subject to approval by [...] two constituent bodies.” (Id., p. 131) This would mean that the decisions of the “supervisory board or board of directors, representing the shareholders,

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<sup>51</sup>For a philosophical background to this dialogical approach, cf. [Merleau-Ponty and Smith, 1962] or [Bloch et al., 1959], while for a literary view, cf. [Bakhtin, 1981] or also [Lukács, 1920].

<sup>52</sup>Cf. [Taylor, 1919].

<sup>53</sup>While not strictly democratic, the two heads of state in ancient Sparta clearly had the effect of engendering at least one of the democratic values discussed in 6.9, in particular: accountability. While a DCM would clearly be desirable, “two heads are clearly better than one”!

would be obliged to recognize the firm's 'other half' (p. 132) The two chambers can be organized in a range of ways, from one extreme viewing chambers as active "policy transformers", to the other end of "legislative viscosity", where chambers resist any change. (p. 131) "From the point of view of the overall efficiency of institutional design, it seems reasonable to choose a structure in which the firm's executive branch [i.e., the strategic managers] had more control over the legislative agenda, leaving its parliament the role of 'arena' in which laws are passed or vetoed, without necessarily being proposed." (p. 132)

### Assessment of Bicameralism

While bicameralism may not entail a strict application of discourse ethics, "the idea of mutual and reciprocal surveillance", entailing a combination of reciprocal deciding and preventing powers (Id., p. 130) requires "[t]he executive branch [of a bicameral firm] to be approved by a majority in both chambers – that is, 50% + 1 vote in each." (p. 131) As to the question of composition, we have seen in the discussion of, e.g., the Florentine *scrutiny* in Chapter 3, that such chambers can be filled via "uncoordinated election cycles that yield different (asymmetric) majorities in the two chambers, with the executive branch appointed at still other moments in the election cycle." (p. 132) Such phenomena may ensure stability and continuity, while potentially imposing certain costs (e.g., inflexibility).

As [Ferreras, 2017, p. 135] argues, the constitutional reform of bicameralism entails a process of social learning:

"[t]his is not to say that labor tensions would disappear if firms were governed bicamerally by two chambers – only that they would change. Working together within the firm, representatives of both chambers would be obliged to clarify and negotiate tensions face-to-face, with the goal of finding a constructive solution for both parties. In cases of total deadlock between the two chambers, we need only return to the history of bicameral democracy, in which examples of conflict resolution abound. Deadlock, it may be observed, is relatively rare. . ." (p. 135)

Thus, bicameralism may be seen as a tool to transform a principal-agent framework to one of shared agency, as discussed in the prior section. The situation the tool facilitates "makes it possible to transform the status quo, marked as it is by generally inarticulate, often tense or even conflictual relations, into 'quality conflict'. It offers a means of avoiding the dead ends

and the zero-sum games so common in contemporary firms, where 1 group's losses are another's gains." (p. 134)

### 7.5.3 Majority Voting

This *DCM* has been widely described and cataloged, including by Condorcet and others. Thus, we do not devote considerable time to it. It should suffice at present to refer to existing literature and point out some of the formal weaknesses of majority voting as a *DCM*<sup>54</sup>.

We should immediately point out the fact that majority voting can be employed in a number of ways and with quantitatively different "majorities". MMD can range from simple majorities (50% plus one vote) to so-called "qualified majorities" of 2/3 or even higher, up to the limit of 100%, at which point MMD becomes *consensus*. Voting members can also either vote on *issues* or on representatives. Issues voting is frequently called a *plebiscite*, after the institution created after the *secessio plebis*.

In the latter case, i.e., when representatives are elected, the MMD actually loses its status as a *DCM*. This can be seen with reference to the discussion on accountability in 6.9.3. A representative choice mechanism always tends towards CCM, precisely for the reasons that both Aristotle and Machiavelli<sup>55</sup>. In this instance, no *concessio*, but a *translatio* is occurring and the polylingual process of balancing stakeholder interests degenerates. Thus, we recommend that MMD should generally only be used in the plebiscitary function and in certain other exceptional circumstances. [Landemore, 2020]

Before returning to the deficiencies of MMD; we review one of its derivatives, *holacracy*.

### Holacracy

While Holacracy, which is a registered trademark, was inspired by, and developed alongside sociocracy, it does not employ consensus (or even consent [HolacracyOne, 2021]), thus it cannot be considered a variation of consensus. Advocates argue that it provides "design principles and practices for organizing around a purpose." One of its main features is the notion of distributed authority. As opposed to organizing around individuals, it defines *roles*, which are defined in relation to the organization's purpose. "Partners" of the

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<sup>54</sup>In particular, [Sen, 2017] is an excellent starting point, as he cites a long-ranging tradition going back to Condorcet.

<sup>55</sup>For Aristotle, cf. 6.9.6 and for Machiavelli cf. 4.2.4.



organization have certain responsibilities, including recognizing “tensions”<sup>56</sup> and resolving these tensions.

A holacratic organization is organized into “circles”. This is a trait shared with sociocracy. However, roles are allocated by voting, so it again incorporates all the attributes (including the shortcomings pointed out above) of MMD into the governance model and can be considered a variation of MMD. Zappos, an American online shoe and clothing retailers, is currently the largest organization employing holacracy as a governance device.

### Criticisms of Holacracy

The fact that Holacracy is organized as a private company restricts the input, and the practices adopted by its advocates have come under scrutiny. Among others, the model has been criticized for not actually being a DCM (as I have argued MMD is not, when voters choose representatives). In essence, holacracy envisions self-management at the team level, but not at higher organizational levels. Thus, it could be considered as a “piecemeal” solution, or one which Aristotle would consider an “politeia” [Aristotle, 2003, Book IV, 1293a]. In addition, in a piece for the *Harvard Business Review*, Bernstein, et al. state

[t]he new forms resist hierarchical constraints—but in some ways, contrary to popular arguments, they resemble bureaucracy as sociologist Max Weber defined it in the early 1900s. Bureaucracy vested authority in depersonalized rules and roles rather than in status, class, or wealth. The idea was to liberate individuals from the dictatorial rule of whimsical bosses. Self-managing systems aim to accomplish the same thing, with less rigidity. In that sense, you could think of them as Bureaucracy 2.0. [Bernstein et al., 2016, p. 6]

### Feedback Frames

Jason Diceman has developed Freedom Frames to address problems of voice votes, in particular, their tendency to bandwagon effects, vote-splitting and choice overload. Feedback Frames address the bandwagon effect by ensuring the vote is secret. Vote splitting is dealt with by differentiating choices into discrete cardinal options. While this process is more time-consuming, “[e]ven if each participant only rates a handful of options, with enough participants

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<sup>56</sup>Defined as “gaps between the current reality and a potential you sense” [HolacracyOne, 2021, Article 1.2.1].

you can scale up to an unlimited number of options being thoroughly rated and prioritized.”<sup>57</sup> This characteristic also addresses choice overload. By differentiating choices into discrete units, “it’s much easier for participants to just rate options one by one.”

### Assessment of Majority Voting

It is clear why criticisms of instrumentalism have been lodged against voting, as it ultimately operates at the outcome level, like a (neoclassical) market. Like the neoclassical market, the result of a vote is a snapshot of preferences at a discrete moment in time. It should therefore only be seen as an attractor. Supplementations like *ranked choice voting* serve as cardinal improvements, but can still only be seen as a hologram, compared to the snapshot. The main problem with holograms and snapshots are that they do not reflect dynamic shifts in preferences, particularly issues like *acyclicality*. They are therefore generally not examples of discourse ethics. In fact, Aristotle referred to voting as a strictly “oligarchical” form of governance in the *Politics*.

The respected economist Amartya Sen has pointed out some weaknesses with majority voting, which he refers to as the *Method of Majority Decision*, or MMD. In particular, he comments on four weaknesses. Firstly, “the MMD can lead to intransitivity and, furthermore, to a violation of acyclicity<sup>58</sup>.” While Feedback Frames are an improvement over a standard voting mechanism and can provide more information, thus decreasing the likelihood of intransitivity, it does not eliminate the possibility. More importantly, “[voting] violates [both strict and less strict conditions of ‘liberality’], and gives little scope for personal freedom. If a majority wants me to stand on my head for two hours each morning, the MMD will make this socially preferred state no matter how I view this exacting promise.”<sup>59</sup>

Sen’s third criticism of MMD is that “the MMD takes no account of intensities of preference, and it is certainly arguable that what matters is not

<sup>57</sup>Source: “Dotmocracy is Broken”: <https://www.linkedin.com/pulse/dotmocracy-broken-jason-diceman/>.

<sup>58</sup>Acyclicity is also described by [Sen, 2017, p. 62] as “quasi-transitivity” and is a slightly weakened modification of the latter term.

<sup>59</sup>Here, Sen alludes to the possibility of mixing decision mechanisms:

The use of one decision procedure of some choices and another for others raises serious problems of consistency. Of course, MMD itself may, on its own, lead to intransitivity and to violations of acyclicity, but its combination with other rules seems to add a new dimension to the problem. Nevertheless, such a hybrid procedure may be preferred by many to an uncompromising use of MMD in every sphere of social choice.[Sen, 2017, p. 221]

merely the number who prefer  $x$  to  $y$  and the number who prefer  $y$  to  $x$ , but also by how much each prefers one alternative to the other.” Fourthly, “aside from ignoring relative intensities of preference, the MMD also ignores any possible comparison between absolute levels of welfare of different persons. It takes account of such judgments as ‘I would prefer to be in state  $x$  rather than in state  $y$ ,’ but not of such judgments as ‘I would prefer to be Mr A in state  $x$  rather than Mr B in state  $y$ .’ ” [Sen, 2017, pp. 220-1]

In particular, in Sen’s points, majority voting’s weakness in the absence of minority protections becomes clear. Moreover, majority voting operates excellently as a litmus test of current moods and sentiments, but does nothing to distinguish long-term from short-term needs and wants, and also does nothing to encourage preference development via social learning. Thus, Sen’s third and fourth accusation, of failing to register *intensities of preference* or to enable *comparisons between absolute levels of welfare* are just the tip of the iceberg, if one regards DCMs from a dynamic perspective.

One could and should go much farther in pointing out MMD’s weaknesses: it does nothing to constrain instrumental or opportunistic behavior, strategic voting, selfishness, etc. In short, it is a static tool that can be useful for relatively quickly deriving (static) preference orderings, but as a *social choice mechanism* – in particular, as a *democratic choice mechanism* – it is severely lacking.<sup>60</sup>

#### 7.5.4 Rotation

A rotation scheme merely involves the regular circulation of responsibilities, offices or roles among a subset of the governing. Thus it would be represented by a hypergeometric function distributed along  $n$  individuals,  $n$  being determined by the selection mechanism. Rotation systems were used in Imperial China “to prevent [officials] from forming alliances with the local gentry” [Elster, 1989, p. 112]<sup>61</sup>, as well as in “the Soviet practice of rotating managers.”

Generally (though not necessarily), rotation schemes differ from pure lotteries in that they do not involve a blind break. Rotation usually involves a set order. If it involves a random draw from a set of choices or individuals, then it is in essence a lottery, which we discuss next. Thus, we define rotation as a choice mechanism defined by a *rational transfer of decision-making power among a pool of individuals*, to distinguish it from a lottery.

<sup>60</sup>For confirmation of this criticism, we need only refer to Aristotle’s association of voting with oligarchy in the *Politics*, as pointed out above in 6.9.6.

<sup>61</sup>See also Skinner (1977), p. 341. cited in Elster

### Assessment of Rotation

This mechanism is not by nature inclusive, though it contributes to accountability, e.g., the case of the Chinese bureaucracy, and it could be considered equitable, given the rotation rule displays these characteristics. Being that rotation follows a *rational* path in the sense of [Dowlen, 2017], rotation can be prone to strategic manipulation. If the rotation order is previously known, for instance, those within the polity with a particular agenda can position themselves and/or their agents within the rotation order in order to best achieve their strategic aims.

Rotation in itself doesn't do much in ensuring accountability, as by itself it cannot prevent oligarchization. It can, however, increase inclusion when compared to a static governance structure with an unchanging composition. However, as mentioned above, its contribution to a move from strategic to cooperative interaction is limited and must therefore be supplemented with other DCMs.

#### 7.5.5 Sortition

Sortition is gaining popularity in many contexts and domains, from politics to firm governance. [Landemore, 2020] It is merely another word for a lottery. As was discussed in the prior chapter, this practice was quite common in ancient Greek democracies, in Rome, as well as in northern Italian republics and in Switzerland, among others. Thus, in *The Trojan Women*, the Greek soldiers allocate the women of the conquered city of Troy by lot. Also, [Gataker, 2013] mentions a use of lottery to appease two nobles who each wanted to serve in Parliament.<sup>62</sup> There are many more examples of uses of lottery, in both contemporary and historical contexts. Jury selection, college admissions and organ transplants are three contemporary cases, while the Athenian bureaucracy and Florentine magistrates are two historical cases where sortition is or was frequently employed. However, the connection between lotteries and democratic choice has been largely neglected in the literature.

Following [Dowlen, 2017], we propose to contribute to the extant literature by traversing a “road less traveled”, attempting to model outcomes based on randomly selected “juries” as representative of the emergence of collective preferences, discount rates and choice, as described above. For this, it becomes important to recognize the parameters relevant in the development of collective

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<sup>62</sup>[Elster, 1989, pp. 106ff] mentions such an instance: “The local gentry would then, often successfully, try to persuade the candidates to avoid the impasse ‘by lot or hazard ... or any other equal way’.”

preferences, as discussed above.

### Sortition as Arational Blind Break

If we assume, as we have argued in the preceding discussion, that human agency is based on incomplete information (*bounded rationality*), or is determined at least in part by moral imperative (*co-determination*), this situation isn't remedied by shifting focus to the social dimension. In other words: people do not suddenly become more rational in groups. As we saw above, groups impact time inconsistency via norms and elements of discourse ethics. In fact this shift necessarily complicates matters significantly, as authors in the field of collective choice appear to universally recognize<sup>63</sup>. As we have reviewed above, social learning involves the existence of ascendant macro-cultures, non-separable preferences and coordinated equilibria working to *constrain* and *limit* individual freedom, or channeling it to a reduced set of socially acceptable "options", which in turn act to ease the costs of acquiring the necessary information for both individual and collective choice.

[Dowlen, 2017, p. 12] distinguishes between three types of decision "rational", "a decision that is taken by means of the application of human reason and which involves the judging, or weighing, of options against each other to decide which is viable or preferable"; "irrational", meaning "a human decision in which the faculty of reason is overwhelmed by other human faculties, such as passion, instinct or emotion"; and "arational", meaning "a decision that is made neither by the human faculty of reason, nor by any other human faculty—hence it is neither rational nor irrational."

Dowlen suggests moreover that there may be certain decisions where "Those who decide to use a lottery usually do so because they calculate that this type of choice will be more useful to them than the type of choice that relied on human reason." (Id., p. 14) That is, such choices may be relevant because "the choice should be unbiased, it should not be subject to human judgment in case that judgment is biased or prejudiced." The use of lot in such instances "prevents anyone [...] from manipulating or fixing the outcome." [Dowlen, 2017, p. 17] Far from being an undesirable outcome "[a] lottery might be employed primarily *because* it takes the decision out of the hands of an individual, and makes no one responsible either for the choice or the outcome." [Dowlen, 2017, p. 19, emphasis added] Thus, sortition is a distinctly "non-human" process whose qualities "have to be understood negatively – as precisely those that do *not* belong to a choice made by a conscious human being." [Dowlen, 2017, p. 14]

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<sup>63</sup>[Ostrom, 1990]'s discussion of "nested enterprise" is relevant in this vein.

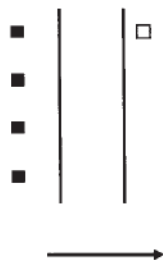


Figure 7.4: A graphical representation of a “blind break”, in which the two solid lines represents the separation of choices and outcome viz. human reason. Taken from [Dowlen, 2017, p. 13].

positive virtue is made of the arational blind break”, [Dowlen, 2017, p. 16] speaks of a “strong use” or application of the blind break. On the other hand, “when a decision needs to be rational, but due to expediency, lot is used because a rationally made outcome is too difficult to achieve”, Dowlen speaks of a “weak use.” Dowlen uses a medical trial as an example of a “strong” and the choice between two strong candidates for a job as a “weak” use.

Dowlen refers to this dynamic as a “blind break”, which “describes the state of deliberate discontinuity in the chain of rationality that is central to the procedure.” This notion, which is depicted above in Figure 7.4, can be further distinguished according to the role the lottery serves in a particular choice environment. In cases where “its primary quality, arationality, is required to solve the problem at hand” or, in other words, when “a

### Assessment of Sortition

Collective choice situations frequently have emergent properties. This can be the case when choices may in the middle to long-term impact the strategic orientation of a polity or organization, i.e., have an indirect impact on the parameters determining the coordinated equilibrium. It may also be the case when choices relate to morally sensitive issues, such as issues of justice. In such circumstances, merely aggregating the existing individual preferences of the members or citizenship cannot ensure that the socially desirable outcome will likely occur. This, because the choices involved have emergent properties that cannot be mapped onto a frame of discrete choices. Thus, a focus on the process of selection may offer a solution out of this impasse.

What does it mean to “focus on the process of selection”? Indeed, this can be read to refer to the observation that much of the literature on social choice, with very little exception, is focused on either a) voting procedures or b) relating outcomes to preferences. Thus, besides a concern with how voting procedures are organized and questions derivative of this topic (e.g., the protection of minority opinion within the context of majority voting

procedures, the risk of opportunism on the part of representatives, questions of “rents”, etc.), the overwhelming majority of collective choice literature is focused with outcomes, rather than the question of the process involved in arriving at those outcomes. Thus, our approach differs in that it foregrounds concerns with paths, as opposed to nodes, in the language of graph theory.

We next address the question of what types of decisions sortition can be a useful aid to.

### **For what types of decisions is sortition useful?**

As should be clear from the above discussion, whether or not sortition is a useful device in a particular decision depends strongly on whether the arational blind break is a positive feature, or whether it is merely a choice of convenience. While there may be cases of the latter category that may still arguably be good cases of employing sortition. In general, “strong” uses should be advocated. As mentioned above in the discussion of consensus, it also depends on the impact the imposition of sortition may have on the costs–benefit logic of an organization. Thus, expedience may sometimes lend credence to even a “weak” application of sortition.

In what situations is an arational blind break desirable? Certainly, an argument can be made for employing such devices in cases where discrimination or bias play a determinate role in decision-making. This may be the reason for the Anglo-Saxon tradition of juries in criminal trials. [Elster, 1989] describes a number of situations when a blind break may be desirable. In particular, “Arrow’s impossibility theorem tells us that we cannot in general expect to construct a social ranking on the basis of individual rankings. [This means,] we cannot hope to piece together the interpersonal comparisons made by different persons into one consistent ranking with a claim to be *the* social comparison [...] *When consensus fails, we might as well use a lottery.*” [Elster, 1989, p. 109, own emphasis] Elster also suggests other reasons for using lotteries, including “incentive effects [...] Ignorance of the future can remove the incentive for wasteful behavior” (*Id.*)

Moreover, sortition or lottery can be useful in situations of moral hazard or where problems of monitoring may occur, and where therefore risks of corruption or lack of accountability may occur. These benefits are described by Elster as being of two kinds:

Random selection prevents officials from using their discretionary power to play favourites, punish enemies, enrich themselves or simply bask in the arbitrary exercise of power. In addition to this top-down effect there is a bottom-up effect that prevents

potential appointees or recipients from bribing and threatening officials. More generally, randomization prevents recipients of scarce resources from trying to make themselves more eligible, at cost to themselves or society. [Elster, 1989, p. 111]

In particular, for our purposes, it appears that sortition achieves a synthesis of the democratic values outlined above in 6.9. In particular, a “strong” use of lottery achieves the features of inclusion and equity, and can certainly facilitate accountability (though not necessarily), depending on how the lottery is implemented. In order to see this, we must review how lotteries can achieve *fair* outcomes. Lotteries achieve fairness by rendering each outcome equally probable:

First we have to ask exactly what is meant by the term ‘equal’ when we use it in respect to the workings of a lottery. Certainly in terms of the mechanics of the process, the balls or tickets are made to look alike, to look equal and to stand an equal chance of being picked. On closer analysis, however, what is meant by this is that the lottery [...] will choose in a way that does not discriminate between the options on the basis of any quality that they might or might not possess. A lottery choice is therefore an ‘e-quality’ or ‘non-quality’ choice because it denies the rational human tendency to discriminate or choose according to quality. We can therefore view the equality of opportunity presented by a lottery as an outcome as its essential arationality. [...] all within the pool have the same stake in the outcome irrespective of their personal qualities or how those qualities might be judged. [...] What it does is create a highly artificial situation in which the qualitative differences between all in the pool are temporarily suspended in respect to the decision to be made by the lottery. [Dowlen, 2017, p. 20]

It follows from this that the lottery is a means to break down the channels of correlation, communication, but also those of strategic interaction. It can be argued, as Dowlen does, that this restricts its use to the short-term: “If a lottery is to make a positive virtue of its essential arationality, it must operate in the short-term. . . [Dowlen, 2017, p. 21]. While this is not necessarily true, it can be inferred that the more abstract the results of the lottery, or the further in the future the implications come to bear, the more time is given to participants to take advantage of the outcome and prepare certain strategies to gain the best outcome privately. Thus, there is something to the argument that the greatest advantage of the lottery is its *immanence*, or *immanent randomness*, to be more specific.



### Coin Toss as a special reduced Lottery

When faced with two choices whose outcome is uncertain and where necessary information may be lacking, a coin toss can be seen as a valid tool for resolving such a social dilemma. When an organization is unable through its normal decision-making bodies or mechanisms to choose between two alternatives that appear equally (un)appealing, a coin toss may be demonstrated to be the most fair mechanism, given a lack of more information. A (fair) coin toss is merely a lottery between two options. It should be remarked that coin tosses may not always be *appropriate*, in an ethical sense. [Keren and Teigen, 2010]

### Bayesian Lottery

A Bayesian lottery is a special kind of weighted lottery, whose weighting is chosen based on prior information. This weighting is updated in accordance with new information. It requires an agent (or collective agent) with the legitimacy to determine and change weights, and so is exposed to the same risk of strategic behavior that voting is described as possessing. Therefore, its use may be combined with a prior “strict” lottery to assign positions of the council or agency responsible with assigning the weights. Alternatively, one may make the change in weighting dependent on particular proofs, such as a change in the perceived probability of a certain outcome.

[Elster, 1989, p. 85] describes the Florentine mixed system as a Bayesian lottery. In that case, a multi-step process ensued, which began with (pre-approved) individuals being drawn from a bag (*scrutiny*).

### 7.5.6 Mixed Mechanisms

As the discussion of individual DCMs above has shown, each has certain advantages and disadvantages with respect to the goals of inclusion, equity and accountability. Moreover, as the relational framework derived in preceding chapters has attempted to make clear, the question of which DCM is desirable depends on the particular context. Each context comes with a unique mix of logics that require the balancing of different objectives. For instance, a firm existing in a market environment will have a logic of (cost–earnings), but it will also have logics of its individual stakeholders (training–no training), (compliance–non-compliance), etc. Moreover, it will also have some logics pursuant to community interests (public good–private interest), and so on.

This means that a general framework is difficult to achieve. We attempt instead to outline a taxonomy of choice structures for particular sets of choices and parameters. The question we must ultimately ask ourselves is, if we

choose a *democratic* regime of consensus (typology), which (combination of) DCMs achieves the desired trajectory of organizational events and processes? The mix will clearly depend on the context. In particular, it will depend on the primacy which the external environment places on the (cost-earnings) logic of a particular polity. To paraphrase [Braudel, 1979], do we find ourselves in the upper reaches of “capitalism”, in a more generalized “market economy” or in some other form of coordinating mechanism? Depending on the acuteness of the threat of uncoordinated market forces<sup>64</sup>, the focal organization may require a more expedient mix of decision-making.

Hysteresis also plays a role, so one approach is to start with a transitional mindframe. Thus, VME Coop, the largest IT firm globally to convert to a cooperative, and which we profile in Part III, worked over time with a combination of sociocracy and simultaneous training programs in cooperative governance at the International Center for Cooperative Management at the Soby School of Business in Halifax, Canada. Workers at VME report changing their perspectives from “decision-takers” to “decision-makers”, which provides evidence of hysteresis and social learning as process.<sup>65</sup>

Obviously, the choice is one among a dynamic subset of governance choices, while an intermittent change in regimes comes with high costs. Thus, while organizations can shift and change their governance mix, it has been shown that it is often less pricey to initiative a new enterprise than to convert the governance structure of a going concern [Altuna Gabilondo, 2008]. This makes the development of general frameworks, including best practices and heuristics that can be implemented early in the life of an organization, a desirable outcome. The research agenda we propose in Part III seeks to contribute to the development of such a framework.

We might state that consensus is the ideal DCM, but is not always possible or efficacious. For other situations, combinations may be necessary or beneficial. For example,

On one such occasion, the justices explained to the two candidates, ‘we have bethought ourselves of some mediation therein and such as can be no blemish to either of your reputations to consent unto’. They proposed that on the evening before the county day (the candidates) meet with the sheriff at Chelmsford and draw lots for the first place. ‘And by that means fortune to be the director without touch to either of your credit’. cited in [Elster, 1989, p. 107]

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<sup>64</sup>A topic we return to in Chapter 8.

<sup>65</sup>Source: personal communication. See also 11.3.

Thus, in this case, as a consensual decision was not forthcoming, a lottery was decided to break the impasse. It is possible to imagine an infinite number of combinations of DCMs to deal with such dilemmas. The important point is to relate an underlying typology (for example, [U]) with a respective logic (e.g., [D]).

### 7.5.7 DCMs and Relational Rents

At this point, we interpret the relation between DCMs and relational rents. In order to translate the above language into a relational organizational logic, we restrict ourselves to choice subsets of the general framework innovation-investment-sustainability. In particular, we define each of these terms broadly. As mentioned above in 4.3.4, there is no reason to view innovation as solely a technical process. Innovation in our scheme consists in particular of innovation in the social domain, i.e., refers to practices that contribute to increasing the relational rent. Meanwhile, by investment, we refer to practices that reduce the costs of cooperation. Lastly, sustainability refers both to ecological (biosphere) sustainability, as well as to practices that prolong the duration of cooperation.

We remind the reader of the basic outlines of relational transactions. Equation 4.1 stated

$$RT = f(I, O, SII, SFI),$$

meaning that any relational transaction is shaped by individual and organizational needs and resources, as well as formal and informal institutions. It is in combining these in new ways that the relational axis of innovation-investment-sustainability comes about. We now discuss each of these links in turn.

#### Innovation

Practices that increase the relational rent and/or increase the *ability* to cooperate involve social innovations. These can refer to innovations to create new relational rents. In this way, innovation creates rents and also augments the ability to cooperate. By shifting from a “pure” Schumpeterian notion of innovation (i.e., individual and based on *technical* advances) to one of “collective entrepreneurship” [De Woot, 2017, p. 14], organizations can orient their innovation strategies towards increasing the ability to cooperate. Thus, the relational perspective orients thinking away from “technological ambivalence” (cf. [Vieta, 2019, Chapter 4]) and towards *creating relational rents*.

Such innovations are relational goods, which we introduced in 4.6.2. To remind the reader:

Relational goods are intangible goods that are produced and communicated through interaction in groups. They are simultaneously produced and consumed and they are inextricably linked to the interaction in relations. In other words, it is the social relation itself that creates the benefit, though it does not assume the form of a commodity. [Wieland, 2018, p. 35]

Thus, innovations producing relational rents are “scarce, generate costs,” and are “not marketable” (Id., p. 36). In fact, and to return to the domain of DCMs, governance structures themselves are relational goods [Nussbaum et al., 2001]. Thus, DCMs should be interpreted as relational goods, as innovations in the context of a particular firm. They are costly, scarce and non-marketable. Yet, they also generate benefits in the form of relational rents and an increase in the ability to cooperate. This concerns leadership, which *is* a relationship entailing both motivation and structure for individual transactions. Leadership should be interpreted as “relationships, not individuals”, according to the relational view (p. 106).

In keeping with such a dynamic notion of firm (Id., p. 159), DCMs *as innovation* can facilitate the accrual of rents by establishing a foundation (a trajectory) of consensual *processes* of social learning spawning innovative events. Apportioning the right DCM to the right moment requires *design thinking*<sup>66</sup> and a dialogical, relational perspective lodged in polylingualism, polycontextualism and polycontexturalism. The need for a dialogical approach is given by the interaction between systems and environments, which produce both external and internal pressures towards and away from certain stationary points (e.g., a particular DCM mix). This dynamic produces a high degree of uncertainty and indeterminacy, rendering redundancy (i.e., synergy in function) in processes all the more critical. Therefore, “when the generation of redundancy prevails over the generation of uncertainty, ‘innovation systemness’ is indicated.” [Leydesdorff, 2021, p. 119] The Cooperative principles and values, which we discuss in the following section, can be seen as such an innovation.

## Investment

In our scheme, we refer to “investment” not in an abstract sense, but specifically to refer to practices that either distribute the relational rent, increase willingness to cooperate or decrease costs of cooperation, or all three (the goals are orthogonal). Such a notion of investment is useful due to its flexibility

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<sup>66</sup>In particular, a critical view of design thinking that views it as a relational resource. [Kimbell, 2011].

and broad scope. Whereas traditional concepts of “Triple Bottom Line” and “Corporate Social Responsibility” (CSR) consider impacts of policies on the cost of cooperation, they typically do not directly address the investment parameters of *willingness to cooperate* and distribution of the cooperative rent [Wieland, 2018, pp. 134ff]. However, these impact the real costs of cooperation and cannot be excluded from any relational costs accounting.

Social Value Creation (SVC) improves upon this *status quo* by explicitly incorporating a multi-stakeholder perspective lodged in shared agency. Thus, it corrects for the shortcomings of perspectives lodged in a purely exchange-oriented perspective. (Id.) *Transcultural management* (TCM), moreover, contributes by viewing cooperation not as a cost, but as an opportunity (Id., p. 112). Thus, TCM immediately reduces costs by reinterpreting the very cost structure organizations face. It does this in part via its focus on cultural events and their impacts on particular transactions. Thus, it can be seen as a pragmatic framing of investment decisions.

Distributing the relational rent involves a polycontextual balancing of stakeholder interests, including balancing public and private interests. Thus, investment in this context involves a view emphasizing the plurality of resources that organizations depend on [Pfeffer and Salancik, 2003] and on engaging in particular investments that operate on mediators for willingness to cooperate and costs of cooperation. These include principally issues like trust. Trust can be augmented by investing in persons<sup>67</sup>. Governance structures help to mediate interests with respect to fairness and other concerns. While “operatively closed,” they are “communicatively open”. (p. 47) This communicative openness allows DCMs to help mediate in terms of prioritizing resources.

Where the relational perspective can aid in guiding investment in stakeholder resources is its previously mentioned focus on the potential complementarity of informal and formal organizational and societal institutions. For example, “contracts or the contracting process could be valuable in facilitating mutual understanding and improving trust.” [Cao and Lumineau, 2015, p. 30] DCMs can be useful in helping firms as principals navigate the dynamic and shifting needs and resources of its stakeholders. Thus, “[a]s each contractual dimension leads firms to structure attention and frame issues in different ways, it is likely to induce specific behaviors to foster or destroy trust.” (Id.) According to this view, if people are the most valuable asset of a firm, investing in DCMs can be considered to be a lucrative investment<sup>68</sup>.

<sup>67</sup>The relational view assumes that investments can be made in persons, organizations or markets [Wieland, 2018, p. 47].

<sup>68</sup>One thinks of the Greek notion of *paideia* (education), a central tenet of democratic practice.

From the relational perspective, decreasing costs to cooperate involves trans-cultural governance. This involves not only the selection of meanings in ambiguity between cultures. It also refers generally to multi-level relations among heterogeneous actors. Importantly, it refers to the notion, described by Aristotle as ζῶον κοινωνικόν, “that human interactions are not only good because of the respective objective, but also in their own right.” That again has an impact on lowering the costs of cooperation, as “the mutuality and pleasure of the personal relationship enter deeply into the work itself” (Id., p. 363). As an example, Antonietta Caruso, worker member at Tuscan glassmaking worker cooperative IVV suggested in an interview that, as the company has faced chronic crises, she “will probably never see her equity stake again”, but that she “will not give up”. This sort of intangible human investment can be incorporated into a relational perspective on investment.

Therefore, it is critical that this gregarious human function, which Marx also alludes to in *Das Kapital* as one of the coordinating mechanisms of capital, is included in the cost accounting as an asset that counterbalances any costs or frictions that may arise through the expanded decision-making. It is precisely by such an approach that shared forms of value are created. A modern firm cost accounting must consider such perspectives.

### Sustainability

Both cooperative innovations and investments impact the opportunities for cooperating. By increasing the opportunities for cooperation, such practices logically also increase the durability of cooperation. This can be seen similarly to what in the literature is referred to as “high road” investment strategies [Milberg and Houston, 2005], merging sustainability with the relational perspective. In this way, such a synthesis directs the focus to seeking on the one hand to generate new opportunities for cooperation and simultaneously to render existing forms more durable.

Thus, according to this view, sustainability should be seen as an ensemble event initiated by the juxtaposition of globalization and the Malthusian “limits to growth” [Meadows et al., 1972]. At the same time, it should be seen as a process of integrating a social and ecological logic into organizational governance. DCMs can play a role with respect to opportunities and durability by providing a regime which gives additional opportunities for cooperation. At the same time, the *esteem* and *trust* such a regime provides stimulates feelings of self-efficacy which promote durable cooperation.

Again, the above remarks mean that sustainability requires a governance focused on accountability. This involves “good governance”, which includes a focus on relational goods like status and esteem [Wieland, 2018, p. 35],

[Brennan et al., 2004]. An example of a sustainable application of a DCM is mentioned in [Kishlansky et al., 1986, p. 16-7]:

The principle of parliamentary selection - and, judging from the available evidence, the reality as well - was unified choice, ‘By and with the whole advice, assent and consent’, was how the town of Northampton put it when enrolling the selection of Christopher Sherland and Richard Spencer in 1626. Communities avoided division over parliamentary selections for all the obvious reasons — cost, trouble, fear of riot, challenge to magisterial authority - and for one other: The refusal to assent to the choice of an M.P. was an explicit statement of dishonor. Freely given by the will of the shire or the borough, a place in Parliament was a worthy distinction. Wrested away from competitors in a divisive contest, it diminished the worth of both victor and vanquished.<sup>69</sup>

However, as Jon Elster comments, “Sometimes, nevertheless, consensus was not reached and election day approached with more candidates than seats to be filled.” In such cases,

The local gentry would then, often successfully, try to persuade the candidates to avoid the impasse ‘by lot or hazard ... or any other equal way’. When the number of candidates matched that of seats, disagreement might still arise over who was to have the first place. On one such occasion, the justices explained to the two candidates, ‘we have bethought ourselves of some mediation therein and such as can be no blemish to either of your reputations to consent unto’. They proposed that on the evening before the county day (the candidates) meet with the sheriff at Chelmsford and draw lots for the first place. ‘And by that means fortune to be the director without touch to either of your credit’. [Elster, 1989, pp. 106ff]

Elster concludes that “To be rejected by fortune was less dishonourable than to be rejected by the community.” Thus, the consideration of “good governance” in this instance recognized the resources and needs of all relevant stakeholders. Similarly, [Wieland, 2018, p. 88] considers “Corporate Social Responsibility” as a “constitutive event” within the context of a globalized economy of networks of firms. Its existence is not the result of novelty, but a testament to the fact that the appropriate scale of governance is increasingly at the level of inter-organizational relations, which also require consideration

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<sup>69</sup>Cited in [Elster, 1989, p. 106].

## 7.6. THE COOPERATIVE ADVANTAGE: COOPERATIVE PRINCIPLES AS ANTICIPATORY SYSTEMS

of stakeholder resources and needs. Sustainability also means extending the duration of transactions. Here again investment in relation-specific assets (p. 129) can play a major role. Incorporating DCMs can have feedback effects in this respect, too. Examples are the Australian defense department's use of relational contracts and Kate Vitasek's "Vested" approach to contracting. [Biggiero, 2022, pp. 240ff.]

We may thus interpret *social* sustainability as a combination of mutually beneficial social innovations with a trajectory of investments reflective of these innovations. Thus, sustainability serves as a frame for disciplining both innovation and investment. As such, we can say that *sustainability is the regime, investment the trajectory and innovation consists of events* in the sense of [Leydesdorff, 2021]. It could furthermore be seen as a frame adopting a viewpoint of "positive profit", in the language of James Steuart, as well as John Commons' "cooperative" notion of capital.<sup>70</sup>

## 7.6 The Cooperative Advantage: Cooperative Principles as Anticipatory System

While Ricardo introduced the notion of *competitive advantage*, the relational perspective puts an emphasis instead on *cooperative advantage*. What does this mean? In this section, we wish to outline by a practical case study how a cooperative rent can come about via synergies in organizational logics between, e.g., networks of firms operating on the basis of social innovations.

This case study seeks to interpret the cooperative principles in practice as an anticipatory system. In particular, we will argue that the constraints which the principles impose help to shift organizations towards long-term orientation and help ensure the realization of I, A, and E. One point of this section is to show that, if we determine, as we have attempted to do in the prior chapter, that I, E and A are vital attributes of organizations both in terms of long-term internal (power, ethics), as well as external (ecosystem) values<sup>71</sup>, then finding structures which promote I, E and A should be seen as a goal of organizational theory.

We wish to examine cooperatives as structures fulfilling these ideals. They are constrained by particular principles stemming from a particular historical context. However, in order to avoid the charge of "mere historicism", and in order to offer something in the way of generalizable and falsifiable observations,

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<sup>70</sup>For Steuart's position, cf. [Marx, 1910, Chapter 1] and [Menudo, 2019, pp. 3ff.]. For relational developments of Commons' theory, cf. [Biggiero, 2022, pp. 291ff].

<sup>71</sup>The external issue will be emphasized in Chapter 8.



we wish at present to move beyond the historical context introduced in Chapter 3 and move towards investigating the cooperative principles on the basis of the metrics we have developed in this and the last chapter.

The section is structured by firstly describing how cooperatives have historically arisen to solve particular problems. We then argue that the cooperative principles are an example of a *coordinated equilibrium*. Next, we attempt to interpret the first five cooperative principles as coordinated equilibria, bundling individual principles together or breaking them down into smaller units as appropriate. Lastly, returning to the language of Chapter 6, we conclude the section with a discussion of a potentially ascendant *cooperative macroculture*.

### 7.6.1 Coops as Problem-Solvers

In analogue to the discussion of Chapter, 6, cooperation can be a tool to foster ascendant values, routines and systems. While their genesis is usually explained with an effort to solve a particular problem like denatured commodities, poor working conditions or social dilemmas like lack of housing or various forms of usury<sup>72</sup>, cooperative enterprises tend to expand their activities beyond that restricted range over time. Thus, the cooperative form of organizing can become generalized, as [Axelrod and Hamilton, 1981] and others have noted, given appropriate conditions. The question is how cooperative macrocultures may become ascendant and able to sustain themselves as *general* forms of organization. It is our purpose at present to argue that they do this at the level of discourse, by preparing codes that themselves then act on the level of agency. Here, we agree with [Leydesdorff, 2021, p. 16], who suggests that

recursively repeated patterns of communications shape forms that code the communication increasingly in specific directions as they emerge. After their emergence the codes can begin to shape the room for further communications in feedback loops. . .

Thus, cooperatives, which arose to solve particular problems, like those described above, could *incidentally* contribute to the rise of a new macroculture in much the same way that [Kyriazis and Metaxas, 2013] suggest hoplite warfare during the Greek dark ages contributed to the rise of new macrocultures. The question is then begged, how such *incidental constraints* can be turned into *essential* ones, and what implication this would have.

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<sup>72</sup>See, e.g., [Birchall, 1994], [Pentzien, 2021], [Patmore and Balnave, 2018]

## 7.6.2 The Cooperative Principles as A Coordinating Equilibrium

As countries around the world continue to ask about the future of democracy and proclaim liberal orders in peril<sup>73</sup>, in several parts of the world, viable examples of democracy, democratic practice and democratic culture have not only flourished, but expanded to a degree that these beg further study, in order to learn best practices and in order to adapt and emulate such innovative and successful strategies elsewhere<sup>74</sup>. While the successes are not of a universal nature, studying both the pitfalls and benefits of cooperation as forms of DCMs enables an improvement where present-day outcomes leave something to be desired.

In the following, we adopt the language of *coordinated equilibrium* to describe the cooperative principles in practice and attempt to model them using the language of DCMs developed in Chapter 6. In so doing, we attempt to connect the cooperative principles to the language and tools developed above. In so doing, we use two documents to outline the principles in practice: the text of the Cooperative Principles themselves, as well as the *Guidance* drafted in order to facilitate their implementation in the diverse range of fields in which cooperatives operate. [Rodgers, 2015]

The International Cooperative Alliance (ICA), the movement’s umbrella organization representing “international and national co-operative organisations from all sectors of the economy, including agriculture, banking, consumer, fisheries, health, housing, insurance, and workers” is responsible for establishing the mission and objectives of its “members from one hundred countries, representing one billion individuals worldwide. . . [including] [o]ne hundred million people [who] work for a co-operative locally.” [Cliff Mills, 2013, p. 38]. It has updated its Principles most recently in 1995 [ICA, 1995]. These are

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<sup>73</sup>One has only to think of Biden’s recent efforts at a “democracy summit” for an example. Cf. also [Foa and Mounk, 2016].

<sup>74</sup>[Patmore and Balnave, 2018] begin their overview of cooperation by reflecting on the fact that the United Nations claimed 2012 to be “the year of the cooperative”. Moreover, in 2018, under the aegis of the German cooperative federations, the cooperative principles were declared a UNESCO Cultural Heritage. Source: presentation by Thomas Mende at the 33rd Cooperative Forum in Seoul, South Korea. Cf. also <https://www.ica.coop/en/newsroom/news/raiffeisen-and-schulze-delitzsch-society-gives-ica-original-unesco-inscription>.

- |                                   |  |
|-----------------------------------|--|
| 1. Voluntary and Open Membership, | 5. Education, Training, and Information, |
| 2. Democratic Member Control,     | 6. Cooperation among Cooperatives,       |
| 3. Member Economic Participation, | 7. Concern for Community                 |
| 4. Autonomy and Independence,     | [ICA, 1995]                              |

At first glance, these seven principles would appear to satisfy the I, E and A conditions and each of the seven principles appears to reflect a conviction to democratic practice. In fact, the *ICA Blueprint for a Co-Operative Decade* repeatedly refers to *democracy* and *democratic participation*, mentioning both at least 9 times within 2 pages [Cliff Mills, 2013, pp. 10-11]. However, mere appearances do not make scientific observations, which should be measurable. Thus, we must develop an appropriate toolkit for assessing the relationship between these principles, DCMs, elective hierarchies and the IEA conditions.

However, when speaking of cooperative members “participating in [co-operative organizations’] governance... through democratic arrangements” [Cliff Mills, 2013, p. 8], or reflecting on “the distinctly democratic structures fostered by co-operatives” (*ibid*), ICA doesn’t more clearly define the term. Therefore, a closer examination of democratic principles and practice, theory and policy, idea and implementation, benefits not only citizens of nations claiming to be “democratic”, but also organizations like the international cooperative movement. In addition, the *Blueprint* makes many of the same observations we have above, referring to “turbulence”, “crisis”, “government... retreat”, “inequality”, “stagnation” and “future insecurity” [Cliff Mills, 2013, p. 2] as challenges facing not only the cooperative movement, but the global economy at present. Its list of the most crucial global trends includes “[e]nvironmental degradation and resource depletion, [a]n unstable financial sector, [i]ncreasing inequality, [a] growing global governance gap, [a] seemingly disenfranchised younger generation [and a] loss of trust in political and economic organizations”. [Cliff Mills, 2013, p. 3]

This close affiliation with living democracy means the cooperative movement offers a backdrop from which to study the struggles to establish a functioning and vibrant democratic culture. If we are to believe, even hypothetically, Montesquieu’s “deux commerces” hypothesis, then we may even argue that as human societies have developed and become more complex, moving away from patriarchal to patrimonial, and later to liberal, orders, the terrain of cooperation has extended from defense of polity, as in the case of *hoplites* in the Greek dark ages, to domains like commerce. Thus, if commerce

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and labor relations have today today taken the place of the defense of the parochial village, then cooperation within that domain appears to serve a similar role with respect to the development of suitable macrocultures.

It would be wrong to suggest that cooperatives are without their problems<sup>75</sup>, and some of these extend to problems maintaining democratic cultures. [Hafner, 2009] However, as has been pointed out before, cooperative enterprises differ from other organizations in at least one distinct way: they are guided by principles [Fici et al., 2013, p. 39], [Gutierrez-Johnson, 1982, p. 263]. That is, democracy and participation are fundamental values of the cooperative movement, belong to its core identity and if some cooperatives have struggled, or continue to struggle, in finding the right balance between mutualism and profit-seeking, then their struggles form an excellent frame of reference for gaining knowledge of the broader society's struggles with this dilemma. Moreover, as the study will hopefully reveal, cooperatives can serve as a useful tool for *reconsolidation*, i.e., establishing and maintaining democratic cultures in a wide variety of contexts and circumstances. [Pateman, 1970]

While we are not of the belief that cooperatives are a panacea, it is our belief that the international cooperative movement, with its tens of millions of members and billions in assets and revenue, is a valuable asset and a useful starting point for outlining a world beyond short-sighted profit-maximization. If our assumptions about the impact of democratic decision-making are correct, we can expect a study like this to reveal certain characteristics.<sup>76</sup> Having said this, we move on to an analysis of five of the seven cooperative principles<sup>77</sup>.

### 7.6.3 Modeling the Impact of the Cooperative Principles

Here we attempt to interpret the cooperative principles, as interpreted by the text of the principles in addition to the *Guidance Notes*. We attempt to do this by interpreting the principles as coordinated equilibria, which if we

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<sup>75</sup>One can speak of under-capitalization, financial marginalization, degeneration, etc. [Dow, 2018, Chapters 6-7] describes some of these in detail.

<sup>76</sup>If, for instance, cooperatives are more responsive to members' needs than traditional firms – as they claim [Cliff Mills, 2013, pp. 8-10] –, then, changing social values regarding women in the workforce (and associated problems of unequal pay) could find an ally in cooperatives. That is, it's possible that they could serve as a tool to increase the relative power of women in the economy. Instead of requiring all firms to hire a certain amount of women, which entails monitoring costs, another potential route could be subsidizing or otherwise supporting the establishment of new cooperatives.

<sup>77</sup>We review principles six and seven in the subsequent chapter.

recall defines a set of norms or rules designed to supersede non-coordinated (Nash) equilibria. A coordinated equilibrium seeks to do this via the introduction of an additional agent acting as “choreographer”. However, instead of interacting with agents directly, the “choreographer” impacts *expectations* by generating common priors in what has been termed “like-mindedness”<sup>78</sup> or “redundancy”<sup>79</sup>. These expectations, which obviously are influenced by logics such as cost–earnings as well as cooperative principles, exist as regimes. Cooperative enterprises “are the carriers of” the principles, which, as we described above, generate particular social innovations that increase the ability, willingness and duration of cooperation. Thus, while individual cooperative enterprises are formally autonomous, “trajectories are endogenous to firms as routines.” [Leydesdorff, 2021, p. 92]

Thus, we may consider cooperation a logic, in addition to the logic of profit-maximization, regulation and the generation of technical innovations. It interacts with these logics and is the conduit by which second-order feedback effects occurs. These result in synergies and the realization of higher frontiers of potentiality, as depicted in Figure 2.2. Thus, “the same event [...] can have different meanings with reference to each of these [...] selection environments” (Id., p. 93), whether we are discussing profit-maximization, novelty generation, regulation or cooperation, and at the intersection of the logics, a regime emerges. Thus, the cooperative principles, in practice, form such a regime. “However, unlike a ‘natural’ regime – e.g., the cycles of the seasons—a [cooperative] regime can continue to interact (in feedback loops) with the trajectories on which it rests. Being not alive, a [it] can only be reproduced by being reconstructed.” (p. 94)

We should state at the outset that the *Guidance Notes* assert that the Cooperative Principles “are not inscribed in stone” that they provide only “the sound ethical principles to be applied with vision and proportionately according to the national economic, cultural, social, legal and regulatory context and particularities within which each co-operative enterprise operates.” They further state that “[a] co-operative is the only form of entrepreneurship organisation with such an international agreed and recognised definition, values and principles. The Principles make a valuable difference.” [Rodgers, 2015, p. ix] Thus, the *Guidance Notes* (hereafter, *Notes*) appear to agree with the relationalizing view expressed above.

We now turn to the first five principles in turn.

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<sup>78</sup>Cf. [Bacharach, 1985].

<sup>79</sup>Cf. [Leydesdorff, 2021].

### Open and Voluntary Membership

We begin with the first cooperative principle, *voluntary and open membership*, which states that “Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.” We can represent this principle as a rule that extends membership in an organization as far as the cost–earnings logic of the organization will allow. Indeed, a firm cannot have members if it is insolvent, and at the same time, the principle of *voluntarism* prohibits forcing individuals associated with the organization to become members. Thus, the first principle disciplines expectations by signaling a balance between what the organization can sustain and the desire for stakeholders to become members.

Firstly, the principle establishes a rule for progressively increasing the membership, as the organizational constraints allow. This means that the principle sees a benefit in extending membership, in principle, to more individuals, or, as the *Guidance Notes* interpret, “there should not be a high threshold to membership” [Rodgers, 2015, p. 8]. This places it in line with the normative, progressive ideal of democracy outlined in Chapter 3. In particular, we see in it the kernel of, e.g., Solon’s reforms of extending the domain of membership in the polity that culminated in Cleisthenes’ democratic reforms. As such, the principle represents a central democratic value: *inclusion*. Moreover, it clearly places a premium on non-discrimination, which as we have discussed in the prior chapter, is an important prerequisite for democratic choice, as well.

However, the principle is clearly based on a commitment to non-dictatorship, as the *Guidance Notes* emphasizes that “[p]eople cannot be made to be co-operators. It is a voluntary act to join and to be involved with others to achieve shared economic, social and cultural needs and aspirations.” [Rodgers, 2015, p. 5] Thus, the notes assert, in accordance with our discussion of Gierke’s notion of *Genossenschaft* in Chapter 5, “the right to freedom of association.” Also in keeping with Gierke’s assessment of rights as being associated with duties<sup>80</sup>, the Principle mentions the responsibilities of membership. Here, the *Guidance Principles* state, “Membership responsibilities require constant emphasis, but they should be borne by members freely and willingly.”

The *Guidance Notes* spell out the implications in the following manner:

Some co-operatives have experience of members who want to be members and share the benefits of membership when market conditions are [good], but who are not willing to accept the re-

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<sup>80</sup>See discussion in 5.3.

sponsibilities of participating as members when the market for their goods and services is [bad]. Such members may reasonably be excluded or expelled from membership because, by their actions, they have shown that they are not willing to accept the responsibilities of membership. [Rodgers, 2015, p. 9]

As we see, then, “open and voluntary membership” is also not a *carte blanche*. Members who fail to fulfill certain duties can be excluded from the cooperative. Thus, we present in the following a model representing how a voluntary extension of membership on an open basis can increase general welfare and also “strictly economic” outcomes in the sense of firm output. There are many ways to dynamically represent both the open and voluntary nature of cooperative membership. Our suggestion is to return again to Equation 6.12 as a starting point<sup>81</sup>. Thus, we have again:

$$r_i = \frac{\sum_{N-m} CR}{\sum_m CM}. \quad (7.3)$$

The question is now how to model the responsibility membership ordains in members in such a way to develop a measurable anticipatory system based on the model. As there does not appear to be an objective measure of an adequately responsible member and the idea of “members who want to be members and share the benefits of membership when market conditions are [good], but who are not willing to accept the responsibilities of participating as members when the market for their goods and services is [bad]”, one must move up a level from agency to reflection or *discourse*<sup>82</sup>. At that level, the organization’s stakeholders are obliged to – *democratically*<sup>83</sup> – weigh the logic of open membership, itself a reflection of the benefits of cooperation, with the impact on the going concern’s (cost–earnings) logic. Open membership must therefore be counterbalanced with the durability of the organization’s total relations.

Thus, the solution to this quandary is to develop a causal equilibrium based on the anticipation of a majority (e.g., 50%, plus one member of the membership). This can be represented either by Equation 7.4 or Figure 7.5, where  $Y_i$  represents the observation *by the majority of members* that member  $i$  is not meeting his or her responsibilities,  $Z$  represents the decision to exclude member  $i$ , while  $U_Y$  represents factors influencing the observation of  $Y$  (such as how public a member’s dereliction is, etc.) and  $U_Z$  represents

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<sup>81</sup>For fuller exposition of the model, please refer to 2.5.7 or 6.9.1

<sup>82</sup>Recall Figure 2.1

<sup>83</sup>Cf. the discussion of principle 2 below.

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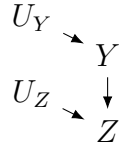


Figure 7.5: Graphical model of the Responsibility within Cooperative Principle 1.

factors besides the observation of inadequate responsible agency influencing the decision to exclude a member (e.g., personal animosity).

$$V = Y, Z, U = U_Y, U_Z, F = f_Y, f_Z \quad (7.4a)$$

$$f_X : X = U_X \quad (7.4b)$$

$$f_Y : Y = \begin{cases} \text{Closed IF } (U_Y = 0) \\ \text{Open otherwise} \end{cases} \quad (7.4c)$$

$$f_Z : Z = \begin{cases} \text{On IF } (Y = \text{Closed AND } U_Z = 0) \text{ OR } (Y = \text{Open AND } U_Z = 1) \\ \text{Off otherwise} \end{cases} \quad (7.4d)$$

The benefit of the simplicity of the model is that it is versatile and can be employed using agent-based modeling software, but also lends itself as a heuristic for guiding more discursive approaches to decision-making<sup>84</sup>).

### Democratic Member Control

The second cooperative principle is *democratic member control* and it states

“Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives

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<sup>84</sup>I.e., it can serve as a logic of justification for framing discursive decision-making processes, again, as a reflection of the need to translate discourse ethics into a “value-free” frame (cf. 1.2.2).



members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.”

It is the principle associated with the rule, “one member, one vote”. Associated with the prior model, here we seek to understand the second principle as a combination of constraint on potential oligarchic cliques, as well as a means to effect the benefit of psychological ownership theory. Again, recalling the discussion of the prior principle and the general discussion of the *moral economy of labor* above (see, especially, Chapter 4), this principle requires abandoning the idea, wide-spread in neoclassical economics, of viewing capital and labor as “mere production factors”. It embraces the view of labor as self-reflecting, creative and responsible agency. As such, the cost of excluding labor from decision-making is greater in terms of violation of ethical norms than is the exclusion of capital. Moreover, its inclusion in control is, as the prior discussion showed, associated with certain benefits.

As we have established in Chapter 6, control is associated with increased motivation and effective imagination. Moreover, merely pursuing open membership without guaranteeing member control results in hollow rights for members. If we acknowledge the progressive and humanist vision outlined in Chapter 3 as entailing desirable qualities for organizations and reflecting certain innate creative and self-reflective qualities in their members, it is easy to see that both membership and control are required in order for a true *natura naturans* to develop. Thus, self-reflection is both a requisite for control, yet complexity limits its (self-reflection’s) effectiveness. Organizations with numerous members thus benefit from being accountable to each of these members.

**The Democratic Imaginary in Cooperatives** The *Guidance Notes* state “Democracy is [...] the governance or control of an organisation by its members through majority decision-making” [Rodgers, 2015, p. 15] and furthermore describes this as “a complex task”, observing that “[s]ound democratic governance of co-operatives is no exception.” (*Id.*) Thus, the *Notes* state that democracy “can usefully be thought of as a set of rights: rights to participate in the government of a state or organisation.” It then goes on to emphasize the “radical” nature of democratic member control in cooperatives, observing that this form of democracy “predates the extension of suffrage” that followed the re-discovery of democracy in the modern world, beginning in the late 19th century.

Moreover, reiterating Otto von Gierke’s maxim, the *Notes* emphasize the double-sided nature of democratic participation, suggesting that, within coop-

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eratives, democracy “includes considerations of rights and the responsibilities,” as well as entailing ‘fostering the spirit of democracy within’ the organization (*Id.*). Interestingly, and in accordance with the discussions in Chapters 3 and 6, the *Notes* assert that “the democratic process, by itself, does not guarantee competence.” The *Notes*’ focus on suitable “procedures and processes” and their conclusion that democracy “is not just linked to voting in elections and general assemblies” appears to invite the kinds of analytical investigations as those on DMCs in 7.5, as well as on the nature of hierarchy in 7.2.<sup>85</sup>

The *Notes* go so far as to assert that the second principle “is the heart and soul of co-operative governance [as. . . d]emocratic control by members animates each and every co-operative.” Notable in reference to our prior discussion of co-determination in 6.4.7 is the *Notes*’ discussion of incentives. While recognizing that “some cooperatives use participation incentives”, they emphasize that “co-operatives should not rely too heavily on incentives.” Instead, “members should be educated and informed about their rights and responsibilities as members to exercise democratic control of their co-operative. Co-operatives could also use innovative participative mechanisms, for example, electronic participation and voting in general assembly meetings and the development of trainee programmes for young directors to encourage more young people to become involved in their co-operative.” (*Id.*)

**Creating a Deliberative Culture** The *Notes* recognize that “One of the biggest challenges facing co-operatives in implementing the Principle of Democratic Member Control is creating a culture that welcomes and encourages debate, rather than stifles it.” Moreover, “debate should be seen as a sign of a healthy democracy” and cooperatives should expend effort “encouraging members to become active members of their co-operative and to put themselves forward as candidates in elections.” (*Id.*) This is because “its members are the ultimate authority.” This means that “elected representatives [. . .] hold their elected office in trust for the immediate and long-term benefit

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<sup>85</sup>It is worth quoting the notes at length at this stage:

In democratic systems there is a spectrum of democratic engagement: from representative democracy through the election of representatives every few years, through deliberative democracy on major issues, to participatory democracy with continuous engagement of members in day to day decision-making. Co-operatives tend towards the deliberative and participatory end of the democratic spectrum. Members should be engaged in proposing and approving key strategic policy decisions and regularly, in general assembly, holding elected representatives on boards or committees and senior executives to account. [Rodgers, 2015, p. 15]

of members.” Clearly, this notion is congruent with the polycontextural notion of firm governance, in which leadership should be considered a function and not a trait of personality. However, debate, discussion and discourse must to some extent be throttled or constrained by the demands of market forces<sup>86</sup> Within those constraints, the *Notes* argue, “co-operatives should ensure that members have an opportunity to discuss”. In other words, balancing the logics of market resilience and democratic participation is a challenge facing every cooperative organization.

“There is no pre-ordained way to organise the governance of a co-operative”, observe the *Notes*, adding “[d]emocratic engagement of members in accordance with a co-operative’s rules and by laws is a qualitative not just a quantitative process.” (*Id.*, p. 17) This reiterates the point made above, that as a non-living system, cooperation depends on its continual reconstruction, which depends on context, history and and the evolutionary dynamics which particular enterprises choose. In an oblique appeal, the notes observe “It is important for co-operative democracy to take advantage of technological developments. Advances in modern mobile and internet communication technology are making it easier to develop strategies that actively engage members in a co-operative’s democratic processes.” We interpret this appeal to “technological developments” in the most broad sense, including both information technologies, as they do decision-making technologies, including the full palette of DCMs discussed above in 7.5.<sup>87</sup>

Thus, there is an element of the relational qualities of *polycontextualism*, *polycontexturalism* and *polylingualism*, where the meaning of “democratic member participation” shifts according to the scale, context and even the particular decision to be made. Thus a statement like “[i]n some co-operatives the sense of members owning and controlling their co-operative enterprise

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<sup>86</sup>Though, as we will argue in Chapter 8, societies have leeway in regulating the impact of market forces on organizations and individuals.

<sup>87</sup>In particular, the following makes this interpretation clear:

The arrangements made should ensure that democratic control by members is real and effective rather than a notional democracy controlled by management or a self-perpetuating elite. In any democracy there is a risk of democratic control being usurped by an elite group and this must be guarded against by actions that respect the rights of all members to participate and be engaged in a co-operative’s democratic processes and stand for election. Low levels of participation make it relatively easy for articulate groups, be they staff, middle and senior managers, or electoral groupings, to gain disproportionate control and influence, which is often reinforced by the group then becoming the body that sets the qualifications and rules for elections. [Rodgers, 2015, p. 17]

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may be diminished if members are too removed from decision making and control without appropriate and effective information sharing, training and educational opportunities and effective channels for member engagement”, points to a general risk, but the solution to a manifestation of diminished member participation requires shifting outside of Principle 2, or assessing to what extent other logics, such as that of profit-maximization, novelty production or regulation are incurring in non-synergistic ways on the logic of cooperation.

In particular, the *Notes* suggest that a lack of member participation “is a challenge that reinforces the importance of the 5th Principle of continuous education and training.” This demonstrates not only that the Cooperative Principles are irreducible as coordinating devices: they often times are interdependent. This is particularly due to the overlapping roles, the *poly-contextualism* inherent in cooperative enterprise, where “[t]he involvement of elected members in day-to-day business decision-making in co-operatives differentiates [them] from other forms of business enterprise.” In other words, polycontextualism in cooperatives means “[m]embers [...] have a dual relationship with their co-operative: they are both beneficiaries of the enterprise and also democratically control it.” (*Id.*, p. 20)

**Diversity, Succession and Renewal** Beyond the question of preventing or dealing with declining member participation, issues of diversity, succession and renewal are also relevant to cooperatives. The *Notes* state,

Members elected to positions of responsibility in a co-operative should broadly reflect the diversity of its membership. If they do not, positive action needs to be taken to encourage men and women from under-represented sections of the membership to stand for election. If there are barriers to certain groups of members standing for election, such as women, appropriate arrangements should be made to overcome the exclusion of disadvantaged sections of the membership from seeking elected office. (*Id.*, p. 18)

The *Notes* suggest quota systems as a potential tool to ensure diversity. Returning to our discussion of DCMs, we must emphasize that voting is not an ideal DCM and that diversity can be better ensured using other tools, like sortition or consensus<sup>88</sup>. It is an argument of the present manuscript that

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<sup>88</sup>As we have argued above in 7.5, the fact that sortition acts as a “blind break” from various human logics (including those of ambition, corruption and factionalism), implementing a lottery can save many pages from large cooperatives’ governance handbooks! The point, it would appear, is to foster a discursive culture within firms, to the extent that market forces and the instrumental logic they impose allow for it.

sortition can serve at the level of scale. The *Guidance Notes* recognize this polycontextuality, stating

The complexity of procedures and governance codes will, of necessity, be determined by the scale and development of each co-operative. A small new co-operative enterprise in an emerging economy will need simpler procedures and less complex governance codes than a larger, more mature co-operative business with thousands or millions of members. A large co-operative business is likely to need a detailed governance handbook. (*Id.*, p. 20)

These problems also extend to succession and renewal, where the *Notes* remark

Standing for election against long serving members should not be seen as an implicit criticism or as undermining the status of incumbents, but rather a positive reflection of the desire of the co-operative's other members to contribute to its on-going success. (*Id.*, p. 25)

The above statement underlines the problems of ensuring and maintaining DCMs, even in organizations constrained by certain values. Several of the case studies in later chapters underline the inertial quality inherent in social organizations, and the difficulty in breaking out of cycles once they have been established. Again, we propose a more extensive exploitation of the full range of DCMs in order to deal with problems of such a fundamental nature. As we saw in 7.5 this goes well beyond the typical recipe of “[o]pen, contested election procedures” and “term limits” the *Notes* call for, though obviously they may include these.

**Strategic and Operational Management** In a similar manner as we have discussed the various logics that drive organizations, there is a question relating to the ability and benefit in democratic member participation in either strategic or operational management. While the literature on this topic is not extensive, there appears to be a consensus that member participation in operational management is less likely to lead to a conflict between the different goals of the firm. For example, in Mondragon cooperatives, social councils are more actively involved in regulating day-to-day operations and rarely interfere with strategic management issues<sup>89</sup>. Similarly, the *Notes* state,

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<sup>89</sup>Cf. [Altuna Gabilondo, 2008] or [Whyte and Whyte, 2014].

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Elected members should take care to distinguish the governance responsibility of elected members and officers and the day-to-day business management responsibility of chief executives and senior managers. Elected members ought not to interfere with the day-to-day responsibility of executives to manage a co-operative business efficiently and put member-approved business strategies into effect. Equally chief executives and senior managers ought to respect the rights of members democratically to control their co-operative and take key strategic business decisions.<sup>90</sup> (*Id.*, p. 20)

However, we have pointed out in the prior chapter the importance of dynamic concepts like *macroculture* in creating expectations for behavior in organizations. Therefore, a macroculture actively propagating training and education may well have members more directly involved in issues of strategic management, despite charges of “lack of sophistication” (*Id.*, p. 21). The *Notes* suggest annual skills audits for members of the board. (*Id.*) Such a policy is, however, only directed at *ex post* control. In order to ensure a large pool of viable leaders, an active focus on connecting Principles 1 and 5 should be a strong focus of every cooperative enterprise. Tools like DCMs and inalienable hierarchies can provide the experiences that facilitate such skills *ex ante*.

Accountability is also an essential aspect of democratic participation. This extends from provisions “to recall and dismiss, by due democratic process” leaders who have impinged upon the rights of other members, or who have committed abuses of power or acted as bad stewards of the organization. If accountability is not ensured, “an essential generic characteristic of our co-operative identity will be lost.” (*Id.*, p. 26) Therefore, “[a] key question is how do such large and complex co-operatives ensure that the democratic rights of all members to take part in board elections and influence strategic business decisions are protected and respected?” (*Id.*) It is clear that a more extensive consideration of DCMs would facilitate finding general answers to this question.

**The Challenge of Multi-Stakeholding** “In 1995”, the *Notes* argue, “when the Principles were last reformulated, most primary co-operatives had

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<sup>90</sup>The text continues, “Co-operatives may wish their chief executives and other senior managers to be members of the board, but not in a majority, to ensure that they fully share responsibility for the governance of their co-operative. However, even where senior managers are not full board members they have a duty to advise and guide the board on governance matters and key business decisions.”

a single homogeneous group of members. In these co-operatives the rule for equal voting rights, one member, one vote, is self-evident. In multi-stakeholder or hybrid primary co-operatives different voting systems may, for good reason, need to apply.” This problem is further compounded by the fact that MSCs “are not permitted in some national legislative systems”<sup>91</sup> and in such cases “require specific arrangements in their rules or bylaws appropriate to their particular nature and function in order to apply this [principle]”. (*Id.*, p. 26)

Although we comment on this issue throughout the present work, we more closely analyze the implications of multi-stakeholding in the discussion following this analysis. Similar quandaries arise at the second- or third-tier stage, or in any other situation where one is not speaking of a homogeneous class of members. Here and in similar contexts, the cooperative logic must be reconstructed in order to achieve the ability, willingness and duration of cooperation.

**Democratic Choice and DCMs** The discussion on DCMs in 7.5 attempted to demonstrate that democratic choice requires a relational perspective that embraces dynamic effects from not just instrumental outcomes, but also embracing preference formation and deliberation as a relational good, as an asset. At this stage we wish to translate our findings from that discussion into concrete proposals for democratic organizational choice. We begin by asking how merely extending membership, *quo* Principle 1, may be a limited mechanism towards eliciting relational rents. We attempt to show that the first principle alone does not suffice towards this end. In particular, Principle 1 doesn’t reflect a focus on the organizational “base logic” of the continued existence of the going concern (i.e., cost–earnings). Thus, firms as economic actors must obviously be distinguished from, e.g. sports clubs, where the imminence of this “base logic” is not as binding, or not at all present.

Thus, the discursive logic of *democratic* stakeholder dialogue facilitates a dynamic and active balancing of various stakeholder interests and logics, *including* the “base logic” of the ongoing concern. DCMs should play a central role in connecting qualitative mechanisms with the abstract notion of democratic stakeholder dialogue. They simultaneously operate as (historical) events providing organizational innovation and as (evolutionary) process, impacting both organizational composition and even feeding back on the DCMs themselves in their function as events. This renders knowledge of suitable frameworks for selecting and applying DCMs of vital importance.

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<sup>91</sup>One needs only refer to examples like Quebec and Italy to see that, when appropriate legislation exists, MSCs can and do flourish. See Chapter 9 for more.

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As opposed to merely assuming the primacy and legitimacy of voting, our discussion of DCMs in 7.5 showed that *consensus* is in fact the ideal type of DCM. Thus, organizations employing a relational perspective, however large or small, should maximize the application of *discourse ethics* and consensus in as far as their position relative to market forces (a term we introduce in the next chapter) in the latter's impact on (cost-earnings) allows this. Evaluations of this possibility must be made transparently. The heuristics which may be employed as rules of thumb in this respect appear to combine two of the models introduced in 6.9. we reintroduce Equation 6.8

$$O = \frac{N * P_O}{N_\eta} = \frac{N}{N_\eta} * P_O \quad (7.5)$$

Secondly, we re-introduce the *equity indicator*, Equation 6.13:

$$I_e = \frac{\sum Employee}{\sum Members}, \quad (7.6)$$

We can use these two indicators as dynamic measures of the degree of democratic member control. The best way to employ the measures is to view the organizational longitudinally, and establish whether it is moving closer or further from the democratic ideal, and if the latter, to engage in reflection as to what measures can be employed to change course. With respect to such transformational goals (what we in Chapter 11 refer to as “missions”, following [Mazzucato, 2021]), DCM ensembles appear desirable. For instance, for missions involving leadership development, where common knowledge<sup>92</sup>, e.g., about members' resources and needs is not forthcoming, rotation or sortition can be usefully combined with consensual approaches to fruitful ends.

Moreover, sortition may be desirable as a solution to “double binds” [Bateson, 2000], such as the example of two equally viable Parliamentary candidates in 7.5.6. In other situations, where transaction-specific expertise is critical, sortition may be less desirable and a rotation or consensus mechanism (e.g., sociocracy) between key advisors may be more fruitful. We can see from this that different DCMs have particular strengths and weaknesses with respect to particular functions and contexts. E.g., as discussed above, voting was described as a “snapshot”. Thus, its efficacy as *initiator* of innovation is likely limited. Where voting may be more useful, however, restricting its use to *confirmatory* roles, e.g., as among the Cherokees<sup>93</sup> appears desirable.

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<sup>92</sup>Cf. [Gintis, 2014, pp. 83ff.].

<sup>93</sup>Cf. 3.9.2.



With respect to central questions of leadership selection and issues of strategic management, a combination of sortition and consensus, as was seen in the Florentine and Venetian republics<sup>94</sup>, may be desirable. Each has a benefit to offer and simultaneously features shortcomings. For example, consensus can be time-consuming and may be prone to issues of peer-pressure and oligarchization<sup>95</sup>. At the same time, it offers a richer background for making decisions. Meanwhile, sortition ignores distinctions in skill, capabilities and competence. At the same time, it operates quickly and transparently and can circumvent social biases, inertial forces and thus be useful to eliminate historical (e.g., gender or racial) discrimination.

The particular manifestation of DCM mixes will vary relative to context and various economic and social factors, as discussed above. More knowledge as to how to integrate DCMs into organizational cost accounting as assets is desirable [Cao and Lumineau, 2015, p. 30]. Indicators like the O-value and equity indicator can be useful heuristics in terms of evaluating particular organizations with respect to these imperatives.

### Member Economic Participation

The third principle, *Member Economic Participation*, states that

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

The *Notes* that this principle is “the most sensitive and challenging part of the Co-operative Principles, though not necessarily the most important.” [Rodgers, 2015, p. 30] This is because the third principle is an attempt to mix (Polanyi would speak of “embedding”) the cost-earnings logic of the enterprise form with the logic of cooperation. Thus, the *Notes* conclude that the 3rd principle “is mainly a financial translation of the definition of the identity of a co-operative and of the financial implications of the 2nd Principle

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<sup>94</sup>cf. 3.7.3 and 3.7.4.

<sup>95</sup>Cf. [Piketty, 2019] and [Hinnerich and Pettersson-Lidbom, 2014].

## 7.6. THE COOPERATIVE ADVANTAGE: COOPERATIVE PRINCIPLES AS ANTICIPATORY S

of Member Democratic Control.” They also mention the relation to the 4th principle, discussed below, suggesting that the “key concern” in attracting capital “must always be to preserve the capacity of the members to decide the fate of their organisation”. (*Id.*) Therefore, the *Notes* conclude that “it would be wrong to interpret this Principle in isolation” (*Id.*, p. 33), which would entail a reductionist reading of the function and purpose of cooperatives.

It would therefore appear that the 3rd principle is different from the preceding principles, as well as from principle 4, in that it acts less on the level of discursive rationality, in the sense of Habermas, and explicitly constrains the agency of cooperators. It is thus the most instrumental of the seven principles, in that it views cooperation “externally”, i.e., from a cost–earnings logic, asking first what is required for the continued existence of the going concern and then relationalizing that *principal* (or, as we have called it above, “base”) need with respect to an inalienable view of cooperation<sup>96</sup>, there to ensure that “in a co-operative capital is the servant, not the master of the enterprise.” The principle operates on the code “of capital being in service of people and labour, not labour and people being in servitude to capital.” In the end, the *Notes* argue that this means “that capital should be raised in a way that is compatible with the definition of a co-operative in the Statement on the Co-operative Identity and the democratic nature of a co-operative enterprise.” (p. 31)

In general, the *Notes* conclude that

There is a need to develop greater understanding among governments and regulatory bodies of the co-operative form of business enterprise, its place in the modern economy and its capacity to be economically, culturally and socially transformational when they are able to operate within an appropriate legal and regulatory regime. (p. 43)

This should be read as an appeal for more synergistic considerations between the logic of regulation (i.e., the logic of governments) and the logic of cooperation. It should be read as an admittance of the necessity of “correlations among the distributions of relations and non-relations” [Leydesdorff, 2021, p. 91] between regulation on the one hand and cooperation on the other. It should also remind the reader of Ellerman’s point about the “invisible hand” operating as much through the *inaction* of governments as through their actions.<sup>97</sup>

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<sup>96</sup> “The key question addressed in this 3rd Principle is: “How do we make this work?” [Rodgers, 2015, p. 30]

<sup>97</sup> Cf. 5.2.

**Commonwealth: Collective Ownership of Capital** It is clear that the third principle, if it is an instrumental reflection of the spirit of cooperation (i.e., the *logos*), that it reflects a shift towards a moral economy of provision, away from an idea of economy as the domain of strictly pecuniary activity via exchange of property.<sup>98</sup> It thus possesses simultaneously a historical component and an evolutionary logic. The former is given by the fact that the 3rd principle “is a combination of the nature and principles [...] previously set out in two separate principles before the 1995 reformulation.” (*Id.*, p. 29) The principle, which “was [...] the fruit of a long period of discussion” also “introduced the notion of collective ownership of capital.”

Thus,

Membership shares that provide capital in a co-operative are not shares like those in investor-owned joint stock companies. Capital paid by members is not money primarily invested to generate an investment return on capital, but is ‘pooled capital’ invested to deliver goods, services or employment needed by members at a fair price.

This means that a cooperative share “is not a tradeable asset.” (p. 34) Moreover, “[a] co-operative membership share is essentially different from an equity share in an investor owned company: the latter is aimed at a generating a return for the investor, including capital gains, and is, generally, tradeable.” (*Id.*) In other words, this “means that part of a co-operative’s capital, either composed of retained surpluses or once subscribed by members as membership shares, is the common property of the co-operative and is not owned or withdrawable by members, i.e. it is ‘indivisible’” (We discuss the notion of indivisibility immediately below). Therefore, “members must have the right to own at least part of their capital collectively, a reflection of what they have accomplished collectively as a co-operative.” (p. 32) Thus, “members accept that a part of the co-operative’s surpluses will never become the individual property of any member or future member. In the interests of the co-operative, this part of the surplus can be allocated to indivisible reserves which are the common property of the co-operative.” (p. 36)

There is a bit of a tight-rope act that cooperatives must engage in setting the level of the individual membership contribution. It can be set either too high or too low. Says the *Notes*:

Some co-operatives have reduced the capital investment required to become a member and to gain voting rights to an insignificant

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<sup>98</sup>The *Notes* therefore introduce the third principle by reference to the fact that co-operatives “exist to meet the needs of people” and that the main motive of establishing cooperatives “is to be self-reliant.” [Rodgers, 2015, p. 29]

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nominal amount. This devalues membership and creates an inherent danger that the core co-operative values of self-help and self-responsibility are not applied. (p. 34)

At the same time, a membership share “must be financially affordable to those who need a co-operative’s services. It should not be a barrier to membership. If set too high, it risks breaching the 1st Principle of open membership.”

In conclusion,

A co-operative’s members’ non-withdrawable share capital and the co-operative’s indivisible reserves are the common-wealth of the co-operative. They do not belong to a single generation of co-operative members but to the co-operative as a whole, as a legal entity. The ancient Roman law principle of “usufruct” is to be affirmed in the relationship of current members to non-withdrawable share capital and indivisible reserves. (p. 36)

**Indivisible Reserves** The notion of “indivisible reserves” has been part of the cooperative tradition since at least the 3rd cooperative congress in 1832, which stated

In order to ensure without any possibility of failure the successful consummation of these desirable objectives, it is the unanimous decision of the delegates here assembled that the capital accumulated by such associations should be rendered indivisible, and any trading societies formed for the accumulation of profits, with a view to them merely making a dividend thereof at some future period, cannot be recognised by this Congress as identified with the co-operative world, nor admitted into this great social family which is now rapidly advancing to a state of independent and equalised community. (cited in *Id.*, p. 29)

Such reserves “are owned collectively. In long established co-operatives these indivisible reserves will represent the accomplishments of many generations of members and are often the target of those who seek to demutualise co-operatives.” (p. 33) In some jurisdictions, the *Notes* point out, an “asset lock” facilitates this notion. In others, cooperatives are encouraged from establishing such an “asset lock” in their bylaws. In accordance with a resource-dependency view, it would be advisable to regulate the special notion of indivisible reserves legally, to prevent encouraging time-inconsistent behavior, a risk discussed in the prior chapter.<sup>99</sup>

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<sup>99</sup>The *Guide* states

The notion of inter-generational “indivisible reserves” stems from a view of (current) members of a cooperative as “custodians” (p. 37) or “stewards” [Hancock, 2017]. Thus,

Current members have a legacy responsibility to ensure that the co-operative survives, as a strong and vibrant business enterprise, for the benefit of future generations of members and the wider community the co-operative serves. (*Id.*)

**Equity, Stakeholding and Capital** Cooperatives “may invite members to make further voluntary capital investments which do not carry voting rights.” (p. 31) Nevertheless,

Capital invested voluntarily is not invested “as a condition of membership” and it may therefore be appropriate to pay interest on such investments, but at a “fair rate”, not a speculative rate. In the 1934/1937 review of the Principles, this “fair rate”, which was also called “a compensatory rate” was described as “the lowest rate which would be sufficient to obtain the necessary funds”. (p. 32)

The *Notes* point out the dilemma that may arise as a result of this situation, where members wind up “investing in a co-operative for capital gain rather than to ensure the success of their co-operative enterprise.” (pp. 32-33) We see here again the continual need to reconstruct the cooperative logic in the face of potential “negative” synergies from, e.g., the profit-maximizing logic. Regulation can facilitate such a process.

The liability that members face on their shares is determined by national legislation. The notion that liability in cooperative shares should be treated as least as favorably as those of investor-owned enterprises certainly has authority.<sup>100</sup>

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When [...] members decide that a co-operative should cease to operate and its assets be dissolved, there is no compulsion inherent in this 3rd principle that prevents the co-operative’s residual asset value, which represents its indivisible reserves, being distributed to its members on the dissolution of its business. This is, however, to be discouraged because the power to distribute a co-operative’s residual asset value to members at the time of its dissolution may hasten the liquidation of the co-operative. (p. 38)

<sup>100</sup>The *Notes* state

The extent of member liability depends entirely on the national laws of the country in which a co-operative operates and the regulatory regime in their

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This has an implication on the nature (ontology) of surpluses and, by extension, member shares. In accounting terms, equity is usually seen as a liability the firm possesses towards the equity-holder. [Carrera, 2019] Meanwhile, in the case of cooperatives, “[m]embers’ shares constitute part of a co-operative’s own capital resources that guarantee the co-operative’s continuation in business. In other words, members’ capital should be treated as part of the co-operative’s equity capital not as debt (a liability on the co-operative’s balance sheet).” (p. 38) This observation underlines the relational view of the firm, where innovations in cost accounting facilitate transformative approaches to governance, as alluded to above. The *Notes* continue,

This is an important reality to understand, particularly given the current policies and directives of the International Accounting Standards Board on the accounting and financial treatment of co-operative members’ shares. (p. 38)

Moreover, “[t]o achieve a standard global accounting treatment of this capital and indivisible reserves, accumulated over time, as equity capital not debt, under no circumstances should members’ non-withdrawable share capital and indivisible reserves be subject to any risk of distribution to co-operative members.” Moreover, in recognition of the special purpose and place of cooperatives in communities, it may be “appropriate for [this contribution] to be recognised by the public authorities by awarding them specific legal and tax treatment that recognise their wider contribution to tackling wealth inequality.” (p. 42)

Cooperatives may go to outside institutions to meet their capital needs. “Where a co-operative’s rules or constitution permits the admission of legal entities as members there are strong reasons for encouraging other co-operative or mutual enterprises to become members.” (pp. 35-6) Here, we see that the evolutionary logic of cooperation promotes not only synergistic relations with other logics, but also encourages a form of “specialization” by means of which cooperation becomes a generator of a recursive, evolutionary process. [Leydesdorff, 2021, p. 21f.] Note should be taken of opportunities to incorporate legal persons and municipalities as stakeholders into cooperatives using tools like “the creation of a specific category of membership for public authorities”. (p. 42) Creating multi-stakeholder or hybrid models should be

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own jurisdiction with which co-operatives are required to comply. One of the key political issues for co-operatives is to ensure that they are equally able to benefit from national laws that limit members’ liability as are personally owned and/or joint stock investor owned companies. (p. 36)

done “in a way that retains the key generic characteristics of a co-operative specified in the [Principles]”. (p. 43)

The *Notes* advise cooperatives that the source priorities of capital should follow the following list:

1. a co-operative’s own members
2. other co-operatives and co-operative financial institutions,
3. social bonds and social investors,
4. commercial lenders – the financial markets.

Thus, resort to capital markets should be reserved for cases where other options, including crowdfunding, are unavailable or have been exhausted, i.e., recourse to a logic of bargaining should be reserved for when the logic of cooperation has failed to meet the organization’s needs.

**Surplus vs. Profit** A final distinction must be made in interpreting the third principle. It is the distinction between profits and surplus. While a profit is “the total annual positive result of business trading”, a surplus is “that part of profit derived from the economic relationship with members” (p. 40). The provisional nature of cooperation should see cooperatives “allocate [profit] to indivisible reserves and not distributed to members.” (*Id.*) Meanwhile, the surplus “belongs to the members and it is for the members to decide how it is used.” Thus, we see here an evolutionary logic with respect to the epistemology of profits that is quite advanced. As recent macroeconomic analyses of the nature of profit<sup>101</sup> have revealed, while classical economists “failed to contentedly reach a common theory of profits”, neoclassicals like Walras did not correct this, meaning “no significant contribution to the neoclassical theory of profit has been made since the 19th century”. [Carrera, 2019, p. 137]

Thus, while the neoclassical theory depicts profits be “necessarily nill, for it was the counterpart of loss” (*Id.*), “[o]nce both production *and* exchange are studied as part of a single, coherent framework, profit can be said to be both physical *and* monetary. Profit, at the macroeconomic level, turns out to be positive. In particular, it is a substitution income that forms thanks to the transfer of a fraction of wages to the hands of companies.” [Carrera, 2019, p. 90] This means that, macroeconomically seen, “wages constitute the right of workers on the goods and services temporarily stocked by companies. Being

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<sup>101</sup>Cf. the tradition of Bernard Schmitt and Luigi Pasinetti. For a bibliography of Schmitt and those influenced by his thinking, cf. [Carrera, 2019, p. xviff].

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logically impossible for them to be made out of any excess of revenues over costs of production, macroeconomic profits must necessarily consist in [...] the transfer of monetary and real income from households to companies.”<sup>102</sup> (Id., p. 139) According to this view, “[t]he value of total output is necessarily equal to the sum of *wages* paid for the production of consumption-goods and *invested profit*. (Id.)

The distinction is clarified by Hagen Henry:

Cooperatives should distinguish between the component parts of the positive result, i.e. profit (derived from transactions with non-members) and surplus (derived according to cooperative principles from transactions with members). According to the strict cooperative principles, profit will be transferred to an indivisible reserve fund; surplus should be distributed among the members, at least in part, in proportion to their transactions with the cooperative over a specified period of time. [Henrÿ, 2005, p. 35], cited in [Rodgers, 2015, p. 40, footnote 5]

Thus, the manner with which cooperatives principally deal with profits is in fact in keeping with the most contemporary understanding of the nature of profits as consisting of “a transfer of monetary and real income from households to companies”. Requiring or encouraging cooperatives to transfer all or part of their profits to indivisible reserves to be used as collateral for investments is the result of what Kant would call *genius*, the first step in a two-step process of choosing constraints. Individual firms then choose within constraints (step two) *which* investments to engage in, often in concord with cooperative development funds and/or central associations. Meanwhile, that surpluses are treated differently than profits results from their ontological distinction as *patronage*, as discussed by Hagen Henry above.

Cooperatives are enabled to do the following things with their surpluses:

1. To develop their co-operative, “possibly by setting up reserves, part of which at least would be indivisible”;
2. Reinvesting in modernising physical and other infrastructure and in improving human resources;
3. Developing new co-operative activities with the aim of diversifying the co-operative<sup>103</sup>

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<sup>102</sup>In fact, this macroeconomic view is arguably essential in understanding microeconomic firm profit.[Carrera, 2019, p. 139].

<sup>103</sup>“... developed through capital contributions. A venture capital approach to enable long-



4. To pay a return to members, often referred to as the “dividend or patronage refund”, e.g., the “Rochdale Dividend”;
5. To support other activities that are approved by members, especially those consistent with the 5th, 6th and 7th principles.

[Rodgers, 2015, pp. 40-1]

In keeping with the observation that non-living systems must reconstruct themselves in practice, cooperatives are encouraged to use retained profits to invest in other cooperatives, either by financing apex organizations or local cooperative development funds. They are discouraged from selling assets in order to achieve a dividend, as “the objective of a co-operative is to render service to members not to generate a surplus for distribution to members by the sale of assets.” (p. 41) The preferred method of ensuring such decisions is having strong national legislation, again underlining the need and benefit of synergies across logics. Absent, or in addition to, this: “Rather than making decisions about payments into reserves at the end of each accounting year when the results for the year are known, it is recommended that every co-operative develops a reserves policy, approved by members in general assembly.” Such a policy should stipulate how much of the cooperative’s surplus is directed towards the reserve.<sup>104</sup>

**A Relational Approach to Member Economic Participation** Principle 3 is associated with explicit and implicit constraints on capital. Taking market forces and what [Shaikh, 2016] refers to as “real competition” for granted, the principle acts as a heuristic: in dilemmas, where decisions can be made either to the benefit of capital accumulation or towards meeting welfare needs of members, the heuristic states clearly that the firm should prioritize member needs. Putting aside the definition of membership – an important question which we dealt with above, it recognizes the need to achieve surpluses in order for firms to survive, but places constraints on 1) what activities should be engaged in to achieve those surpluses (*ex ante* constraint) and also 2) limits the uses to which those surpluses can be put (*ex post* constraint).

In Figure 7.6, we derive a model to represent these two effects based on Bayesian agents. The model is based on the assumption that the introduction of norms regarding permissible sources and uses of profits are able to

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term development of new co-operative activities by the co-operative or by supporting the development of new or other co-operatives in clusters may be appropriate.” [Rodgers, 2015, p. 40]

<sup>104</sup>Such an approach is in keeping with what we learned in our discussion of *constraint theory* in 6.5.

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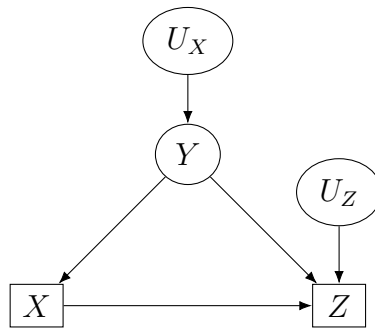


Figure 7.6: A causal model representing an dilemma facing a cooperative enterprise.

“reasonably” constrain members of an organization. This because these norms never constrain the accrual of profits, per se, but direct the activity in certain acceptable channels. Thus, the model is both a “top-down” (causal) model determining a universe of possible actions with reference to which profits may be accumulated and a “bottom-up” (diagnostic) model constraining potential outcomes to a subset of all possibilities. Below, we interpret the model with respect to step one.

In step one,  $Z$  represents an investment dilemma (e.g., a crowdfunding or venture capital source of financing),  $X$  is a dummy variable representing principle 3 as constraint (not present in non-cooperative enterprises) and  $Z$  represents the resulting equity ratio of the enterprise. Meanwhile,  $U_X$  represents any extraneous influences not considered that influence the choice of investment and  $U_Z$  captures extraneous influences on the equity ratio (perhaps the enterprise was heavily indebted before the decision). The point is that the outcome (here, the equity ratio) is mediated by the *form* of relationship between stakeholders and the existence or nonexistence of constraints in the form of a heuristic regarding credit access.

A similar approach can be employed to model step 2 (the *ex post* constraint), which we do not discuss in detail.

The relational approach is helpful in order to understand both the benefits such a constraint imposes and in what manner DCMs can contribute to discovering the appropriate balance in interests. In particular, the relational approach offers an innovative view of credit relations: “Using the form of the creditor-debtor relationship to systematically define money as a continuation of relations, in contrast to a one-time, pure seller-buyer relation, makes it possible to apply money, as both a relation and process form, to the [relational] schema of asymmetry between relational transactions and exchange trans-

actions” [Biggiero, 2022, p. 291] Thus, the relational perspective “develops the bargaining transaction for the relationalization of societal and business networks.”

This means that ICA’s relational view towards capital “reintroduces the distinction between relational and exchange transactions in the seller-buyer difference, in order to describe the cooperative resources and property rights found among stakeholders” and it carries this out without explicit reference to a framework of contested exchange or a principal-agent framework with respect to lender and debtor. Contractual capital relations “involving specifically investing stakeholders represent”, from such a perspective,

incorporeal [i.e., intangible] property. This refers to the entries in the balance sheet that are denoted with outstanding claims to and debts of performance, and which include the financial burden of debt. In contrast, those elements listed as equity are, in keeping with Commons, intangible property, and for the purposes of Relational Economics, they represent access to relational goods that can be privatized and are valuable for the organization of future collaborations. [Biggiero, 2022, p. 292]

Thus, the relational perspective to creditor-debtor relations, which we argue is entailed in ICA’s third cooperative principle, does not entail merely a unique *application* of relations to capital: it in fact entails a different *notion* of capital from the standard neoclassical approach from economics and finance theory.<sup>105</sup> This has been referred to as *relational capital*, which refers to transactions “which take into account *ex-ante* the valuations of future collaborations for the purpose of shared value creation, [while] the assessment of the corresponding money debt is included as a liability.”

In order to represent this shift in the notion of capital, we show two sets accounting tables depicting creditor-debtor relations.<sup>106</sup> The first set of T-tables shows a traditional creditor-debtor relation, with the credit listed as the creditor’s asset and the firm’s liability, meanwhile the firm’s debit (e.g., cash) is its asset and the creditor’s liability.

Firm		Creditor	
Debits	Credits	Credits	Debits

In the second set of T-tables, we adopt a relational view of capital, as entailed by the third cooperative principle. Here, we see instead of cash being

<sup>105</sup>Cf. [Biggiero, 2022, pp. 50ff.].

<sup>106</sup>For background, cf. [Carrera, 2019, pp. 108ff].

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the firm’s asset, the continuing relationship instead takes its place, with a respective liability booking in the creditor’s T-table.

Firm		Creditor	
Relations	Credits	Credits	Relations

Thus, the *relational* creditor-debtor relationship develops a distinct language for integrating the sustained relationship into both parties’ cost-accounting. Thus, “[t]he loan issued includes a deadline, and therefore a fixed end date for the financing of the debt and an interest rate. Thanks to this clear dividing line between negotiation and a fixed date for repaying the debt, the cooperation is separated into distinct processes and becomes quantifiable, even if doing so always represents an artificial intervention in the underlying societal processes.” [Biggiero, 2022, p. 292] In practice, one can see such relational approaches applied in, e.g., the investment strategies of the *Global Alliance for Banking on Values* (GABV) or in the activities of charitable foundations, cooperative development funds and increasingly in multilateral organizations like the UN.

Moreover, recent discoveries, such as an early edition of Cotrugli’s Renaissance-era manual for merchants, *Libro del’arte dela mercatura*, in Malta [Biggiero, 2022, pp. 97ff] have caused accountants and economic historians to reconsider the nature of accounting practices in light of the relational approach. Cotrugli’s book, which is “the first description of double-entry bookkeeping” in history<sup>107</sup>, emphasizes the interdependence of profit-oriented and ethical logics, in a general framework of shared value-creation. Thus, for Cotrugli, as well as for his contemporary Pacioli, considered “the father of accounting”, “religious practice is not distinct from the professional life of a merchant.” Thus, for Cotrugli, merchants were to keep three books of accounts: a “day book”, a “ledger” and a “scrapbook”, each focusing on different types of transactions. Moreover, he recommended a pluri-annual accounting scheme, emphasizing the pedagogical role that such accounts can have, including “improvement, the development of the merchant as a person, including his relationship with God.” [Biggiero, 2022, p. 104]

As discussed in the analysis of the first principle above (cf. 7.6.3), a relational approach to creditor-debtor relations can and should be seen as connected to an accountable and inclusive stakeholder dialogue. It is therefore an extension of a cooperative, relational logic to external stakeholders, particularly creditors. More training and professional development on the part of financial institutions as to the *benefits* of a relational approach to

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<sup>107</sup>CF [Biggiero, 2022, p. 103].

capital would *ceteris paribus* offer increased returns, via increased stability and the generation of relational rents.

### Autonomy and Independence

The fourth principle, *autonomy and independence*, states

“Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.”

This principle is in fact an emergent property of the first principle. It extends the idea of *voluntary participation* to interactions with external agents or organizations. As such, it serves as a bridge between the first and sixth principles, the latter of which (it will be discussed shortly) falls outside the purview of this chapter. Similarly, the principle also relates to the third principle with its constraint on capital returns. In this vein, it seeks to ensure that cooperatives do not become dependent on capital suppliers, which may violate, e.g., the third principle.

The principle “primarily focuses on the relationship of co-operatives with national governments and international governmental organisations, although it also has implications for” interactions with other entities, such as credit providers, suppliers, etc. [Rodgers, 2015, p. 45]. The principle perfectly captures the interaction between historical organization and discursive logics in the sense of [Leydesdorff, 2021], in that the principle contains both historically determinative features, as well as discursive effects that feed back upon organizational governance. Thus, it signals a particular *regime* or typology (consensus) and impels *routines* derivative of this regime (discourse). The historical features can be adduced by reference to the following quote from the *Notes*:

early co-operators concluded that it was no use waiting for governments or those in possession of wealth and power to bring about fundamental change in the circumstances of those living in poverty, but that change to a fairer economic world could only be achieved by working together and by applying the values of self-help and self-responsibility in co-operation with others. (Id., p. 45)

Thus, cooperatives are “organisations that have the freedom to act independently to govern themselves, control their own affairs and set their own rules

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of operation.” (p. 46) Again, the principle, while irreducible, relates to other principles, particularly principle 2. The *Notes* argue that “[a] co-operative is not autonomous and independent unless control rests with its members in accordance with sound, open, transparent and accountable democratic practice.” (*Id.*) In addition to the accountability which cooperatives have with respect to their members, they are also exhorted to maintain independence and autonomy in reaching agreements with external organs, whether governments, organizations or lenders, as “[a]ll three categories of agreement have the potential to compromise a co-operative’s autonomy and independence and the right of its members to exercise democratic control of its affairs.” (p. 47) This is a direct statement of the danger of non-beneficial synergies between the logic of cooperation and the logic of profit-maximization.

**The Limits of Autonomy with Respect to State** Nevertheless, far apart from being fully independent of the state, cooperatives are “very much affected by their relationship with the state.” (*Id.*) The regulative logic of governments have a direct impact on the logic of cooperation by influencing corridors of cooperation, both directly (via taxes, subsidies and other incentives) and indirectly, via what Ellerman describes as the negative face of the “invisible hand” (e.g., the tolerance for contracts to rent human labor). The *Notes* argue that cooperatives and their autonomy are also strongly impacted by “liberalisation of global markets”. Again here, we see interactions between historical forces and discursive logics, as the latter liberalization was strongly motivated by a logic of liberal globalization<sup>108</sup> which set in place legal regimes which the *Notes* argue “support the dominant economic model. These frameworks create constraints that present new challenges to the autonomy and independence of co-operatives.”

This occurs again by the interactions between the above-mentioned logics and historical processes, which have led to “concentration of financial power” in global enterprises. The rise of large, multinational firms, the *Notes* argue, “creates a significant risk to [cooperatives’] autonomy and independence” in the form of “[a] co-operative enterprise that is largely dependent on trading with one investor-owned private sector commercial business.” (p. 46) The *Notes* imply that multilateral organizations like “the UN and the ILO” can provide

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<sup>108</sup>The *Notes* suggest

The dominance of the investor-owned model of enterprise is shown by the fact that it is often the only economic theory taught in university economics departments and business schools, co-operatives being mentioned only in passing and rarely treated in economic textbooks. (*Id.*, p. 46)

For a theoretical perspective on these dynamics, cf. [Bowles et al., 1993, pp. 13ff.].

the discursive logics to ensure values like autonomy and independence<sup>109</sup>.

### **Retaining Autonomy With Respect to Creditors, Suppliers, Clients**

The *Notes* address the risk of external capital as a conduit to losing autonomy, an issue also raised in the prior principle:

Too often [external capital] has led to loss of control over time, with further capital demands resulting in a greater equity stake for such investors, or effective control over a co-operative’s business being exercised through financial covenants and compliance obligations. This can lead to the ceding of control from members to investors. [Rodgers, 2015, p. 52]

In such situations, “member sovereignty can be illusory”, with real strategic or operative control being in the hands of investors. Therefore, the *Notes* admonish “Co-operatives [...] to ensure that the relationship with financial markets and financial institutions does not compromise this 4th Principle.” Creditors, in the end, are not the only counterparties to cooperatives able to exert external control. “Economic trading risks can also endanger the autonomy and independence of co-operatives.” (Id., p. 52) The *Notes* observe that “[s]ince [...] the Co-operative Principles were reformulated by the Alliance in 1995, there has been an enormous growth in the power of giant corporations and organisations in global supply chains. The size, scale and global operation of such enterprises enables them to exert influence throughout the supply chain.” (p. 53)

So-called *pay and stay* arrangements are listed as one nefarious example. We may consider “entrepreneurial dependence”, which we discuss in Chapter 10, as a further example. In the end, the *Notes* caution that “Autonomy and independence can be compromised by becoming over-dependent on supplying a single purchaser of a co-operative’s product or services, and, equally, from over-reliance on dominant sources of supply.” Cooperatives should be aware of the risks they face and engage in “risk-mapping and risk analysis”, in addition to “effective risk management”. (*Id.*)

**The Role of International Law in Securing Autonomy** In recognition of the essential role of government, states and law in providing for conditions that ensure autonomy and independence, the UN’s general stance

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<sup>109</sup>They can do this in direct ways, e.g., by advocating for notions like the harmonization of cooperative law, as the work of Hagen Henry has consistently underscored. Additionally, such organizations can serve this purpose indirectly (or “performatively”) by events like the declaration of the UN Year of the Cooperative”. (p. 46)

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is a dynamic and emergent “Goldilocks” one: “While too much State control is bad, no State involvement can be equally unhelpful and short-sighted.” cited in [Rodgers, 2015, p. 47] It stresses that coops “should not be used as an instrument of the State” and that “[p]olicies should move cooperatives away from dependency on the State”. Towards this end, UN institutions and the ILO have a number of frameworks and policies to help states in shoring up and supporting their social and solidarity economy (SSE), including cooperatives.

The *Notes* describe UN Resolution 56/114 as providing an impetus for “encourag[ing] member governments to: ‘keep under review, as appropriate, the legal and administrative provisions governing the activities of co-operatives, with a view to ensuring a supportive environment for them and to protecting and advancing the potential of co-operatives to help them achieve their goals’” (Id. p. 47) Thus, the prevailing view espoused by the UN is geared towards promoting positive synergies between the logic of cooperation and the logic of regulation.

One of the most important documents in the domain of ensuring cooperative autonomy and independence is ILO Recommendation 193, which “calls for governments to create an enabling environment in which co-operatives can flourish [. . . by] exhort[ing] governments to: ‘encourage the development of co-operatives as autonomous and self-managed enterprises, particularly in areas where co-operatives have an important role to play or provide services that are not otherwise provided’.” (p. 49) It thereby “provides a framework to make the case for Co-operatives being ‘treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise.’” (*Id.*) Thus, Recommendation 193 is an explicit attempt to relationalize cooperation and regulation towards mutually beneficial ends. Implicit in the last statement is a recognition that the logic that facilitates market outcomes of investor-owned business may in fact be quite distinct from that driving cooperative enterprise, a point we return to when we introduce the imperfection principle in 8.1.

As can be seen from the fact that, between the Resolution’s adoption in 2002 and the drafting of the *Notes* in 2015, “over 100 ILO member nations [had] used it to review their co-operative legislation” (*Id.*), we see again in such outcomes the impact of discursive logics on historical processes and events.<sup>110</sup> In general, “This 4th Principle of Autonomy and Independence means that members of co-operatives are entitled to make decisions about their co-operative without undue influence from government beyond a wider policy environment that impacts equally on other forms of economic organisation.”

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<sup>110</sup>In the following chapter, we derive a model, following [Leydesdorff, 2021], to formalize these interactions using the terminology of the Triple-Helix.



(p. 50)

**Protecting Cooperative Identity** Coordinating with states can also help cooperatives protect their identity. “This includes protecting the use of the name ‘co-operative’ that paralleled the emerging legislation for other forms of enterprise. The UN recommends that ‘a precise definition of cooperative is necessary to prevent ‘bogus’ cooperatives from illegitimately benefiting from cooperative policies and sully the image of cooperatives’”. [Rodgers, 2015, p. 49] This underlines the need to establish firm *attributes* which are a prerequisite for maintaining and establishing mutually beneficial synergies between logics. I.e., the logic of cooperation must be internally coherent, if it is to usefully interact with logics like profit-maximization, regulation and innovation generation.

In addition to protecting the cooperative brand, developing tools for effective, democratic management, in keeping with the DCMs as well as with the notion of “inalienable hierarchy” introduced in this chapter, is essential. The *Notes* caution that “[g]overnance and management failures in co-operatives have led some business leaders and commentators, some even from within the co-operative movement, to suggest that elected directors do not and cannot have the skills and expertise needed to run major enterprises in a modern economy.” (p. 53) As opposed to following the logic of standard management practice, “the alternative co-operative approach is to ensure that, through education, training and development opportunities for board members and prospective board members, the elected board, collectively, has the skills, knowledge and capacity to fulfill its corporate governance role.” *Co-optation*, where members of one body sit on governance organs of another body, is one suggested method<sup>111</sup>.

Moreover, a solution to ensuring that the principle of autonomy and independence is respected in practice, and that members have the final say, is to ensure that “the skills set of all board members and senior managers must include a clear vision and understanding of the Co-operative Values and Principles and how to avoid compromising a co-operative’s autonomy and independence.” (p. 54) Thus, a relational or cooperative mode of governance requires knowledge of governance *as relation*. Cooperative education has a central place in the cooperative principles and we return to it again in discussing principle 5.

**Organization vs. Self-Organization** Within the domain of organizations like cooperatives, the question of the extent to which “self-regulation or

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<sup>111</sup>See, eg., the discussion of co-optation in [Pfeffer and Salancik, 2003].

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statutory regulation” dominates is one of central importance<sup>112</sup>. Returning to the domain of resource-dependency theory (RDT) and its central category of *effectiveness*, autonomy and organizational effectiveness again requires a dynamic “Goldilocks” approach, one that recognizes the special character of cooperative enterprises as principles-driven and membership-oriented organizations that follow multiple logics, with profit being a secondary logic. Therefore,

Self-regulation by co-operatives adhering voluntarily to good governance codes and reporting standards may be an alternative to regulation imposed on them, although the global tendency is to make regulatory monitoring and statutory auditing more, not less, binding. [Rodgers, 2015, p. 50]

Thus, there is an inherent tension between the needs of cooperatives for more self-organization and the global tendency towards more organization along historical (i.e., bureaucratic) lines. Therefore, the *Notes* set a high bar for cooperatives: “[t]o be successful, self-regulation by co-operatives needs to be open, transparent and accountable so that regulation by the state is not necessary. This is a high ethical standard that co-operatives should aim to achieve in all their activities.” (p. 51) Thus, a “Goldilocks” approach can offer few specific lessons and only generally outline policy recommendations in accordance with respect to the *regime* or *typology* of consensus (cooperation).

As the *Notes* emphasize, “There is, of course, a world of difference between sound and appropriate regulation by governments and regulation that discriminates against co-operatives and seeks to restrict their activity in markets in comparison to other forms of enterprise.” Using ILO Recommendation 193’s framing of putting cooperative policy “on terms no less favourable than those accorded to other forms of enterprise“ is a good start, though conceiving of policies explicitly recognizing the distinct character of cooperative enterprise would be ideal.

**Cooperatives as Counterweights to Bureaucracy** The prior discussion on organization vs. self-organization reveals a potential strong use of cooperatives: finding suitable paths towards a non-bureaucratic future<sup>113</sup>. The *Notes* observe that “[i]n recent years, particularly in some of the post-industrial economies in the Northern hemisphere, co-operatives and mutuals have been seen by governments as a means of delivering services previously delivered by the public sector.” [Rodgers, 2015, p. 51] And, while the *Notes*

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<sup>112</sup>Cf. [Fici et al., 2013, p. 15] and above 5.4.1.

<sup>113</sup>Cf. [Ferguson, 2010].

are clear that cooperatives aren't "magic bullets", they can serve as an important stakeholder in the question of what future we want to live in in an increasingly interdependent and globalized world.

Phenomena like the social and community cooperatives, which we return to in Chapter 9, and the latter of which we discuss extensively in Chapter 11, are examples of such possible futures. ILO Recommendation 193 is clear that these can be stimulated via "tax benefits, loans, grants, access to public works programmes, and special procurement provisions", though the *Notes* are clear that such "delivery models [...] including the appointment of government officials to boards, should not compromise the rights and responsibilities afforded to members." (p. 51) Thus, "government support of and for co-operatives must not equate to government control of co-operatives."

Ensuring formal autonomy can be ensured by maintaining beneficial ownership in the hands of workers. Thus, member equity should be at least 51%. Valencia's cooperative legislation, for instance, allows investor members with non-voting equity to own up to 49% of cooperative equity.<sup>114</sup> The task of ensuring the *substantive* autonomy, including avoiding demutualization, requires a delicate and complex process of social learning and the application of discourse ethics and appropriate and suitable constraints on individual action.

### Education, Training, and Information

The fifth principle, *Education, Training, and Information*, states that

"Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation."

In part, this principle can be seen to relate to the second part of the third principle, constraining what organizations do with their profits (i.e., they should invest in education) and furthermore as a second-order value or principle that acknowledges the roles of socialization and competence in effectively governing via DCMs.

The *Notes* remark that "[t]he original rules of conduct of the Rochdale Pioneers published in the Pioneers' annual almanac required: 'That a definite percentage of profits should be allotted to education'." Indeed, as the *Notes* continue, "[t]he commitment to education has been one of the co-operative

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<sup>114</sup>Cf. Law 8/2003 Art. 63.

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movement's core Principles since they were first formulated." [Rodgers, 2015, p. 57] This, in particular as "education was fundamental to transforming lives." The *Notes* describe the influence of early cooperators like Owen (discussed in Chapter 2), Holyoake and William King on pioneer examples like the store on Toad Lane in Rochdale, commenting that the Rochdale Pioneers "developed ideas rather than initiated them". (Id.) This again points to the *cooperative advantage* being in relationalizing as innovation. Moreover, the Rochdale pioneers also practiced what they preached: after winning control over the building where their cooperative was housed, they "changed the first floor into a reading room for members."<sup>115</sup> (Id.)

The *Notes* emphasize that education was not only pivotal in instituting the first examples of cooperation (i.e., the "genotype"), but also vital in expanding the "phenotype" of cooperation, which required "willingness to share experience and learn from earlier successes, failures, and setbacks." (Id.) Thus, education "*was and remains the lifeblood of all co-operatives and a driver of co-operative development.*" (own emphasis) Education, as the *Notes* point out, is an infinitely expandable and applicable process, involving multimedia, organizational partnerships and both "[f]ormal learning combined with informal learning from practical experience remain [...] essential in building successful co-operative businesses today." In particular as the cooperative movement is "not a rules-based movement, but a values and principles-based movement." Therefore, "Co-operatives ignore the responsibility of providing education and training for their members, elected representatives, managers and employees at their peril." (p. 58)

This should remind the reader of the discussion of moral competence in the prior chapter. There we learned that that following certain principles requires not only knowledge of the principles, but also the *ability* to distinguish right action and to dynamically treat situations with those principles in mind. Education, and particularly, moral education, are therefore clearly central categories for cooperative enterprise, essential not only "to enable the development of a successful and sustainable co-operative enterprise", but "not simply inward facing to members, elected members, managers and employees, but outward facing too." (p. 58) Moreover, education as defined by principle 5, the *Notes* remind us, is an activity encompassing "three distinct ingredients, 'education', 'training' and 'information'."

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<sup>115</sup>The original vision of the Rochdale pioneers already entailed such motives:

That as soon as is practicable this society shall proceed to arrange the powers of production, distribution, education and government or in other words to establish a self-supporting home colony of united interests, or assist with other societies in establishing such colonies. (cited in [Rodgers, 2015, p. 60])

**Education** Education is about “engaging the minds of members, elected leaders, managers and employees so that they comprehend fully the complexity and richness of co-operative thought and action and its social impact.” This is obviously the closest to moral competence. Specifically, the *Notes* suggest that, beyond learning “how to apply [Cooperative values and principles] in the day-to-day operations of a co-operative business”, this feature is “concerned with the wider education offered to members for their social development.” [Rodgers, 2015, p. 59] In this sense, “[t]here is a direct link between this 5th Principle and the co-operative values of self-help and self-responsibility.<sup>116</sup>” (Id., p. 60) Therefore, cooperative education “must [...] provide avenues for members to learn about co-operative identity and values and the global co-operative family of which their co-operative is part.” (*Id.*)

The *Notes* emphasize that education must be “accessible to and inclusive of all members,” in particular “those groups of members under-represented in the co-operative’s democratic structures.” Education “should help members understand the rights and responsibilities”. Lastly, education “should lead to not only better, more committed co-operators, but also more active citizens. Active co-operators are often active in other civil society organisations too. Co-operative education aims to develop transferable skills essential for civil society, not just economic units.” (p. 61) All of this underlines the strong ties between cooperative education and moral competence. We return to this issue in 8.5 where we introduce the *n-tuple cooperative helix*.

**Training** The notion of training “is about developing the practical skills members and employees need” to run a successful cooperative business. The idea recognizes that in “co-operatives there is also a need for training of employees and elected officers in order to run the business of a co-operative efficiently in a competitive economy.” (*Id.*) This training “has always been inextricably linked with building good governance”, which is “dependent on an active and well informed membership”. Thus, “[i]t is critical that elected representatives are equipped with the skills, knowledge, and understanding to enable them to make decisions in the long term interests of their co-operative and its members.” This also requires, as the *Notes* outline, “interpersonal

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<sup>116</sup>The *Notes* continue

This fostering of continuing education is not a narrow focus on the internal needs of a co-operative enterprise for its members to be adequately educated and informed. It also recognises the wider benefits of member education that enables members to develop the knowledge and skills that are transferable to other aspects of their lives. It helps them become self-reliant. [Rodgers, 2015, p 60]

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skills”, in addition to competence.

Thus, in addition to considering “setting competence requirements for those wishing to stand for elected office”, “[e]lected representatives should be willing to commit to the continuous personal development of their capacity to govern their co-operative effectively by accessing the education and training opportunities their co-operative offers.” The *Notes* conclude that there is no inherent conflict between democratic member control and competence requirements for managers, “if competence is combined with open education and training opportunities for members”<sup>117</sup>. Such opportunities should “enable managers and employees in co-operatives to understand the distinct nature of the organisation and the needs of their members.” The *Notes* recommend such training especially for those coming from traditional investor-owned enterprises, which makes explicit the distinct logic of cooperation in operation in cooperative enterprises. Moreover, “contracts of employment and job descriptions for managers [should entail] a requirement that managers learn, understand, support and foster the Co-operative Values and Principles of their co-operative enterprise.” Above all, “effective two-way dialogue” between managers and wider membership are essential. The *Notes* refer to programs such as cooperative colleges and specialized degree programs designed with cooperative business in mind as venues for disseminating such training in structured settings.

**Information** This ingredient refers to informing the general public about the nature of cooperation. As opposed to serving as propaganda organs, cooperatives instead have “a duty to inform the wider public about the values and principles-based nature of co-operative enterprise and the wider benefits to human society co-operative enterprise brings.” As the *Notes* imply, without engendering more awareness in the general public, securing the next generation of cooperative leaders will not occur. In a slightly accusatory tone, the notes caution that “[t]oo many co-operatives in too many countries ignore this responsibility. Without education, information and training, people will

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<sup>117</sup>With reference to “larger and more complex cooperatives”, the *Notes* state,

Many larger and more complex co-operatives now have multi-tiered democratic structures. In such cases the introduction of a requirement to complete a training programme to be eligible to stand for election to higher tiers, coupled with entitlement for such training and support, may be an appropriate way forward. Such programmes reconcile the democratic process with the skills and competencies needed, particularly when complemented by other co-operative education methods, such as board or committee development centres. [Rodgers, 2015, p. 62]

not appreciate or support what they do not understand.” Thus, there is a need of persuading the general public of the benefit and distinguishing features of cooperatives, the “difference that makes a difference” in the language of [Bateson, 2000], or the *cooperative advantage*, as we have referred to it as here.

In the end, the three ingredients of education, training and information exist in a symbiotic relation, as “[o]ver a century ago co-operatives recognised that if employees were not sufficiently aware of the nature of the organisation and its advantages to the extent that they wanted to be a member themselves, they were hardly likely to be in a position to convince the wider public.

**Creating New Institutions** For decades, the ‘invisibility’ of cooperatives has been observed, and steps have been taken to address this issue. In particular, ILO Recommendation 193 “requires co-operatives to be included in the curricula at all levels of national education systems.” However, the *Notes* recognize that “the implementation of this 5th Principle is far more than communications alone. Implementation requires co-operatives to have effective education, training and information programmes and opportunities that reach and are accessible to all members, employees and the general public in the communities they serve.” (Id., p. 64)

New institutions, like co-operative schools, youth cooperatives, Cooperative Universities and youth boards within existing cooperatives to train the next generation of leaders are all examples of institutional reforms that allow for the “alternative narrative” (Id.) to be more widely disseminated. Reaching influential intellectuals and creating multimedial narratives (e.g., on the Internet) are all mechanisms the *Notes* envisage facilitating this shift in perception. Research collaboration and spearheading adoption of Open Source technology are others. We return to many of these issues under the guise of a *cooperative n-tuple Helix* in 8.5.

It should be repeated at present that the relational innovation-investment-sustainability axis introduced above offers a framing by means of which DCMs can be introduced into organizations with the purpose of promoting education, training and information.

### Cooperation among Cooperatives

The sixth cooperative principle, *Cooperation among Cooperatives*, actually goes beyond the purview of the current chapter and will be dealt with in detail in the following chapter in Section 8.4.2.

### Concern for Community

Similar to the sixth principle, the seventh principle also extends beyond the immediate discussion and will thus also be dealt with in the following chapter in Section 8.4.3.

#### 7.6.4 A Cooperative Macroculture

We see in the above analysis clear evidence that the cooperative principles serve as heuristics to 1) reduce uncertainty and anticipate appropriate action in a complex and uncertain world and 2) signal to both members and non-members the range of activities the organization is willing to engage in. Therefore, we use this section to argue that the Cooperative Principles serve as “genotypes” in the sense of [Leydesdorff, 2021, p. 11], namely “structures of expectations operating at a level above the hardware [in this case, institutions like enterprises].” They also thus exhibit the features of *macrocultures*, which we introduced in the prior chapter. By constraining individual and organizational agency, by offering heuristics as to appropriate actions in dilemmas, by coding particular trade-offs in a manner in keeping with certain ethical and moral values, etc., they provide for generalized routines that organizations can readily adopt.

We thus argue, in concluding this discussion, that, as the *hoplite* infantry and later *thete* rowers “learned cooperation by doing” and thereby impelled the path towards cooperation while simultaneously maintaining it via practice, the cooperative principles operate in much the same way with reference to commercial and labor relations. They serve to relationalize a cooperative logic with the logics of profit-maximization, regulation and innovation generation and situate themselves co-determinatively within the context of a complex and interdependent global economy. They are thus both agents of transformation and social learning (typology), as well as the medium by which this occurs (logic).

## 7.7 Multi-Stakeholding & Public Organizations

In this concluding contribution to an attempt to generate a *cooperative microeconomics*, we intend to argue that the above cooperative macroculture is part of a progressive democratic tradition. Moreover, it will be argued that the Cooperative Principles (partly) outlined above<sup>118</sup> would benefit from the inclusion of an explicit language on multi-stakeholding. The literature

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<sup>118</sup>We introduce the remaining two principles in the following chapter.



on MSCs consists of a growing interdisciplinary tradition embracing law, economics and sociology and includes, e.g., [Münkner, 2004] and [Lund, 2011]. Below we briefly outline the concept.

A multi-stakeholder organization, frequently referred to as *multi-stakeholder cooperative* (MSC) consists of “a co-operative society with a heterogeneous membership”. They have alternatively been dubbed *general interest cooperatives* [Fici et al., 2013, p. 33] or, more generally, *public organizations*. This is to distinguish them from single-stakeholder cooperatives that have historically been associated with the principles outlined above and which were advocated, *inter alia*, by the Webbs. While organizations with multiple stakeholder classes have surely existed throughout the centuries<sup>119</sup> and similar heterogeneity can be attributed to contemporary notions of multi-stakeholding in their genesis, the modern genealogy of MSCs can be generally to the New Left movement of the 1960s and 70s – and specifically to the reforms of Italy’s psychiatric system in the 1970s. Within the context of the “concentration camp”<sup>120</sup> model of psychiatry epitomized by Ken Casey in *One Flew Over the Cuckoo’s Nest*, a team around Franco Basaglia envisaged a new, democratic form of psychiatry rooted in community and autonomy.

The community psychiatry model Basaglia pioneered soon spread throughout Italy in the form of *social cooperatives* and subsequently internationally, with countries on all continents embracing new institutional and legal frameworks<sup>121</sup>. It contributed to a general rethinking of the provision of social services and instigated conversations and debates on the nature of stakeholding and of the firm, as well as of the nature and quality of economic value, entrepreneurship and innovation. It moreover served as a legitimating device and a motor for more concerted and systematic thinking on the nature of multi-stakeholder organizations, both from an agency (behavioral) perspective, as well as from the perspective of community development. A third, less researched, perspective that MSCs enable is the communications perspective, where the MSC offers a path to synergistically converging numerous organizational logics and a path towards what we refer in 8.5 as a “cooperative n-tuple helix”<sup>122</sup>.

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<sup>119</sup>E.g, in the form of guilds. Cf. [von Gierke, 1868].

<sup>120</sup>Franco Basaglia, cited in [Foot, 2015, p. 4].

<sup>121</sup>Cf. [Münkner, 2004] for an overview.

<sup>122</sup>This communicative aspect is represented, e.g., by the following quote from [Lund, 2011, p. 3]:

“A multi-stakeholder co-operative is one where differences of perspective and experience are not only tolerated, but embraced. . . [they] draw membership from two or more classes. . . be they producers, consumers, workers, or simply community supporters. [They] represent a diversity of interests, but a com-

This section is organized in the following manner. We first return to the question introduced in 6.4.7, of the mistaken focus in economics literature since Mill on solely pecuniary interests. Following this, we recount how the Webb's influence on the early cooperative movement promoted a particular vision of cooperatives as single stakeholder organizations. Next, we critically interrogate the concept of "externalization", pointing out how the prior two discussions may influence this concept's reception. Next, we address how the dynamics of the knowledge economy and the service economy in general may create scenarios in which multi-stakeholding offers useful contributions. A penultimate discussion concerns the question of privatization and the role multi-stakeholder organizations can play in creating futures beyond neoliberalism. A concluding discussion asks whether MSCs and similar public organizations can play an active role in strengthening the civic imaginary.

### 7.7.1 Dealing with Mill's Legacy

Here we return to the discussion of 6.4.7, where we addressed the issue of *non-separable preferences* and of *co-determination*. We want to address the legacy of John Stuart Mill's recommendation that economics deal only with interactions within the market. It may be useful to remind the reader of J.S. Mill's argument, cited above, that political economy (read: economics) is "[t]he science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the result of any other object." [Mill, 2006, p. 323]

Social scientists are recognizing more and more the interrelated and interdependent nature of various domains of human activity. Economists like Karl Polanyi and sociologists like Mark Granovetter have devised provocative theoretical constructs challenging Mill's legacy and archaeological as well as anthropological research continues to support the thesis that economic activity and economic thought is *embedded* within a larger social cosmos, of which it is one part and with which it is in constant dialogue and interdependence.<sup>123</sup> There is no magic switch for turning off social preferences and disentangling

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monality of need or aspiration. . . ." cited in [Bull and Ridley-Duff, 2016, p. 4]

<sup>123</sup>Polanyi's contributions to this discourse can be gleaned, for example, from [Polanyi, 1944] and [Polanyi, 1992], whereas Granovetter's influential contribution is presented in [Granovetter, 1985]. Both call into question a strict separation between the "economic" and "social" spheres and have been widely influential in subsequent research programs.

these from remunerative ones. As Samuel Bowles has pointed out, such thinking has led to policies that systematically “crowd out” social preferences and such undermine the ambitions of policymakers and exacting a high cost on general social cohesion.[Bowles, 2016]

In fact, economic activity should be seen, on the one hand, as *embedded* within a larger social context. Issues like the *right to the city*, fair and equitable distribution of public goods, fair wages and living conditions, and dignified work are all principles that economists and others studying the allocation of goods and services to meet human needs cannot ignore. Concern for the environment, which the economy is equally embedded within, is a similar inalienable locus. The twin crises of environmental degradation and unsustainable levels of social inequality have re-introduced the problem of *embeddedness* of social action as a vital domain of research. At the same time, the contours of the quickly growing service sector and the *knowledge economy* impel a focus beyond “political economy”, as [Leydesdorff, 2021, p. 90] argues, embracing synergistic relations among multiple logics in addition to profit-maximization and regulation.

Thus, we may speak of a *relational economy*, where multiple logics interact in historical and evolutionary ways upon another. Merely assuming the economic sphere to be separate does not eliminate the above-mentioned crises or lessen their significance for economic (social, innovation, . . .) policy. Thus, abandoning Mill’s legacy appears to be increasingly vital, not only to species survival, but also to notions like firm governance. New, more subtle foundations for “political” economy must be located in notions like the synergistic relations among interacting logics. We argue immediately below that this can be achieved by developing suitably co-determinative models of agency, beliefs and environmental independence.

### 7.7.2 The Role of the Webbs

Beatrice and Sidney Webb were pivotal in establishing the Fabian Society and the British Labour Party. [Harrison, 2016] The Webbs (and particularly Beatrice) were “self-consciously ‘professional people’” [Harrison, 2016, p. 175] They had a “tripartite conception of the world of labor” (*Id.*, p. 177), split between producers, consumers and politicians. This conception influenced their notions of trade unionism, cooperativism and party politics. In terms of cooperation, “Beatrice was in the process of disclosing that the co-operative movement was about a democracy of consumers rather than, as [the cooperative movement itself] obstinately supposed, about a democracy of producers.” (*Id.*, p. 174) Sidney Webb, meanwhile, “taught that ‘the real import of the Co-operative movement... is not profit-sharing but the collective control of

the consumer over industry” (*Id.*, p. 181)

Indeed, the Webbs developed an extensive scheme of the “division of labours” according to their tripartite conception, introduced above. [Webb and Webb, 1920, pp. 147ff.] Indeed, as [Harrison, 2016, p. 221] observes,

Beatrice’s ‘discovery’ that the true sphere of co-operation’s usefulness lay in the organisation of consumers rather than producers was calculated to reduce rivalry with the unions. In the early nineties both Sidney and she went to great pains to persuade unionists and co-operators that they ought to abandon all pretensions to organise the process of production and look instead to the growth of municipal and state enterprise.

The Webbs were highly influential in their strategic endeavors to separate the then-still diffuse cooperative and trade union movement in the UK and in channeling much effort to separating out both agency and communication in the tripartite conception. In the next chapter, we address further reasons why this method had fatal implications for each of the three movements. Practically speaking, their focus on “common bonds” like consumption, labor and politicking have had the effect of reducing the public orientation – as well as the political impact – cooperatives have had. It thus reduced the immediate impact of the cooperative movement on the unfolding civic imaginary, reducing their role more to parochial self-help societies. As [Bull and Ridley-Duff, 2016, p. 247] argue,

Before [the Webbs’ “division of labour”] the impulse [. . .] had been to bring such work together in whole people, by means of co-operative mutual associational forms, working [against] capitalist divisions by which they were surrounded. This impulse challenged – and fully realised would have transformed – capitalist divisions of labour, transforming the meaning of, and sites for, government, production and consumption.

The influence of the Webbs on the 7 cooperative principles is clear. As the discussion above showed, it was only in subsequent Congresses that changes reflecting the public nature of cooperative enterprise were enshrined in the canonical principles. And clearly the cooperative principles are of yet insufficiently oriented towards MSCs, which are mentioned in the *Notes*, but which receive no mention in the principles themselves. Ultimately, many organizations internationally are “now aiming to heal the late nineteenth century organisational and conceptual split between producers’ and consumers’ co-operation. Sidney and Beatrice Webb aided and abetted this split, as they

did so many other modern divisions of labour. The Webbs' work leads to politics as expert, professional function, rather than to politics as everyone's public fulfilment." [Yeo, 2002, p. 32]

Returning to the discussion of the moral economy, R.H. Tawney also accused the Webbs of representing the baneful utilitarianism he had set himself to enmitize: "As a young man, in the same move that had distanced him from the Fabians, Tawney had grown hostile toward the economic theories of Alfred Marshall. He came to regard the idea of an economic 'science' of human behavior as 'twaddle.' And he faulted the profession for the same thing he detected in the Webbs—fidelity to utilitarian reasoning in which the infinite value Tawney ascribed to human personality went unrecognized." [Rogan, 2017a, p. 104]

### 7.7.3 Basaglia and the Rise of Social Cooperatives

"He Who Marches Out Of Step Hears Another Drum" –Ken Casey,  
*One Flew Over the Cuckoo's Nest*

Franco Basaglia is until the present day associated with the legacy of social cooperatives. His contribution to the introduction of multi-stakeholder thinking in Italy is recognized by Diego Dutto, the current (2022) director of Legacoop Sociali, which coordinates over 15,000 of Italy's social cooperatives and their over 500,000 members. Dutto names Basaglia as an inspiration ("a great revolution in mental health")<sup>124</sup>. In particular, the quest for humanizing mental health treatment provided the impetus for introducing new communicative structures, new structures of agency and a new legal form to organize particular forms of service provision.

Basaglia's experiences, which began in Gorizia in 1961, did not occur in a vacuum. Italy's long tradition of cooperatives certainly provided a template for the historical decisions that were made.<sup>125</sup> Therefore, the logic of cooperation provided a code by which to interpret events and a guide on how to structure measures to reform institutions of the status quo.

Below, we introduce the activities and experiences of Basaglia and trace out the path towards the Legge 180, which was the blueprint for the eventual legislation on social cooperatives, which was the first of its kind in the world and was passed in the Italian Parliament in 1991. We begin firstly by situating Basaglia within the tradition of radical or *anti*-psychiatry. Next, we tracing out Basaglia's experiences in attempting to reform – and later do away with – Italy's system of asylums. Next, we outline the path from these reform efforts

<sup>124</sup>Source: personal communication with Diego Dutto.

<sup>125</sup>Source: Diego Dutto

to the political and legislative ambitions that culminated in Legge 180 in 1978. Finally, we reflect on Basaglia's legacy within the context of Italy's social cooperatives.

**Basaglia Within the Tradition of Radical or Anti-Psychiatry** [Foot, 2015] contextualizes Basaglia's professional ambitions within the parallel movements of *anti-* and *critical psychology*, arguing that the disparate movement combines two aspects, firstly “a *critical* approach towards traditional theories and practices of psychiatry”, including “Basaglia's desire to ‘place the diagnosis in brackets’”<sup>126</sup> and the frequent desire to have “the whole separation of ‘patients’ and ‘doctors’ [...] undermined or abolished.”<sup>127</sup> [Foot, 2015, p. 33]

Secondly, “[r]adical psychiatrists usually tried to understand mental illness as a social creation. What was known as mental illness, it was argued, was in some way created by social forces, inside and/or outside the family unit.”<sup>128</sup> Certain strands of the movement therefore “brought the spirit of anti-authoritarian revolt to the mentally ill and their caregivers.” [Foot, 2015, p. 34].

Double has attempted to develop a typology, depicted in Figure 7.7, and described in the following way:

The group who recognize that the use of the term mental illness is metaphorical and, thereby, do not want to minimize the suffering of people with mental health problems can also be subdivided into two. The first would include Laing, who emphasizes that

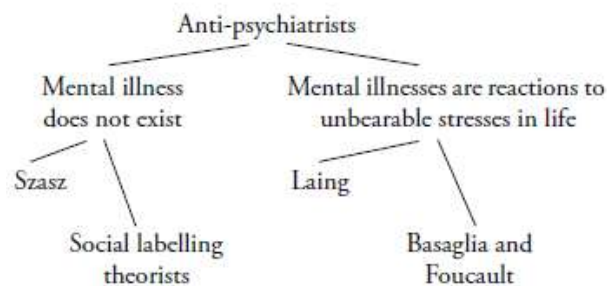


Figure 7.7: A graphic representing the various traditions broadly labeled “anti-psychiatry”, from [Foot, 2015, p. 34].

<sup>126</sup>Meaning, to see the patient first and foremost, and his or her symptoms as secondary.

<sup>127</sup>Foot remarks that “Many radical psychiatrists were inspired by phenomenology and advocated forms of practice that allowed for the construction of relationships with their ‘patients’ on an equal footing, at least in theory. [Foot, 2015, p 33].

<sup>128</sup>As Foot cites Julian Bourg as saying, “Anti-psychiatry was an international radical tendency generally inclined towards viewing madness as socially constructed. It brought the spirit of anti-authoritarian revolt to the mentally ill and their caregivers. [Foot, 2015, p. 34]

reactions identified as mental illness relate to interpersonal behaviour, particularly within the family. The second subdivision, containing authors like Franco Basaglia . . . and Michel Foucault . . . emphasize that broader societal factors rather than the family are involved in presentations of mental illness. [Double, 2006, p. 32], cited in [Foot, 2015, p. 35]

Thus, the radical movement of which Basaglia was a part “was a disparate but international political movement that aimed to reposition (in a radical way) psychiatric theory *and* practice.” But at the same time, it was “part of a larger movement”, to understand which, Foot argues, “we also need to look more deeply at 1968 and the 1970s”. [Foot, 2015, pp. 35-6] As part of this movement, Basaglia must be situated within the camp of pragmatic reformers. For instance, he “never clearly denied that there was something called ‘mental illness’” (*Id.*, p. 37). Additionally, “the consensus in Italy is that Basaglia himself was *not* an anti-psychiatrist” (*Id.*, p. 38), although Foot describes this consensus as the result of “a caricatured and simplistic view of the meaning of ‘anti-psychiatry’”.

Basaglia’s outlook was shaped by his experiences with the anti-fascist resistance as a youth in Venice. These experiences, combined with the transformations occurring in Italy after the war strongly shaped the reform-oriented mentality he espoused to his life’s end:

A ‘great transformation’ was taking place. In Italy, in 1961, was in the middle of an unprecedented boom: the so-called economic miracle. After thousands of years, rural economies and cultures began to disappear almost overnight. Peasants flooded to the cities, and factories sprung up everywhere. This rush to modernity inevitably affected Italy’s outdated and static institutions, including the antiquated asylum system. (*Id.*, p. 7)

It is within this context that Basaglia’s tenure as head of the psychiatric asylum in Gorizia began, “almost by chance” in 1961 [Foot, 2015, p. 7].

**Basaglia’s Experiences in Gorizia** Gorizia is a peripheral city on the border between Italy and Slovenia (which was in 1961 very much a part of Yugoslavia). It was here that the institutional battle over the fate of Italy’s mental asylums and the push towards new multi-stakeholder institutions began. While the story of Basaglia’s tenure in Gorizia, Trieste and other institutions he led and directly or indirectly influenced is fascinating in its own right, we offer only the barest of details of his tenure in Gorizia in its

contribution to the engagement with the principles of multi-stakeholding that were later to emerge within the context of the law on social cooperatives.

“Gorizia was, like all the other Italian asylums, a concentration camp”<sup>129</sup>. Basaglia’s colleague Antonio Slavich described Gorizia as “the most peripheral, the smallest and the most insignificant of all the Italian asylums” [Foot, 2015, p. 5]. “The only point of taking the job was to try to transform the whole system from the edge, from the extreme periphery.” The isolation in Gorizia provided Basaglia “a strange kind of freedom he would not have had elsewhere.” (Id., p. 18) The asylum system “provided an institutional focus for political action” (p. 41) Slavich comments in his *La scopa meravigliante* that “On his first day as director in Gorizia, when the head nurse passed him the list of people who had been tied up that night for official approval, he said, ‘I’m not signing’”<sup>130</sup>. In this case, the CCM, in which “[t]he director has full authority internal health policy of the institution” [Foot, 2015, p. 20] was negated by a strong civic imaginary on the part of Basaglia, in accordance with Kant’s observation about an emerging republicanism.

When Basaglia started in Gorizia, “the role of the psychiatric hospital in the city was what it had always been throughout the twentieth century in Italy as a whole – to incarcerate the ‘mad’ and thereby ‘protect society’. *Custodia* (custody) was what mattered, not *cura* (cure).” (Id., p. 19) Thus, “the language of madness was important (p. 22), with terms like *Manicomio*, *matti*, *pazzi* and *alienati* reinforcing the degraded status of patients, who “effectively became ‘non-persons’ and helping to “codif[y] the public mandate of psychiatry to defend society against the ‘dangerousness’ of the insane”<sup>131</sup>. Therefore, in the eyes of Basaglia, patients “were already less than human... merely surviving.” (Id.)

Taking a multi-stakeholder view, Basaglia began in earnest to develop strategies to reform the institution from within, taking the agency and perspective of patients as well as the role of nursing staff, who “were usually the faces of the system” into account. Moreover, integrating an approach that could be dubbed “second order cybernetic” or discursive in nature, “he became convinced that some of the eccentric or disturbing behavior of the patients was created or exacerbated by the institution itself.” (p. 22) Foot comments that “[a] distinct and specific ‘Basaglian canon’ began to emerge in Gorizia” (p. 23), especially influenced by “philosophical studies and research into the way psychiatric hospitals actually worked”, including in the international context. This canon culminated in *The Negated Institution*,

<sup>129</sup>Franco Basaglia, cited in [Foot, 2015, p. 4].

<sup>130</sup>Slavich, cited in [Foot, 2015, p. 17].

<sup>131</sup>Donnelly, *The Politics of Mental Health in Italy*, cited in [Foot, 2015, p. 20].



a world-wide bestseller whose influence extended well beyond the psychiatric community and which inspired discussions for social reform in the context of the 1968 movement.

We see the parallels between Basaglia’s approach and the notion of civic imaginary attributed by Castoriadis to the ancient Greeks. In this way, Basaglia connected with international colleagues and began engaging in an interdisciplinary dialogue that soon spread beyond Gorizia. In 1965, Ilvano Rasimelli similarly spearheaded a countermovement in Perugia, capital of Umbria, which saw through one of the most effective and thorough-going reforms to mental asylums worldwide. Similar reform efforts followed in Parma, Regio Emilia, Arezzo, Trieste and Rome, some – like Trieste – led by Basaglia himself. The momentum to change the landscape was growing.

**The Path to Legge 180** By 1978, the climate around reform had been transformed by a decade and a half of experimentation, discussion and debate. The Radical Party, stemming from the 1968 movement, had taken the *anti-psychiatric* campaign to close the asylums to the streets of Italy. It organized a drive for signatures. In Italy’s post-war republican constitution, a plebiscite could be called if 700,000 signatures were gathered. Thus, this democratic device put pressure on parliamentary institutions to act: “[a]s on other occasions during the Italian republic, the possibility of a referendum concentrated the minds of politicians who otherwise might have prevaricated for years to come.” [Foot, 2015, p. 372] This due to the fact that “[i]f replacement legislation was not passed by 11 May then the referendum would take place.” (*Id.*, p. 376)

The threat of the referendum in fact facilitated a rapid reform, the law being passed in committee, meaning “normal procedures were bypassed”.<sup>132</sup> Basaglia was involved with drafting the legislation, “but he was not the only voice heard” (p. 372) Thus, given the unusual circumstances,

[t]here was not time for Parliament as a whole to vote on these

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<sup>132</sup>The process of passing the legislation can be quoted from at length, due to its innovative nature

The solution was ingenious. First, the psychiatric parts of the wider health reform law would be separated out from the rest (and this was a regressive feature introduced by the referendum campaign – it once again made mental health into something different from other kinds of health care, at least for legislative purposes). This section would then be passed as a separate law. Once the referendum danger had been averted, there could be further discussion (about everything), and the psychiatric reform could be collapsed back into the overall law. [Foot, 2015, p. 377]

reforms, so an emergency procedure was adopted, which allowed for the health commissions in the lower and upper house to pass a law – as long as the party leaders agreed, along with the presidents of both wings of parliament. This rarely used procedure, and the combined efforts of the major parties, saw the 180 Law discussed and passed in just twenty days. [Foot, 2015, p. 377]

Much of the urgency to action was not the result of Basaglia himself, or of the Radical Party, but was the result of successful reform across Italy and a society that was in many ways advancing more rapidly than the government was able to keep up with: “without the push from below – without Perugia, Gorizia, Colorno, Reggio Emilia, Trieste, Arezzo and other experiences – it would probably never have been passed in the form it was.” (*Id.*, p. 383)

The result was therefore in the spirit of compromise. As Ferruccio Giacanelli wrote, Law 180 was “a law which followed a long polycentric process, made up of different and often asynchronous experiences that had one thing in common: the desire to overcome [...] the asylum” (*Id.*, p. 384) The Parliamentarian who sponsored the legislation, Orsini, wrote of the law, “[w]e are not proposing the victory of anti-psychiatry; we want psychiatry to become civilized and we are thinking of this law as an important step towards this objective. [...] Nobody, and certainly not Basaglia, saw everything they wanted included in the final text.”<sup>133</sup>

The result was labeled by all sides as a compromise. Considered “a partial reform” (*Id.*, p. 373) and “not a particularly radical measure in itself” (p. 374), but also as “the only real reform in Italian history” by Noberto Bobbio (p. 372), and “[o]nly in retrospect has it been seen as revolutionary”. (p. 372) To the question of what is so revolutionary about the law?, Foot answers,

Very simply, the 180 Law made people inside the asylums into Italians, for the first time. Their rights were now guaranteed in line with the constitution. They were equal before the law, and in the future, mental health patients would always remain so (in most cases). As David Forgacs has argued, the law ‘made central the patient’s human and civil rights’. [Foot, 2015, p. 379]

One of the problems that emerged after the law’s passing was the uneven enforcement: “A two-track system was developed. Islands of excellence existed in parallel with places where little or nothing had changed. The future, the present and the past were all visible inside Italy’s mental health system.” (p.

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<sup>133</sup>Cf. Orsini’s *Vent’ Anni Dopo*, cited in [Foot, 2015, p. 378]. This statement is also an example, *par excellence*, of [Fleck, 1994]’s observation that in the contestation of two ideas, usually a third wins out.

374) In some cases, like in Perugia, the law actually had some retrograde effects (p. 382). Nevertheless, the law “set down some firm principles”, including “Mental health patients were acknowledged as people – and given (back) their rights (to vote, to control their own care, to live in the outside world). Also, it was made clear that asylums were on the way out.” (p. 383) However, “The 180 and 883 laws were the end of one long story (the primary fight against the asylum system and its injustices) and the beginning of another (the battle for new kinds of services and systems).” (*Id.*)

We engage in a modern analytical discussion of the law on social cooperatives in 11.3.

**Basaglia’s Legacy in Social Cooperatives** Basaglia and others he worked with were motivated by “[h]umanistic principles and a moral imperative”. This moral imperative and these principles have shaped with social cooperatives that have been a part of Italy’s social service landscape since the late 1960s and whose mission is to help marginalized people, including but not limited to those with mental health issues, by “reintegrating them into society [to] work with these people together in a democratic economic structure. [In particular, to] work together with the same rights, doing some service.”<sup>134</sup>

Basaglia said of his planned takeover of Lazio’s health system<sup>135</sup>, “I will go to Rome, to take on a different kind of task to that of Gorizia or Trieste. We now need to apply the law of a state”, as opposed to working toward reform. Moreover, he expressed skepticism about the battles ahead: “The plan assumes that there is already a democratic health reform in place, a democratic culture. But in reality the people are what they are, the doctors are what they are, as are the hospitals”. (p. 387) Indeed, it would take until 1991 until the final law on the creation of new localized social cooperatives was put in place that a new system was in place to replace the old asylums.

The present law on social cooperatives, “Law 381, has some sociological aspects that were rooted in the movements around reform in the 1960s and 1970s.” Thus, one cannot view the situation of social cooperatives in Italy without assessing the efforts of people like Franco Basaglia to reform the Italian asylum system. Furthermore, “the question of what is the best form of enterprise” in which to organize interested reformers, including Basaglia. It was found that the cooperative was the best way to organize, “as it is a democratic way to organize” and it allowed stakeholders to “start with simple

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<sup>134</sup>Diego Dutto in conversation. 4/30/2021

<sup>135</sup>A brain tumor was to prevent him from taking up the post.

services, as people are unskilled. . . like cleaning services”<sup>136</sup>.

From here, the movement has developed reflexively and as the logic of multiple stakeholders acting and communicating democratically has taken hold, the paths of interaction have grown and flourished, with projects like Cooperazione Libere Terra being a consortium of social cooperatives and the largest Italian retailer, Coop.Italia, to sell ethically and sustainably sourced produce from land repossessed from criminal organizations. [Ciasullo and Festa, 2014] It is important to emphasize the communicative turn that preceded such ventures, couched in notions like moral competence, relational governance and stakeholder dialogue, and which again find their root in the attempt to close the asylum.

Basaglia understood the interdependence and polyvalence of complex modern societies. As such, he implicitly adopted a standpoint embracing the Triple Helix notion we introduce in the next chapter. This can be seen in remarks like this from a conversation published posthumously:

I don’t think it would be possible, nor correct, to speak today of psychiatric questions and their contemporary stage of development, without making reference to the much larger domain of economic, political and social reality in which our country finds itself in, including the rapid transformations happening in recent times and specifically the contradictions which are emerging. [Basaglia, 2017, p. 905, own translation]

#### 7.7.4 Internalization

Internalization refers to the capture or alignment of two processes, the first of which, while affecting the other, is not guided by those effects. Internalization refers to what in organizational theory is called *co-optation*. In fact, since the 1970s, a strand of literature has attempted to situate organization in relation to the environment and ecosystem in which it occurs. This strand attempts to move beyond the atomistic firm of transaction cost economics. One of the fundamental propositions of this research design revolves around *internalizing externalities*. Thus, by having members of a hostile subaltern community serve on ceremonial boards, much of the intensity of outrage or resentment experienced by that community is reduced, by being channeled in (in theory) “loyal” fora.

[Pfeffer and Salancik, 2003, pp. 161ff] introduces the concept of *co-optation*, of which interlocking directorates or arranged marriages in royal houses are examples. It is described as “a strategy for accessing resources, exchanging

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<sup>136</sup>Source. Diego Dutto

information, developing inter-firm commitments, and establishing legitimacy.” In other words, it is a strategy for *internalization*. [Pfeffer and Salancik, 2003, p. 163-4] uses a situation at a “large state university in the early 1970s” as an illustration. While a vocal subset of faculty, staff and students had complained of discrimination in hiring and admissions. As Pfeffer and Salancik comment, “This university’s solution (a strategy adopted by many others as well) involved the creation of a Committee on the Status of Women. To this committee were appointed the most vocal, well-connected, and powerful women active in this area. The committee was given some stationery, some research assistant support, and various other trappings of legitimacy, including occasional meetings with the chancellor and official recognition in university publications and documents.” The authors comment that “the strategy did substantially reduce the level of activity.” (*Id.*) Moreover,

Participation, it seems, has two effects. First, persons become committed to organizational actions because they are identified as having cooperated in their formulation. Second, persons become committed to the organization to maintain their perceived access or influence. It becomes possible for individuals to justify going along on the basis that if they did not participate and comply, things would be even worse, and that it is worth some level of compromise to maintain the limited degree of access and influence that has been granted.

A multi-stakeholder or public mindset is clearly a behavioral approach to internalization, or co-optation. Many firms today give top managers equity stake as “incentive pay”. But, as distinct from traditional behavioral economics and also from the example cited above, such a perspective grounds the perspective not in one fixed and static “focal organization”, a perspective that lends itself to non-cooperative, strategic thinking, if not also to the non-communicative reasoning found in neoclassical economics. There is no reason why, e.g., the broader workforce should not also be involved in a company’s equity and have a stronger say in steering not only operational, but also, strategic, policy, given suitable access to the resources needed for professional development. The workforce’s interests surely align with the general interests of the firm (arguably more so than management’s interests<sup>137</sup>, and equity would seem to align it further<sup>138</sup>).

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<sup>137</sup>The latter of whom frequently display transferable skills and are more enmeshed in collegial networks that give them leverage against a firm, a resource many front-line staff do not have.

<sup>138</sup>For instance, research in the health care sector has shown higher turnover in CEOs than in, e.g., nursing staff. Cf. [Almost, 2011]

At this point, it might be useful to connect the above arguments with our discussion in Sections 6.7, 6.8 and 6.9. In particular, that discussion firmly established a theoretical link between equity, accountability and inclusion (all indicators of autonomy) on the one hand, and issues like motivation and a shared sense of agency and responsibility. We further made connections to the research agenda of Elinor Ostrom in her opposition to NIE's focus on the "Scylla and Charybdis" of either state or market governance of resource pools, and the notion of CPR is similarly a form of internalization. The path of market or state governance can be cumbersome and slow, or capricious and unfair, or as Katharina Pistor has argued, "Waiting until the state has only one option left lest it is willing to allow the financial system to self-destruct carries huge costs. Not only is the bill likely to be higher than had the state intervened earlier; the timing of the intervention also has implications for the future structure of financial markets and the distribution of wealth. [Pistor, 2020, p. 179]"

Via Non-Financial Reporting Directive (NFRD) or 2014/95/EU, large companies are required to report on their fulfillment of UN Sustainable Development Goals (SDGs).<sup>139</sup> This information can be instrumentalized towards measuring the relative level of internalization in companies. Results to the effect that social enterprises like cooperatives perform more effectively would serve as additional argument for promoting or favoring such legal forms over others in crafting national legislation.

### 7.7.5 The Dynamics of the Knowledge Economy

The behavioral arguments around internalization arguably apply all the more to an increasingly service and knowledge-dominated economy. Innovation in such an environment occurs differently than the traditional industrial economy with its focus on labor-saving techniques. Innovation is therefore more dependent on the interaction and communication among different domains of knowledge. This increased need for communication and interaction is counterbalanced with an increased degree of mobility of information, including organization-specific information. Thus, secrecy and transparency form interlocking rings of tension, with organizational innovation processes resulting from the tension.

In the same way that co-optation aligns stakeholder interests, multi-stakeholding serves as a sustainable tool to bind employees to long-term interests of firm. It can be seen as a synthetic tool (combining co-determinative

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<sup>139</sup>See, e.g., [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en).

preferences: both moral and cost-benefit rationalities) that balances the need for transparency with respect to innovation with the ability to influence the agency of employees with respect, e.g., to opportunistic behavior like leaks, headhunting, etc.<sup>140</sup> Therefore, as the global economy becomes more data-, knowledge- and – as some have claimed – vector-driven [Wark, 2021], the ability for organizations to concretely align different stakeholder interests with long-term organizational interests will become increasingly important. Mere incentive schemes and (non-cooperative) monitoring will also become increasingly costly, as the degrees of freedom and the general level of complexity increases. [Jayadev, 2007]

In particular, *inalienable* forms of cooperation can be usefully employed for mutually beneficial relational rents in such contexts.

### 7.7.6 Privatization and the Spectre of Neoliberalism

Similar to [Gibson-Graham, 2006], anthropologist James Ferguson speaks in several articles of the tendency of critics of the status quo to define their agency by way of opposition (i.e., in negation). Claims Ferguson,

For over the last couple of decades, what we call “the Left” has come to be organized, in large part, around a project of resisting and refusing harmful new developments in the world. This is understandable, since so many new developments have indeed been highly objectionable. But it has left us with a politics largely defined by negation and disdain, and centered on what I will call “the *antis*.” Anti-globalization, anti-neoliberalism, anti-privatization, anti-imperialism, anti-Bush, perhaps even anti-capitalism— but always “*anti*”, not “*pro*”. [Ferguson, 2010, p. 166]

He goes on to claim that this definition by negation diminishes any focus on positive claims or appeals. He also attempts to divide neoliberalism into two phenomena, the first of which encompasses “the new governmental rationalities that emerged through the Thatcher–Reagan assaults on the North Atlantic, post-war welfare state.” (Id., p. 172) This first form of neoliberalism, for Ferguson, displays a focus on introducing market mechanisms for governing, including a shift to viewing government “like a business”, organized around “profit centers, enterprise models”, etc. The second type, he refers to as “neoliberalism in the African sense”, which was exemplified by “a matter of old-style *laissez-faire* liberalism in the service of imperial capital.” This second

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<sup>140</sup>[Dow, 2018, Chapter 10] and our discussion of the “whistleblower” model above in 6.4.6.

type of neoliberalism essentially entailed “a crude battering open of Third World markets” and introduced “the specter of a kind of recolonization”. [Ferguson, 2010, p. 173]

After introducing these two distinct conceptions of the term “neoliberalism”, Ferguson asks an important question:

are the neoliberal “arts of government” that have transformed the way that states work in so many places around the world inherently and necessarily conservative, or can they be put to different uses?

Examples like the social, community and solidarity cooperatives we will study in later chapters arguably offer a glimpse of a co-optation of “neoliberal” policies towards the end of facilitating an expanding civic imaginary, via increased self-determination, self-management and general autonomy of local communities. Thus, cooperatives can serve as an elegant alternative to the “withering away” [Lenin, 1984, Vol. 3, pp. 461ff.] of state in austerity. Cooperatives can also bid in public offerings, where they should receive preferential treatment as locally rooted social enterprises<sup>141</sup>. Such policies can be legitimized by the fact that they maintain control over vital infrastructure in local (and often in community) hands, if organized correctly.

It should be stressed that such policies and structures should not be seen as a replacement of the provision of fundamental utilities, though it can be organized very flexibly when even these are lacking, like, e.g., the extreme North of Canada, where 32 solidarity cooperatives exist to carry out essential services and facilitate tourism for “20,000 households scattered across a region of 3.9 million square kilometers.”<sup>142</sup> In such examples, one can observe a multi-stakeholder mindset that places the general interest in focus.

### 7.7.7 Conclusion: Are Public Organizations Tools for Expanding the Civic Imaginary?

The ambition of this chapter has been to initiate an inquiry on the nature of economics if it were to be reconstructed along the lines of Polanyi’s attempt to “re-discover” and rehabilitate Adam Smith as a co-determinative thinker, embracing both cost-benefit calculation and moral prerogative as motivators

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<sup>141</sup>Such policies were adopted in Italy in 1911 under then-Prime Minister Luigi Luzatti, and were vital to the rise of the Italian cooperative movement. [Ammirato, 1996]

<sup>142</sup>Cf. the International Centre of Co-operative Management’s Case Study *Arctic Cooperatives Limited*, by Margaret Lund. Source: <https://www.smu.ca/webfiles/ArcticCooperativesCaseStudyMay2021.pdf>.



of human agency, preference formation and socialization. We began the chapter by recalling the fact that organizations are emergent entities (from groups). This was followed by an extended discussion of the nature and quality of hierarchy. Just as we distinguished between qualitative differences in choice mechanisms in Chapter 6 between so-called *Coercive* and *Democratic Choice Mechanisms* (CCM vs. DCM), he outlined fundamental distinctions between what we call *inalienable* and *translative hierarchies*, connecting the former with DCMs and the latter with CCMs.

We then moved on to an interpretation of the firm as anticipatory system, as opposed to optimizing entity, as neoclassical economics posits. In the subsequent discussion, we again focused on the social context of agency, attempting to draw on the effects of shifting from both non-cooperation to cooperation, as well as from contract to association, concluding that such a shift allows a move away from *principal-agent* (PA) models to *associational agency* (AA) models. We also discussed the implications of path-dependency and hysteresis on the development of such logics, observing both *struggle* as well as *negotiated* paths to shifting agency.

Next, in the most extensive discussion of the chapter, we attempted to sketch out the so-called *cooperative advantage*, interpreting cooperation as a problem-solving tool and analyzing the cooperative values as coordinating devices, whose propagation may facilitate an ascendant *cooperative macro-culture*. We closed the chapter with a discussion of the role and nature of multi-stakeholding within the domain of cooperation, stressing the importance of such perspectives for overcoming the legacy of Mill's restrictive definition of *political economy* and towards the adoption of a publicly-oriented, civic-minded consciousness within cooperative organizations. In accordance with this task, we attempted to retrace the genesis of the contemporary single-stakeholder focus within the cooperative principles, with a sketch of an alternative genealogy, couched in the social upheavals of 1968.

In the following chapter, we continue this latter discussion on a more formal basis, attempting to derive an *ecological theory of cooperation*. We do this in the guise of a *cooperative n-tuple Helix*, in the language of [Leydesdorff, 2021].

## Chapter 8

# Towards an Ecology of Cooperation

William Blake asked the tiger: "In what distant deeps or skies  
burned the fire of thine eyes?" What struck him in this way was  
the cruel pressure, at the limits of possibility, the tiger's immense  
power of consumption of life. In the general effervescence of  
life, the tiger is a point of extreme incandescence. And this  
incandescence did in fact burn first in the remote depths of the  
sky, in the sun's consumption. Georges Bataille, *La Part Maudite*,  
*The Accursed Share*

We began the last chapter with the observation that the neoclassical (read: neo-Walrasian) paradigm offers little use in developing suitable theories to account for outcomes in organizations based on certain normative frameworks, such as the cooperative principles and values. In particular, it offers no robust tools to analyze qualitatively different *hierarchies*, such as inalienable versus translatable hierarchies. Mainstream management theory is only slightly better in this regard [Biggiero, 2016]. Therefore, we developed tools to distinguish between two main types of hierarchy and connected these with the DCMs. We now intend to advance this relational epistemology and methodology into the realm of the organizational environment. If firms are anticipatory systems, as we argued in the prior chapter, then we must focus on the environment influencing and shaping their expectations and beliefs. [Pfeffer and Salancik, 2003]

This chapter envisions returning to the concept of *macroculture* introduced in 6.1 above. In particular, it does this by replacing the concept of *national accounts* with that of *ecology* as the central anchoring point for a *relational* approach to macroeconomic analysis. In this way, we are able to move

beyond the formal definition of economy and can speak of a *substantive* macroeconomy, encompassing sectors like the care economy and others not necessarily dominated by monetary transactions [Polanyi, 2018]. In order to achieve this, we are interested in investigating the contribution a concept like Robert Ulanowicz’s *ascendancy*, which encompasses notions of growth and development, has in facilitating a focus on *macroculture* in macroeconomics. Moreover, we will also attempt to connect this notion with existing attempts to integrate *network analysis* into economic analysis and reasoning<sup>1</sup>. These discussions will prepare the ground for our later discussion of the research agenda we introduce in Part III.

Since most cooperatives are operating in a market environment<sup>2</sup>, we thus must study how they coordinate their activities on the basis of principles *in and despite such an environment*. This chapter will thus be split in its focus, on the one hand, on how cooperative principles are communicated in a dissipative environment like national, or global, markets. At the same time, the chapter will discuss the potential for extending the reach of the principles into the domain of scientific discourse in an autocatalytic fashion. Each of these discussions, while distinct, concerns the ecology of cooperation in its ability to flourish in an uneven playing field.

At the same time, the chapter will consider possible synergistic prescriptions to curtail the asymmetric impact of market forces on such cooperative forms of organization. This latter ambition includes a dual focus on both the networks of relationships that occur based on particular logics or propensities *and* how these manifest in the physical and spatial environment in which such organization occurs. Methodologically speaking, we are interested in searching for an empirical basis of cooperative macroeconomy in network theory and ecology. Part of this move will involve re-inventing “embedding” as a causal concept.<sup>3</sup> This will involve viewing, e.g., the cooperative principles as attractors (in the sense of dynamical systems) or redundancies (in the sense of information theory) that are tied to certain logics in particular species of circumstances. By doing so, they simplify an indeterminate universe of experiences to a manageable degree with respect to those parameters of interest (usually ones tied to accountability, equity and inclusion).<sup>4</sup>

In part, the focus on redundancy is facilitated by the increasing uncertainty

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<sup>1</sup>See, e.g., [Biggiero, 2016] for a succinct overview of such attempts.

<sup>2</sup>Social cooperatives and those with a fixed association with key stakeholders, e.g., municipalities, charities, etc., naturally serve as exceptions to this dynamic.

<sup>3</sup>The preparations for this have already been made in the prior discussion of notions like *relational governance* and in the discussion in 6.6.4.

<sup>4</sup>As has been pointed out, autocatalytic processes feature mutualism as their normal state. [Ulanowicz, 2009].

that comes along with higher levels of complexity and abstraction, such as the level of the environment, as we are discussing here. Given that uncertainty, not only people, but also organizations, stand to gain from pooling resources and insuring themselves against volatile outcomes. Thus, macroeconomies are not the result of “mere” aggregation of individual behaviors as has been supposed by neoclassical economists. Instead, “the macroeconomy” is also the result of emergent phenomena, in particular, the desire to reduce *organizational* uncertainty by moving certain cognitive elements beyond the individual. Thus, the reduction of uncertainty plays a central part in guiding aggregate, i.e., macroeconomic, behavior. This involves as well questions of transforming qualitative into quantitative change, and vice versa..

It is to this discourse that the chapter seeks to contribute. Like Bataille’s tiger in the introductory quote, this chapter is accordingly one of the more experimental in this volume, in that it asks how flows of resources between firms, including income, can promulgate transformative change in social processes. It thus attempts to contribute to the shift away from static, mechanical pictures of social systems as agglomerations of self-interested agents and towards a view of interdependent, complex and – above all – emergent systems with significant system-level characteristics. Following the logic of Bateson, who “was calling for a complete overhaul of how we look at the world, one informed by the image of the ecosystem rather than that of the machine” [Ulanowicz, 2009, p. 2], we also seek to adopt the *ecosystem* category as one that offers useful tools for understanding and analyzing organizational activity in the context of changing environments. As we have discovered above, the ecosystem of the cooperative economy, on the one hand, necessarily incorporates place, typically the domain of the municipality – the *polis*. On the other hand, and importantly, it can be situated within what has been called a *Triple Helix*, an emergent domain of discursive knowledge. [Leydesdorff, 2021]

Thus, the outline of this chapter is as follows. We begin by introducing the imperfection principle, which will provide the context of justification for the remainder of the chapter. After this, we discuss the importance of distinguishing between market forces and market transactions, a useful step in further developing a relational methodology. Thirdly, we introduce some basic notions from network and complexity theory, as well as ecology, including *ascendancy*, conditional entropy, uniqueness and AMI (mutual information), synthesized in the rubric of *process ecology*. After this, we attempt to interpret cooperative principles 6 and 7 as attractors (our attempt to “re-invent” embedding). After this, we synthesize the discussion of principles 6 and 7 with that of the prior principles and ask what sort of ecosystem the principles create or render possible, and furthermore, if one can measure particular

aspects of their discrete contribution to this process (i.e., looking for principles-related measures).

Finally, we attempt to derive a *cooperative n-tuple helix* framework for strengthening cooperative research ecosystems, entertaining as part of this development a discussion of the importance of mutually beneficial dynamics (synergies) for both harmonizing, relationalizing and strengthening cooperative approaches to economy. In the conclusion, we attempt to sum of the contributions of this chapter by asking whether self-organization (viz. cooperative organization) is a useful concept to interpret aspects of human ecology.

## 8.1 The Imperfection Principle

The first order of business is to establish a context of justification for such an endeavor. This involves underlining an epistemic standpoint that challenges the assumption that perfectly competitive markets are a sufficient basis for economic analysis. In fact, as [Shaikh, 2016] suggests, the assumption of perfectly competitive markets is unrealistic, and requires “irrational expectations” [Shaikh, 2016, pp. 346-349].<sup>5</sup> To emphasize the great chasm between the theory of complete markets and the reality of firm and household behavior in the market, Greg Dow shows that “in an environment of complete and competitive markets, control rights can be assigned to any set of input suppliers (or output demanders) without endangering allocative efficiency.” In fact, “the LMF [labor-managed firm] exhibits the behavioral and efficiency properties of the Walrasian firm.” [Dow, 2018, pp. 61f.]

Thus, “[a]ny theory claiming to explain the empirical asymmetries between KMFs [capital-managed firms] and LMFs must specify one or more departures from the framework of complete and competitive markets.” [Dow, 2018, p. 7] If it is the case that firms are not price-takers, entry is not free, sunk costs are not irrelevant and scale economies and working capital matter, then this circumstance surely has a role to play in the rarity of LMFs in most contemporary economies. Therefore, “[t]he task facing both advocates and skeptics of workers’ control is to identify market failures that differently affect labor-managed and capital-managed firms” [Dow, 2018, p. 62]

This principle disconnects us from any last vestiges of the neoclassical model in our efforts to construct a cooperative economics. As we will learn in this chapter, much more effective in analyzing really existing cooperative enterprise, and for developing useful theories for entrepreneurship, innovation – and, in particular, in order to devise suitable macroscopic theories of

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<sup>5</sup>Shaikh, in fact, refers to the model of perfect competition as a “Garden of Eden” myth.

cooperation (resting on the basis of the final two cooperative principles, which we have saved for this chapter) – an ecological framework appears more suitable. This framework is compatible with the relational economics we advocate for in this project, as well as being compatible with the notion of the moral economy of labor and the civic economy of provision.

We develop the central categories of this analysis below.

## 8.2 Markets and Macrophenomena

One of the important lessons of the preceding chapters is that *context matters*. The ontological individualism of the neoclassical, Walrasian worldview not only *disembeds*, but also *decontextualizes* social behavior and so rests on a rather “primitive Utilitarianism”<sup>6</sup>. Context matters both for agency and for interpreting both it and communication. One important such phenomenon for our present discussion is the market. When studying systems, one generally has to decide which elements of such phenomena one interprets as being exogenous and which as endogenous to the system. From an ecological view, as we advocate for in this chapter, much of what is considered exogenous in traditional economic reasoning is endogenized. For instance, As [Fligstein, 2018, p. 4] points out, “Competition and technological change are themselves defined by market actors and governments over time. These forces are not exogenous to market society, but endogenous to these social relations”.

Thus, it is the level of social analysis (context) that determines whether certain elements are to be taken as given or can themselves be considered variable parameters. This observation applies to phenomena like profit and other regulative elements of the market, as well as to contract and other coordinating elements. The view we advocate for in this section will attempt to take the lessons learned in the preceding chapters and to synthesize these with the imperfection principle outlined immediately above. The greater goal will be to lay out a relational economics vision for a cooperative ecology *as* macroeconomy.

We continue immediately below by specifying the distinction between market transactions and market forces, relating this discussion to the distinction between relational transaction and exchange transaction. Next, we introduce the concept of *negotiated coordination*, which we compare with Wieland’s notion of *cooperative organization*. We proceed to argue that these terms are isomorphisms. We conclude the section by discussing the impact of negotiated coordination on uncertainty. Our argument is that negotiated coordination

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<sup>6</sup>Cf. [Pistor, 2020].

serves to reduce uncertainty (by distributing or delegating decision-making locally).

### 8.2.1 Market Forces vs. Market Transactions

We have already reviewed the criticisms of Williamson in 2.3.1. Along similar lines as [Dow, 2021] and [Biggiero, 2016] (see Chapter 7), Pat Devine argues against the juxtaposition of market and hierarchy. Responding to Nove’s question, ‘There are horizontal links (market), there are vertical links (hierarchy). What other dimension is there?’, [Devine, 1988, p. 235] responds that “although there is no other dimension, vertical links do not have to be authoritarian and horizontal links do not have to be market-based.” And in a passage recalling Ostrom’s appraisal of the standard view as a Scylla and Charybdis of market and state, Devine continues that “The two standard models of how this coordination of production can be achieved are the model of administrative command planning and the model of the invisible hand or market forces” (Id.):

In command planning, the centre in principle works everything out in advance and issues instructions to each enterprise such that between them they produce the aggregate output required. Coordination takes place *ex ante*. In a market economy, each enterprise decides separately to produce what it expects to be able to sell at a profit. Relatively profitable industries attract enterprises until the additional supply causes profitability to fall; relatively unprofitable industries lose enterprises until the reduced supply causes profitability to rise. Coordination takes place *ex post*. (Id., p. 236)

[Devine, 1988, p. 236] makes the distinction between “market transactions” and “market forces”:

Market exchange, the sale and purchase of commodities, does not imply the operation of market forces, in which production and investment decisions are made atomistically and coordinated *ex post*. The use customers make of their purchasing power in choosing between the output of different production units generates information that is relevant to investment decisions. The way in which that information is used, however, will depend on the economic system. It may be used by each individual enterprise separately to decide to reduce or expand its own production, in ignorance of what other enterprises are doing. It may, in theory,

be used by a command planner to change the instructions issued to the enterprises involved. It may, alternatively, be part of the information available to production units and their negotiated coordination bodies when making decisions about production and investment. (Id.)

Therefore, for Devine, “the argument that only market forces can generate information about consumer or user preferences is based on a confusion of market forces with market exchange.”

Indeed, one should keep this distinction in mind when considering macroeconomic phenomena, as “what the market resolves” may not be identical to the socially desirable. Similarly, while “centralized command planning necessarily suffers from information overload and is therefore unlikely to be able to make effective use of” information, according to Devine, an inverse problem of pure market coordination is that “atomized decision-makers. . . are necessarily unaware of what their rivals are intending to do and therefore the aggregate outcome of their separate decisions will only correspond to what is needed by chance.” (Id.) Just as accountability follows from a transparent flow of information, a logic of cooperation can overcome the information deficits of pure market exchange or the information *deluge* of central planning.

Thus, the charge is that the coincidence of market outcomes and socially beneficial outcomes is the exception and not the rule. An example of the distinction is the attempt to price the “ecological services” of bees in coffee versus pineapple production.<sup>7</sup> The ability to internalize nature into the economic system via pricing ecological services is of limited utility and often results in “fickle” or brittle stalemates, lasting only as long as particular ecological factors provide measurable economic benefit to humanity. Moreover, there is a degree of arbitrariness in valuing nature: “whether or not the natural environment may be monetized, and how the process of valuation will be carried out, emanates by and large from the offices and conference rooms of public agencies and from behind the judge’s bench.” [Fourcade, 2011, p. 1731]

Thus, to return to Devine’s initial question, and in order to connect it to Elinor Ostrom’s focus on individual CPRs: does Ostrom’s logic of self-organization over and against the Scylla and Charybdis of market and

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<sup>7</sup>As Macauley suggests, “market-based mechanisms for conservation are not a panacea for our current conservation ills.” [McCauley, 2006] To tie Macauley’s criticism with a classic from the ecology literature, Lynn White, Jr. argued forcefully in a lecture later published in *Science* the deep ties between modern ontology, epistemology and ethics and a particular religious vision rooted in the Biblical idea of man as distinct from nature. [White, 1967] White advocates for a view embracing humanity’s role as “steward”. This perspective can be applied to organizations like enterprises, as well, as [Hancock, 2017] attempts.



government allocation scale up to the inter-organizational environment? Can one envision an elective, de-centralized manner of coordinating activities and organizing economic activity? We review Devine's answer to these questions next and attempt to connect it with our greater purpose of systematizing a relational approach to the cooperative economy.

### 8.2.2 Negotiated Coordination and Resource Dependence

[Devine, 1988] suggests the name “negotiated coordination” (NC) for non-dictatorial, decentralized networks of relationships of interdependence. As opposed to the information overload of command central planning and the information anemia of the market mechanism, “[n]egotiated coordination, by contrast, allows decentralized decision-making that is able to take account of all the information available and arrive at a coordinated aggregate response that reflects the interests of all those affected.” (Id., p. 237) The process works by operating by different logics at different levels. At the level of the organization, “production units are responsible for their day-to-day activities, for the use they make of their existing capacity. They set prices equal to long-run costs, calculated on the basis of socially determined primary input prices and their prevailing level of productivity [...] The principal responsibility of production units is to use their existing capacity to meet customer demand.” (Id.)

As firms are in the best position to determine their local capacities and estimate their ability to meet demand, it is actually socially beneficial to make such decisions at the organizational level. As Devine concludes, “Since the pattern of consumer and user demand is the quantitative reflection of collectively and individually determined priorities, meeting it represents a first approximation to the way in which existing capacity can best be used in the social interest.” (Id.) A second approximation, in accordance with Devine's perspective, would see the governing bodies of firms, organized along manners outlined in Chapters 6 and 7, process this information in accordance with, e.g., the values and principles outlined in 7.6.3. Accordingly, “the key issue for production units is to use their capacity to further the social interest *as they see it*, within the framework of the laws, regulations and guidelines arrived at through the self-governing political process.” [Devine, 1988, p. 237, emphasis added]

Moving up a level, decisions regarding investment should be made outside of individual firms. Such decisions would be carried out by *negotiated coordination bodies*, which are described by Devine in the following way:

The composition of negotiated coordination bodies would be determined by applying the basic principle of self-government, representation of all affected interests, and would therefore vary according to the characteristics of the activity involved. Thus, negotiated coordination bodies for nationally organized activities would be made up of representatives of the following: all the production units in the branch of production; the national negotiated coordination bodies for major supplying and major user branches; government and functional user bodies and national consumers' organizations; the sections of the national planning commission concerned with sector coordination, major new investment and regional distribution; the relevant regional planning commissions; and the relevant national level interest and cause groups, including of course the trade unions. (p. 232)

Therefore, negotiated coordination bodies (NCBs) do not refer to any discrete phenomena, but depend on the industry or sector in question and are organized along the typology of consensus and the logic of discourse. Delegating investment decisions to the higher level NCBs “enables investment decisions to be coordinated *ex ante* in the light of all the relevant information.” This, to some, quite radical judgment is made on the basis that the quantitative information privy to individual organizations isn't sufficient to make long-term investment decisions that affect not only the firm's stakeholders but also the general community. Thus, in keeping with the “public organization” advanced in Chapter 7,

Investment and expansion, or lack of investment and contraction, affect regions and localities, interests and causes, workers in different production units, in ways that are qualitatively different from the effects of changes in the use made of existing capacity. At the same time, new trends in demand and foreseen changes in technology have to be taken into account, as have expected changes in relative scarcities and prices due to planned major investment elsewhere in the economy. (p. 237)

As can be shown from studies of innovation dynamics, innovation strategies are often developed without considering the best organization of metrics, often leading to a furthering of uneven development<sup>8</sup>. Decisions taken centrally

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<sup>8</sup>Cf. [Leydesdorff, 2021, pp. 115ff.], who argues in the case of Italy that the most suitable framework for innovation dynamics would see the country split along a North-South axis, and not along regional divisions, as is currently the case in both EU and Italian innovation policy.

“would not be implemented centrally”.<sup>9</sup> Therefore, negotiated coordination differs from centralized planning “in that decisions about investment within a branch of production are decentralized to the negotiated coordination body for that branch, which involves all production units in the branch and is able to make full use of all available information.” [Devine, 1988, p. 237]

It also differs from exchange directed by market forces “in that investment decisions within a branch of production are coordinated *ex ante*, on the basis of all the available information, not *ex post*, through attempts to correct wrong decisions that were made on the basis of only part of the available information.” According to Devine, the process of NC differs from both in that it features DCMs and is organized along inalienable hierarchies. This decentralized yet coordinated approach emphasizes relational contracts, therefore focusing on the decision-making *process* as a balancing act of multiple rationalities and logics, i.e., via a discursive rationality where “the people affected by investment decisions are the people who make the decisions, consciously, in the light of an awareness of their mutual interdependence.” (p. 238) Moreover, this process allows actors at each level to use their relative informational advantages to achieve both individual and collective desires and needs. In short, it

encourages people to transcend their narrow self-interest and has a transformatory dynamic. Thus, it provides better information than the other models and moves beyond coercion towards the self-development of self-activating subjects. (Id.)

Thus, it appears that Devine would answer Ostrom’s questions in the affirmative. That does not, however, answer the question of how such a scaling of self-organization can occur. We have attempted to answer this question for the organizational level in the preceding chapters. In order to address it on the inter-organizational level, we next connect Devine’s analysis with the *resource-dependence theory* developed by Pfeffer, et al.

### **Pfeffer**

Devine’s subsidiaric and discursive approach shares much with Pfeffer’s approach, which, similar to that later championed by [Granovetter, 1985] and inspired by [Polanyi, 1944], “view[s] organizations as being embedded in networks of interdependencies and social relationships”. [Pfeffer and Salancik, 2003, p. xi] Due to this environmental or “external” focus, Pfeffer’s management theory emphasizes the dual notion that organization continually re-negotiate

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<sup>9</sup>Cf. [Devine, 1988, p. 195].

their environment and that simultaneously the environment influences them in executing this task. In fact, this perspective can be called a “second-order cybernetic” approach, as we will learn shortly in 8.3. Nevertheless, for the time being, we connect NC to some of the main points in Pfeffer’s analysis.

First, the notion of interdependence should be mentioned. Pfeffer suggests that “In social systems and social interactions, interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action.” [Pfeffer and Salancik, 2003, p. 41] Pfeffer subdivides the concept further into *behavioral interdependence*, where “the activities themselves are dependent on the actions of another social actor” and *outcome interdependence*, where “the outcomes achieved by A are interdependent with, or jointly determined with, the outcome achieved by B.” (Id.) Pfeffer uses a poker game as an example of behavioral, and a market as an example of outcome interdependence.

Another parallel between the two approaches is Pfeffer’s focus on interconnectedness between organizations. In particular, in another nod to the preceding discussion of “second-order cybernetics” and process ecology, Pfeffer emphasizes that interconnectedness has both positive and negative implications for focal organizations: “the greater the level of system connectedness, the more uncertain and unstable the environment for given organizations.” (Id., p. 69) Therefore,

[i]n a system with  $n$  elements, the number of possible connections between the elements is:  $\frac{n(n-1)}{2}$ . If each link were actually effective, if the system were tightly interconnected, then any disturbance entering the system at any point would quickly affect every element. If the system were loosely coupled, on the other hand, disturbances would have more chance of being localized, and the system would be more stable and more certain. (Id.)

There is a dialectical trade-off between environmental stability and those system dynamics that drive innovation, meaning that “[s]ocial stability is not favorably perceived by those attempting to introduce change.” (p. 70) Both innovation and “adaptation is likely to be easier in a loosely joined system.” (p. 69) At the same time, more formal connections (of whatever type or quality) between organizations increase the predictability of each organization’s environment and reduces the need for organizations to vertically concentrate ownership and control. Therefore, while increasing interconnectedness constrains individual organizations in their ability to change aspects of the environment, it simultaneously “is a substitute for concentration in that both assure predictability and provide increasingly powerful levers for change.” (p. 70)

At the same time, organizational actions to reduce interconnectedness at the present moment “may, in the long run, increase the interdependence among environmental elements”. (Id.) It is easy to see the relation of this complex of perspectives relates to the notion of NC advanced by Devine. In particular, we argue that the main common denominator entails the observation that the trade-off that increased unpredictability on the one hand and increased system vulnerability on the other have can best be circumnavigated via active stakeholder dialogue and a view to long-term relational contracts, including informal contracts. Both perspectives appear to desire overcoming the – apparent – dilemma between market or government coordination by seeking a “third way” that seeks to regulate and coordinate activities at the most *effective* level<sup>10</sup>.

Another parallel idea to NC is Pfeffer’s focus on the so-called *negotiated environment*. According to Pfeffer, organizations continually re-negotiate their environment to reduce resource dependences and to “stabilize the transactions through some form of interfirm linkage.” (p. 144) While these forms of coordination, or what [Wieland, 2018] would refer to as *cooperative organization*, vary, they all have “the advantage of being more flexible than managing dependence through ownership. Relationships established through communication and consensus can be established, renegotiated, and reestablished with more ease than the integration of organizations by merger can be altered.” [Pfeffer and Salancik, 2003, p. 144]

Such linkages, which can, e.g., include co-optation<sup>11</sup>, which we discuss in 7.7.4, provide focal organizations with certain advantages, including “information about the activities of that organization which may impinge on or affect the focal organization”; “a channel for communicating information to another organization on which the focal organization depends”; “an important first step in obtaining commitments of support from important elements of the environment”; and “a certain value for legitimating the focal organization.” (p. 145)

In closing, one of the most important distinctions that Pfeffer’s work makes, and one which is of absolute centrality in deriving a theoretical basis upon which to erect a cooperative economics, is that between *organizational efficiency* and *effectiveness*. The former, which Pfeffer describes as “an internal standard”, measures “[h]ow well an organization accomplishes its stated, or implied, objectives given the resources used” (p. 33). Due to

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<sup>10</sup>The contribution the present work seeks to make to such perspectives is emphasizing not only the role *communication* has in facilitating such a discursive approach, but also the role that *cooperation as a logic* can have on generating new opportunities to generate ascendant macrocultures along such lines.

<sup>11</sup>[Pfeffer and Salancik, 2003, pp. 161ff.]

efficiency being an internal standard, it is “problematic to interpret in social systems because the direction of benefit is open to question.” (p. 34) Moreover, “[y]ears of Taylorism, scientific management, and now operations research and management science have led to the maximization of efficiency as a value. After literally decades of management ideology venerating efficiency, efficiency has come to be a valued social ideal.” (p. 35). Pfeffer and others have questioned the benefit of such a view.

In keeping with his “external” perspective, Pfeffer therefore advances *organizational effectiveness*:

When individuals and organizations consider what is being measured or produced, they are concerned with effectiveness rather than efficiency. Effectiveness is an external standard applied to the output or activities of an organization. It is applied by all individuals, groups, or organizations that are affected by, or come in contact with, the focal organization. Effectiveness as assessed by each organizational evaluator involves how well the organization is meeting the needs or satisfying the criteria of the evaluator. (p. 34)

Effectiveness is therefore clearly a more complex indicator, and the discussions Pfeffer leads on the topic make clear that in a knowledge-driven economy, where nonlinear dynamics prevent easy calculation of “marginal rates of return” and services are frequently tailored to particular customer segments, or even individually, that an external measure is needed. Moreover, “[i]n many instances efficiency of the product is not a criterion, and what is being produced, rather than the ratio of output to input, is of more concern.” (p. 35) *Relational goods* like education and healthcare are two such domains, but many others come to mind, including the experiences people have on online platforms<sup>12</sup>.

### 8.2.3 Negotiated Coordination as Uncertainty-Reducing

Neither Pfeffer nor Devine explicitly mention cooperatives or the cooperative principles as tools to realize such negotiation of the environment, but it is clear when juxtaposing the discussions of the preceding chapters with the ideas that Devine and Pfeffer present that the cooperative principles are well-equipped to coordinate such multi-level activity. They appear to serve at the same time as coordinating tools and as criteria of organizational efficacy. To return to

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<sup>12</sup>[Srnicsek, 2017] and [Eisenmann et al., 2011] have shown that efficiency is not a good criteria in such environments.

the language of Kant from 6.5.5, we can refer to them as *intersubjective logics*. They also act in a manner related to Aumann’s “coordinated equilibrium”, signaling “like-mindedness” to others in the network. All of these attributes are uncertainty-reducing.

As opposed to standard exchange contracts, they appear to serve as relational contracts, which extend to general categories of behavior and activities. Thus, similarly as [Granovetter, 1985] discusses, loose networks of long-term repeated interactions between organizations are not regulated, in the first instance, by contract, but by a moral economy: status, reputation, norms all play roles in guiding business relations among suppliers of intermediary components to their industrial clients, for instance. Thus, focusing, in modeling and analyzing social or public action, on such loose networks of reciprocal relations would be something negotiated coordination would facilitate. This relational contract aspect of NC is clearly also uncertainty-reducing, in the same manner as meteorologists provide general bands by which to estimate the risks that weather patterns pose to particular regions.<sup>13</sup>

Lastly, we relate negotiated coordination to (non)ergodicity. In particular, as commented above and as argued in [Peters and Adamou, 2015], certain forms of cooperation are uncertainty-reducing in that the average long-term returns from a more stable income from a shared pool is higher than volatile returns from individual pools.

We see from the discussion immediately above how, under an “external” view, NC-like relational contracting makes sense for individual organizations. It does so by filtering uncertain processes in various public ways so that each organization benefits in the long-term, whether they are entrants or established players. Having concluded this discussion, in the following section we suggest the language of *process ecology* for measuring the degree of benefit from informal relational contracts like negotiated coordination.

### 8.3 Process Ecology

We now have a picture of the manner in which a relational economics view based on notions like negotiated coordination can contribute to stable, long-term relationships between organizations. We must now turn to the task of how to measure such forms of cooperative organization. Without such concrete adaptations of the concepts we have just introduced, they remain mere metaphors or heuristics. If we are able to apply some metrics to

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<sup>13</sup>NC provides similar “bands” in which organizations accept certain foundational shared values and coordinate those aspects of decision-making that make sense to coordinate at higher levels. We will come to refer to these bands as “propensities” below.

the level of coordination among nominally autonomous organizations or federations of organizations, then we may be able to say more about the precise benefits different degrees of cooperative organization may bestow on particular organizations. This would also enable us to translate some of the elements of discursive rationality into the bureaucratic rationality employed by many governments today<sup>14</sup>.

As societies and institutions evolve, both social and individual, public and private, needs change. As society in general changes – and especially as more complex and interdependent societies like the current global community change – their institutions necessarily also change, adapt and maintain certain characteristics they possessed previously. Part of this involves institutional values. One macroculture is replaced with another, modified culture. There is often a question of which culture provides the better footing for meeting both long-term and shorter-term interests. Given the fact of limited foresight and the general indeterminacy of future events, it is sometimes hard to find suitable criteria on the basis of which to collectively or individually choose among different options for coordinating activities. The notion of *process ecology* can help here.

In a nutshell, it is an attempt to trace out an alternate vision for the analysis of complex systems, based on a self-described shift from the “Eleatic” to the “Milesian” way of thought. The former is associated with Plato who was concerned with forms and “essences”, while the latter is associated with Heraclitus, whose perspective is best represented by the famed quote “all is flux”. [Gadamer, 1991] Many, including Karl Popper, have traced out the tradition of skepticism from Heraclitus’ view that *logos* orders phenomena “like the strings of a lyre.” Similarly, Whitehead’s process philosophy similarly is an extension of the Milesian focus on *process* instead of laws. [Whitehead, 2010]

The trend in recent years in economics and other social sciences has been towards complexity theory and towards generally more regard for embedding economic theory in the natural ecosystem of which it forms an interminable part. *Green capitalism, ecological economics, degrowth* and any number of other paradigms have arisen in recent decades to fill the void which neoclassical economics and its ontological individualism displays with respect to understanding causation in dynamic ways, as well as in conceptualizing change. In many ways, the problem with the atomistic view was not entirely perceptible in past stages of economy, with their emphasis on homogeneous production processes of interchangeable goods. However, such a reductionistic approach is no longer in keeping with the demands of the plethora of organizational types and ambitions in existence today, let alone to describe the inter-organizational

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<sup>14</sup>Cf. 1.2.2 above.



linkages in existence in many industries. [Biggiero and Magnuszewski, 2021]

[Ulanowicz, 2012, p. 1] begins his exposition of this new paradigm by pointing to the conservatism inherent in science viz. its frequent reticence towards nonreductionistic thinking: “So great, in fact, is the disdain for [...] early attempts at biological explanations that considering nonreductionistic causality still appears taboo to the majority of biologists.” This scenario is not different in economics, where much effort is still expended nowadays in discovering appropriate “microfoundations” for various phenomena, whereas it has been shown that complex processes generally require notions of causality at the systems-level.<sup>15</sup>

In the interests of adequately describing macro-cultures and macro-processes, Ulanowicz offers a view couched in what is referred to as an *ecosystems metaphysic*, which attempts to move away from dealing with “natural laws” and focuses instead on “configurations of processes”. (Id., p. 116) This is achieved by means of a phenomenological approach to thermodynamics and a physical description of system-level flows.<sup>16</sup> Ulanowicz suggests that it is often enough to study these system-level flows to gain a deep understanding of causal processes at a macroscopic level. However, much of modern science, even social science, was built up on or reconstructed from deterministic foundations of mechanical causality, which forgets that “[t]here are innumerable examples of systems of equations, such as those describing the many-body problem that appear to be deterministic; but in reality, they give rise to behavior that cannot be distinguished from chaos” [Ulanowicz, 2012, p. 3]. This blind spot in many of the life sciences for macroscopic phenomena leads to an overemphasis of atomistic or molecular analysis. This detracts from pragmatic understanding of cause and effect, as “What is at issue, however, is the *magnitude* of the effect that any single causal factor may have in the realm of natural phenomena.” [Ulanowicz, 2012, p. 2, own emphasis]

Moreover, within the “microfoundations” camp, there often is a lack of coherence on core principles: “[i]t is as much by default, as by any causal ties, that higher level phenomena are still usually referenced back to biomolecular events.” [Ulanowicz, 2012, p. 5] However, such efforts are frequently unnecessary and also on occasion harmful to the generation of new knowledge. Ulanowicz describes *autocatalysis* – which we return to in detail below – as such a phenomenon, where in fact causation occurs on a higher order than the individual components of the autocatalytic chain. Thus, “contingencies that facilitate any component process will be rewarded, whereas those that interfere

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<sup>15</sup>Cf. [Chvykov and Hoel, 2021] or [Shaikh, 2016].

<sup>16</sup>In other words, process ecology is grounded in general descriptions of thermodynamic reality and not in describing the working of reductionistic models.

with facilitation anywhere will be decremented”.[Ulanowicz, 2016, p. 367] Process ecology can help navigating the context of justification we outlined at the beginning of this chapter and in so doing facilitate a systematization of thinking regarding cooperative organization.

This section is structured as follows. We begin our overview of process ecology by first reviewing the concept of the *Aleatoric* and its concordant shift from “Eleatic” to “Milesian” thought styles. We then look at the opposing process of *autocatalysis*. Then we review the three main propositions upon which process ecology rests and outline the corollary shifts this entails. Next, we introduce one of the central categories of process ecology, and one that relates to the notion of macrocultures introduced in Chapter 6: *ascendancy*. It is this notion which promises to provide us with a metric that we may apply to phenomena like the cooperation principles in their impact on coordinating activities, beliefs and preferences. Next, we review the unique notion of *propensity* which process ecology promotes. We close with a discussion on (thermodynamic) irreversibility and what it entails for what [Ulanowicz, 2009] refers to as “metaphysical patience”.

### 8.3.1 The Aleatoric

[Ulanowicz, 2009, p. 40] suggests that “[i]f we are to entertain any hope of understanding how things change in the world (beyond mere change of position), it quickly becomes apparent that we need to move beyond the limitations of the Newtonian worldview.” Ulanowicz reminds his reader that the Newtonian worldview “owes much to the Platonic or Eleatic school of Greek thought that centered discourse on unchanging ‘essences’ as the element of primary import.” In remarks similar to Popper’s appeal to skepticism in 2.2.2, Ulanowicz records that “the Eleatic school did not comprise all of Hellenistic thinking.” An alternate tradition is the Milesian school, whose most famous exponent was Heraclitus, whose well-known statement, πάντα ῥεῖ, means “all is in flux” (or “all changes”).

The historical opposition of the Eleatic and Milesian worldviews can, according to Ulanowicz, be seen in the two opposing categories of “state” versus “process variables”. While historically, within scientific discourse, the former have had the dominant position (in part due to their ease of use, for instance the fact that “they are perfect differentials”<sup>17</sup>), “With the burgeoning interest in networks, wherein flows are accorded parity with states (nodes), it becomes likely that the groundwork in thermodynamics may soon shift in

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<sup>17</sup>[Ulanowicz, 2009, p. 41]

favor of flow variables.” (Id.) While the two views first appear irreconcilable<sup>18</sup>, “the stranglehold of essentialism on scientific thought” has been broken with Darwinian “descent with modification”. However, although “[c]hange became possible, [...] its radius was circumscribed. Darwinian change acts only within type (species), and the process is not open to the generation of new types (speciation).” (p. 42)

This observation is relevant not only for biology, but has implications for all behavioral, social and complex sciences. Particularly, it points to one of the foundational antagonisms “between chance and the goals of science”:

Whereas science aims to codify, simplify, and predict, the interjection of chance into the narrative results in conspicuous exceptions to regularity, complications in specifying the system, and degradation of the ability to predict. (Id.)

This antagonism manifests itself in the near-universal application of probability theory to scientific discovery. Raising an issue we addressed in Chapter 6, Ulanowicz observes that applying probability theory “forces one to accept a set of assumptions regarding how chance is distributed, e.g., normally, exponentially via power-law, etc.” Moreover, “probability theory can be used only after a more fundamental set of assumptions has been accepted. These essential preconditions are rarely mentioned in introductions to probability—namely, probability applies only to chance events that are *simple*, *generic*, and *repeatable*.” Simple events are atomic in nature and occur at the smallest scale of observation; generic refers to the observed phenomena being homogeneous in quality; and repeatable means that the phenomena must be observable in infinitely repeatable situations<sup>19</sup>.

However, much of the physical world does not fit these criteria and “matters cannot always be considered simple.” [Ulanowicz, 2009, p. 43] This leads Ulanowicz to conclude that “[w]e are unable to encompass true *qualitative* change within the description of nature because we have turned a blind eye toward the existence of complex chance events.” (Id. own emphasis) Thus, it is arguable that complex events like the conversion of an enterprise from CCM to DCM, or even a meaningful analysis of the effectiveness of different DCMs operating in an inalienable hierarchy are likely the result of both complex *intentional* as well as complex *chance* events and processes, thus eliminating the relevance of a (frequentist) probabilistic methodology in shedding light on such scenarios.

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<sup>18</sup>Ulanowicz stated that “Tellegen’s theorem demonstrates that under some assumptions (e.g., linearity) states and processes achieve full parity.” Source: personal communication with Robert Ulanowicz.

<sup>19</sup>Cf. also [Kaplan, 2014].

In this vein, physicist Walter Elsasser's pioneering work concludes that "complex chance events prevail everywhere there are living systems. More surprising still, he implied that they perfuse nature and even overwhelm the number of simple events by comparison." (p. 43) This becomes especially clear in Elsasser's attempts to use combinatorics to study the number of possible events comprising the universe. He concluded "that at the very most,  $81 \times 10^{25}$ , or  $10^{106}$  simple events could have transpired. One can safely conclude that anything with less than one in  $10^{106}$  chances of reoccurring simply is never going to do so, even over many repetitions of the lifetime of our universe." (p. 44)

According to Ulanowicz, Elsasser's conclusion relates to complex systems like the cooperative economy by way of *uniqueness*: "[i]n particular," he writes, "one asks how many different types or characteristics are required before a random combination can indisputably be considered unique." That number is surprisingly low: only around 75 unique components render a particular system unique.<sup>20</sup> It is easy to demonstrate that this observation applies to virtually all social systems, including the cooperative economy.<sup>21</sup> Here, as elsewhere in the social realm, "singular events are not rare; rather, they are legion!" [Ulanowicz, 2009, pp. 45-6]

Ulanowicz argues that "Elsasser robbed us of our innocence" and underlines "the ontic nature of chance", i.e., "that chance is not merely an illusion to be explained away by the operation of laws." This implies "that the world is not a seamless continuum", that in fact "[t]he fabric of causality is porous" (p. 47). Therefore, "the universe is not causally closed, but open in the sense of Popper and Peirce." So, the question must be raised, if the standard frequentist approach to probability is of no use in measuring aspects of relational or cooperative governance, or assessing the effectiveness of this versus that policy with respect to a discourse ethic, then how do we proceed?

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<sup>20</sup> "[B]ecause the combinations of types scale roughly as the factorial of their number. Because  $75! = 10^{106}$ , whenever more than seventy-five distinguishable events co-occur by chance, one can be certain that they will never randomly do so again." [Ulanowicz, 2009, p. 45].

<sup>21</sup> One has only to attempt to analyze the levels of interdependence in a single agricultural cooperative, whose output depends not only on each of the workers, but also on an ensemble of suppliers, from machine-goods, farm equipment, seed, fertilizer, as well as logistics and transport, buyers, etc. One has only to think of Adam Smith's example of the pin factory: the division of labor makes simple chance an obsolete category for systems analysis. [Biggiero, 2001].

### 8.3.2 Propensities

Ulanowicz argues that this porousness does not imply that the laws of causality are violated. Instead,

the proposal at hand is simply that physical laws are incapable of *determining* what we see in the living realm— that the combinatorics of complexity simply create so many possibilities, or degrees of freedom, that any physical laws can be satisfied in a vast multiplicity of ways. Another way of saying the same thing is that the realm of biology is *underdetermined* by physical constraints. (Id., p. 48)

In other words, nature and living systems are rife in heterogeneity, which may remain hidden. (p. 50) The conclusion one must arrive at is that “one cannot formulate a law in the Newtonian sense that would relate to operations among heterogeneous biological classes.” (Id.) This fundamental heterogeneity “overwhelm[s] law” in the sense that a law cannot differentiate between the multiple (historical) paths a system actually took to arrive at a particular state. This indeterminacy renders much of the mechanistic language of modern social science (read: economics) “metaphorical at best”. (p. 51) Citing Karl Popper, who “felt it was wrong to stretch the narrow notion of force to pertain to complex situations, where (again!) it could possibly lead one astray from what was really happening”, Ulanowicz suggests that one should adopt instead the language of *propensities*:

[i]f A happens, there is a propensity for B to occur, but B need not follow each and every time. The situation then becomes more like “If A, then B; if A, then B; if A, then B; if A, then C(!); if A, then B, etc.”

That is, as opposed to mechanistic causes leading to deterministic outcomes, “propensities represent constraints, albeit imperfect ones, capable of holding systems together.” The concept of propensity introduces ambiguity and indeterminacy into the analysis, important qualities within the complex domain of social sciences. That is, “propensities impart adequate coherence to a system to keep [it] from immediately disintegrating when impacted by most arbitrary singular events.” (p. 55)

The question of how one represents propensities in practice in order to analyze their workings on systems is an important one. In particular, and relevant for the current topic, “propensities never exist alone but always stand in relationship to other propensities. We ask, therefore, whether the juxtaposition of propensities might possibly serve as an appropriate

counterweight to the ubiquity of radical chance.” (p. 58) It is this notion of *propensity ensembles* that leads us to the next topic of *autocatalysis*.<sup>22</sup>

### 8.3.3 Autocatalysis

Propensity and the aleatoric appear then to be two sides of processes that regulate change in complex systems. Two other phenomena that facilitate these elements are *causal circuits* and *feedback*. The two concepts are related, with causal circuits entailing “concatenations of events or processes wherein the last element in the chain affects the first—what commonly is known as feedback.” (p. 61) Bateson has argued that “[i]n principle [...] a causal circuit will generate a non-random response to a random event.” (Id.) Therefore, causal circuits “have the capability to endure because they can react nonrandomly to random stimuli.”

The question then becomes how to introduce feedback into scientific analysis without resorting to circular logic. (p. 63) Ulanowicz suggests that “[b]y gathering all feedback into a single postulate [...] one excises circularity with one fell swoop from all subsequent arguments.” Combining such an approach to what is called “second order feedback”<sup>23</sup>, we get *autocatalysis*:

Autocatalysis is a particular form of positive feedback wherein the effect of every consecutive link in the feedback loop is positive. Such facilitation need not be assumed obligate and rigid, as with mechanical systems. There simply needs be present the propensity for each participant to facilitate its downstream member. (p. 64-5)

Autocatalysis displays a number of properties, including being growth-enhancing; providing a formal structure in which processes and events may configure; being “capable of exerting *selection* pressure upon its own ever-changing constituents.” That is to say, the selection pressure “arises from within the system” (p. 68). Autocatalysis can be represented by a simple graph like Figure 8.1. A system of the sort

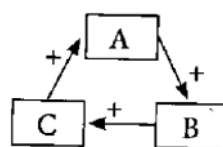


Figure 8.1: A simple graph representing a catalytic cycle with three components, from [Ulanowicz, 2009, p. 65].

<sup>22</sup>In 8.4, we again return to the notion of *propensity ensembles*, which we use to describe the working of the cooperative principles.

<sup>23</sup>This tradition was largely initiated by [Bateson, 2000].

which this graph represents, and which immediately resembles the DAGs we introduced in 6.6.4<sup>24</sup>, “tends to *import* the environment into the system or, alternatively, *embeds* the system into its environment.” (p. 69)

Autocatalysis is a central category in ecology, and it represents a central category of system-level agency, a concept capturing the centripetality inherent in all stable complex systems. Being a system-level quality, “the drive to increase such activity is strictly a consequence of the relational structure of the whole.” Bertrand Russell referred to this form of centripetality as “chemical imperialism”<sup>25</sup>. Autocatalysis and centripetality imply that “competition is derivative by comparison. That is, whenever two or more autocatalytic loops draw from the same pool of resources, it is their autocatalytic centripetality that *induces competition* between them.”

It is hard to stress how radical this observation is. It means, among others, that “a configuration of processes can, as a whole, strongly affect which objects remain in a system and which pass from the scene.” (p. 74) As can be expected,

[t]his observation inverts, to a degree, the conventional wisdom that it is objects that direct processes. The processes, as a union, make a palpable contribution toward the creation of their constituent elements. This reversal of causal influence lies at the crux of process ecology, and it extirpates the Newtonian stricture of closure.<sup>26</sup> (p. 75)

This observation should render many neoclassical economists rather uncomfortable. It directly contradicts the central role which competition has in social systems like the economy. In fact, according to the process ecology perspective, “mutuality manifested at higher levels fosters competition at levels below”. (Id.) Competition arises because two mutualistic ecosystems are competing for the same scarce resources. Carrying this observation to its conclusion, it implies that there can be no competitive market without the overarching networks of mutually beneficial relations we call society. This fact calls on us to reorient the economic in a way that explicitly acknowledges these factual interdependences, as we have argued in 7.7.4.

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<sup>24</sup>The main distinction is that an autocatalytic is not *acyclical*; it is thus a *directed cyclical graph*, which, while it does not lend itself to direct causal analysis using the methods specified in 6.6.4, can be broken into parts, which themselves consist of DAGs. One example of an approach to this end is the Bellman-Ford algorithm [Oldham, 2001]. The Simplex Algorithm [Dantzig and Johnson, 1964] is another approach.

<sup>25</sup>Russell, cited in [Ulanowicz, 2009, p. 72-3].

<sup>26</sup>Cf. also the discussion of the *ecological metaphysic* in [Ulanowicz, 2012].

### 8.3.4 Three Propositions

We are now ready to introduce the main concepts that undergird process ecology. In the following section, we then apply the lessons to derive a method which Ulanowicz has ingeniously developed, followed by some concluding comments.

Asking questions such as how things can change leads one to acknowledge the aleatoric: “[i]f an event is unique for all time, it evades treatment by probability theory. Now if the density of unique events overwhelms that of simple ones, as it does in complex systems, then most of reality lies beyond the ken of probability theory.” [Ulanowicz, 2009, p. 46-7] In such cases, we must speak of *radical contingency*, which leads to the first proposition:

- I. The operation of any system is vulnerable to disruption by chance events. (p. 47)

Cooperation can be such a chance event, as [Axelrod and Hamilton, 1981] has shown. Note that we speak here of systems as ensembles of processes possessing varying degrees of uniqueness. Talking about laws and mechanisms in such instances appears misleading at best. Thus, we cannot speak of a “law of cooperation”, only particular tendencies (cf. logics) that comprise both formal and informal, institutional, organizational and individual attributes and *relations* among those attributes. Abandoning the Eleatic thought style for the Milesian is called for in such situations. [Biggiero, 2016, p. 23]

The second question scientists ask is how things persist? How does order appear out of the aleatoric, for instance, in the form of a *regime* of cooperation? The notion of propensities that we have developed, and the concurrent ideas of causal circuits and feedback appear to sufficiently answer this question. Accordingly, asymmetric shifts in system dynamics cause persistent changes in the structures of those systems. (p. 60) Maintaining the Milesian focus on process and “[r]ecognizing that stationary forms are subsequent to movements and processes, the question could be rephrased as the following: what process or combination of processes might yield ordered form out of chaotic substrate?” (p. 61) Therefore, the fact that autocatalytic processes react non-randomly to chance events provides the answer to why things persist:

- II. A process, via mediation by other processes, may be capable of influencing itself. (Id.)

Thus, “[t]he action of autocatalytic feedback tends to import the environment into the system or, alternatively, embeds the system into its environment.” (p. 69) In the case of cooperation, the chance events that led



to its emergence as an ascendant macroculture can then be formalized to engender cooperative processes as normalized reactions to a multiplicity of events. Doing so requires the importation of the environment, as seen in the importation – albeit in a circumscribed form – of the earnings–costs logic in the second and fourth cooperative principles.<sup>27</sup>

At this point we have a basic cybernetic framework to describe system dynamics and interpreted those dynamics for the cooperative economy, but one element is still missing: that autocatalytic processes cause persistence of systems does not yet describe how the unique identity of various systems comes about. How does a beehive differ from a coral reef, and how does a consumer cooperative in post-war South Korea differ from one in contemporary Switzerland? They differ in their respective histories, which have been influenced by particularities partial to the locality in question. These histories are encoded as information within the various laws, statutes and norms that regulate the respective organization. Therefore, the third postulate is that

III. Systems differ from one another according to their history, some of which is recorded in their material configurations. (p. 69)

Therefore, relating the third postulate back to our main subject: “[i]n many ways, the structure of activities within a society embodies the history of that society every bit as much or more than the aggregate DNA of the individuals that make up the community.” (Id.) The role of information in this process is central, and we return to it in the next section.

These three postulates taken together mean that a shift away from both the Newtonian and the Darwinian “windows” (cf. thought styles, paradigms, logic of discovery) require similar corollary shifts in the focus of analysis. Thus, the three propositions engender three associated shifts:

1. In order to understand living systems, emphasis should shift away from fixed laws and toward the description of *process*. (p. 117, own emphasis)

This first shift means that the focus should be placed on what Popper called “propensities”, which he described as “not mere possibilities but [...] physical realities.” [Popper, 1990, p. 12] instead of fixed laws. Ulanowicz importantly points out that “propensities never occur alone”. (Id.) Therefore, a focus on juxtapositions or *ensembles of propensities* will help understand

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<sup>27</sup>Cf. discussion of the respective principles in 7.6. In particular, phrases like “fair rate”, referring to “the lowest rate which would be sufficient to obtain the necessary funds”, [Rodgers, 2015, p. 32] come to mind.

various complex systems like the cooperative economy. The reader can perhaps already infer that we intend to interpret the cooperative principles as such an ensemble.

Before moving on to this task, however, two more corollary shifts must be introduced. The second, which flows from the first, states that

2. Relevant agencies in living systems reside more with configurations of propensities than with explicit physical forces or their attendant objects. (Id.)

This second shift merely underlines the shift from object-based to process-based thinking. This shift, which “occasions a major reorientation in our thinking”, means that “configurations of processes or propensities rather than objects become the focus of our attention in explaining how and why things happen in” studying complex systems like the economy. (Id.) It is easy to recognize that this process-based view aligns with the relational perspective, which also emphasizes process and places *relations* at the center of analysis.

Lastly, there is a shift from equilibrium to “second-order cybernetics” thought styles. These emphasize the influence of opposing tendencies and should therefore play a central role in economic analysis generally, but are particularly important in analyzing the cooperative economy. The shift entails acknowledging that

3. Patterns and forms in the living realm result from transactions between agonistic tendencies. Processes that build organized activities are continually being eroded by dissipative losses. While these tendencies oppose one another in the near field, they are seen to be mutually obligatory under a wider vision. (p. 118)

This shift can be summarized with the heuristic, “never . . . push single goals too far because doing so invariably leads to system catastrophe.” (Id.) This third corollary shift cannot be strongly enough emphasized, and underlines the shift in thinking since roughly the advent of the Club of Rome in 1972. [Meadows et al., 1972] Taken together, the three propositions and the three corollary shifts reorient analysis of complex social systems like organizational networks based on relational contracting in a way enmeshed in “second-order cybernetics”. This means we are aware of and embed feedback effects between system and components into the analysis, instead of considering such aspects *post hoc*, as within the domain of ontological individualism<sup>28</sup>. As such, a useful next concept to discuss is *ascendancy*.

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<sup>28</sup>See, e.g., the criticism of [Farjoun and Machover, 1983].

### 8.3.5 Ascendancy & Overhead

“The observable drives of living systems towards coherency, efficiency, specialization and self-containment are argued to be implicit in the ‘principle’ of optimal ascendancy.”

–Robert Ulanowicz, *Growth and Development*

Ascendancy offers a useful concept for describing transformative processes involving growth and change. It does this particularly by analytically bringing together the concepts of growth and development. Thus, not physical (or metaphorical) notions of equilibrium, but notions of higher-order interactions of networks of flows are emphasized in their implication for system change. This is seen by Ulanowicz not as a challenge to but a fruition of the Darwinian paradigm. “‘Fitness’ as used by Darwin has always prompted the question ‘Fit for what?’ Community ascendancy imparts an appropriate direction to the fitness of a population without necessarily implying a fixed goal in the teleological sense.” [Ulanowicz, 2012, pp. 7ff.] That is to say, a system-level focus on the antagonistic interaction between the aleatoric and autocatalytic processes under the particularities of systems’ historical trajectory give one unique insight into a wide range of parameters.

The basis of ascendancy is dual. The first element, *average mutual information* (AMI) is a reflection of the fact that “a system must attain a certain level of complexity before it can interact with its environment in a way that increases its own organization.” (p. 80). Precisely speaking, AMI is “a logarithmic index from the mathematical field of information theory, as a functional measure of ‘organization.’” (p. 81)<sup>29</sup> To this “size-oriented” quality comes the second element, *conditional entropy* (CE), which is equivalent to the notion of *redundancy* introduced above. CE “gauge[s] the system-wide of parallel connections.”

Both of these indicators relate to Shannon’s contributions to information theory [Shannon, 1948] and to MacArthur’s attempts to quantify overall system complexity based on Shannon’s formula [MacArthur, 1955]<sup>30</sup>. In advancing prior contributions, the utility of AMI and CE is to disentangle which part of the quantified complexity refers to organized, and which to organized, components. [Ulanowicz, 2009, p. 82] Therefore, the benefit of research like Atlan’s, as synthesized and advanced by Ulanowicz, Leydesdorff and others, is to demonstrate “that complexity can be parsed into two distinct components: one that aggregates all the coherent constraints inherent in the

<sup>29</sup> Among the first to record this aspect was [Atlan, 1974].

<sup>30</sup>cf. [Krippendorff, 1974] for an algorithmic application to the analysis of meaning in higher-order networked contexts.

system and a complement that pools all the disorganized and unencumbered complexity.” (p. 83) This unique result derives from the particular quality of information theory, which “uses the same mathematical terminology to treat both constraint and indeterminacy.” (Id.)

The fact that the two measures, AMI and CE, are complementary has a number of interesting results. The most significant of these is the mutual determinism (we have spoken above of *agonic* relations) of the two indicators:

If this overall complexity should happen to hold nearly constant [...], then any change in the AMI would have to take place at the expense of the conditional entropy and vice versa. That is, to the degree that complexity does *not* change, the two measures are agonistic and mutually exclusive: AMI tracks a system’s organization, while the conditional entropy traces its relative *disorganization*. (p. 84)

These two forces are, however, just one part of the knowledge one needs to fully analyze complex systems. For instance:

a well-organized system has an advantage over one that is less structured, but it might still be overwhelmed by another system that is less organized but bigger or more active. Conversely, a vigorous system could be displaced by one that is smaller or less active but better organized. To prevail, a system usually requires a modicum of both size and organization. To fully capture the nature of an ascendant system, it becomes necessary to incorporate both size and organization into a single index. (p. 85)

This parameter Ulanowicz argues can be found in the *total system throughput* (TST), a term discussed, e.g., by Finn and Hannon in the 1970s<sup>31</sup>. Combining these values – TST and CE – gives one a measure Ulanowicz refers to as *ascendancy*. Ascendancy “intend[s] to capture in a single index the potential for a system to prevail against any real or hypothetical contending system by virtue of its combined size and organization.” The revolutionary nature of this term cannot be overstated. While Bateson argued that ecology<sup>32</sup> consisted of two distinct and irreconcilable “faces” [Bateson, 2000, p. 460], the index “helps [...] to mitigate Bateson’s conundrum: ascendancy simultaneously embodies both the economics of material and energy (the magnitude of their activities) in the system as well as the economics of information inherent within the structure of those activities.” (p. 87)

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<sup>31</sup>cf. [Barber, 1978].

<sup>32</sup>And it must be noted that Bateson interpreted the term “ecology” very broadly.

The concept of ascendancy thus gives us a tool by which to simultaneously describe the attributes and the relationships of a complex system.

### Overhead

Ulanowicz emphasizes that “increasing ascendancy is not the only tendency at work in the dynamics of developing or evolving systems.” [Ulanowicz, 2009, p. 88] Indeed, CE speaks to a central role for disorganized elements in the resilience of systems. Indeed, part of resilience entails the ability or “freedom of a network to adapt to novel and unforeseen perturbations.” (Id.) As stated previously, there is no “essence” to cooperation: it is a logic that must be reconstituted with respect to new scenarios and developments, and exists in a synergistic relation to other logics like novelty production or profit-maximization. It appears intelligible therefore that Ulanowicz interprets the dual forces of ascendancy and overhead as complementary. “Because ascendancy represents the organized power being generated by the system and overhead gauges those activities that are not currently organized but could be entrained into its organization, the sum of these two indices is seen to represent the full capacity for system development.” [Ulanowicz, 2009, p. 89]

The interaction of these tendencies also reveals a path by which such systems tend towards stability: both ascendancy and overhead draw from the same limited resources, so at some limit, one cannot increase the one (e.g., order) at the expense of the other (e.g., possible alternative configurations). “This limit owes in part to how finely the available sources of resources can be divided.” (Id.) Therefore, at some point in the growth and development of a system, the complementary forces of order (ascendancy) and disorder (overhead) becomes antagonistic. After this point is reached, “[e]ither may continue to grow at the expense of the other.” (*Id.*, p. 90) This observation reveals a very real opposition in the world of complex systems, like the economy. Thus, “[r]eal systems are the result of an ongoing transaction between the opposing tendencies of both ascendancy and overhead to increase.” (Id.) The Apollonian and the Dionysian exist in a tentative symbiosis, as long as a system’s complexity is increasing, else one increases at the expense of the other<sup>33</sup>.

Ulanowicz criticizes the failure of many scientists to incorporate this opposition into their models. “Too many persist in thinking that one can

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<sup>33</sup>Nietzsche speaks in *Die Geburt der Tragödie* of the opposition between “a decadent morality” and the “Jasagen ohne Vorbehalt”. [Nietzsche, 1985, Vol. 1, p. 579]. Thus, Nietzsche’s view could be interpreted as a cybernetic one, disclaiming any fixed “essences”, but resulting from a continual agonistic process of opposition. [Murphy, 2010, p. 307].

have one's cake and eat it, too—that systems can be designed that are both high performance and low risk.” [Ulanowicz, 2009, p. 90] One sees this, e.g., in economics, where “the competitive edge goes to products that are simply made and hastily assembled, etc., etc.” Therefore, efficiency alone is a poor measure of a system's resilience and in order to usefully analyze processes like the success of economies in realizing goals like sustainable development, one must turn one's “attention to the nature of the agency behind [the economy's] increasing order, but [...] always in the context of a universe that is *transactional* at its very core.” (*Id.*, *my emphasis*) The reader must recognize the similarity between this perspective and that offered by Pfeffer and Devine above.

### Synthesis

True persistence needs both adaptation (resilience) and transformation. “Too much of anything isn't a good thing”, as the adage goes. Systems that emphasize efficiency at the expense of redundant connections (efficacy) become “brittle” in the language of Crawford Holling. As [Ulanowicz, 2009, p. 94] argues, “although the growth and persistence of living systems are driven by structure-building autocatalysis, if efficiency crowds out too much of the remaining stochastic, inefficient, and redundant pathways, the system will respond calamitously to new disturbances.” Therefore, there is a trade off between efficiency and adaptation, as we have just observed. This is well known in a number of fields, including computer design<sup>34</sup>.

A transactional universe – and a relational economy – exhibit characteristics like increasing order and a dialectical antagonism between order and a degree of redundancy. However, this antagonism is itself part of the ordering process and that can first be recognized at a higher level of organization. This is the Goldilocks phenomenon we have referred to continually throughout the present work. States [Ulanowicz, 2009, p 94],

That the larger picture of dialectics goes beyond simple antagonism is an observation attributed largely to Georg Wilhelm Friedrich Hegel. Hegel noted how opposing tendencies can become mutually dependent at some other level of consideration [...]. Such dependency at higher levels circumscribes the antagonism between ascendancy and overhead.

Whitehead's notion of process philosophy is another testament to such interdependent emergence. Whitehead argued that “[t]he art of progress

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<sup>34</sup>Cf. [Ulanowicz, 2009, p. 94].

is to preserve order amid change, and to preserve change amid order.” [Whitehead, 2010, p. 515] This idea represents the dialectical synthesis attempted by Ulanowicz and others well. According to such a worldview,

If the system performance (order, ascendancy) should become too great at the expense of overhead (freedom, reliability), the configuration becomes ”brittle” [...] and inevitably will collapse due to some arbitrary novel perturbation. Conversely, if the system should become too disorganized (high overhead and little ascendancy), it will be displaced by a configuration having greater relative coherence (ascendancy). [Ulanowicz, 2009, p. 95]

The economy can and should be interpreted in such a way, as ecological economists have argued for decades [Daly and Farley, 2011]. Viewing the economy as a complex of processes involving both ordering and disordering activities, of both *ascendancy* and its concurrently necessary *overhead*, as featuring both aleatoric and autocatalytic processes and events in exchange with one another, would go a vast way to increase the degree of *relevance* of economics discourse without necessarily sacrificing the degree of *rigor*. Unfortunately, these two values are often assumed to be implicitly at odds. [Argyris and Schön, 1989] They are not necessarily, and ignoring or reducing the dynamic complexities of the real world can have dire consequences if such models have real-world consequences, as do those of economics:

As mentioned, many economists pursue the goal of market efficiency to its monist extreme. In the process, they ignore that which imparts reliability to a community, such as functional diversity and equity of wealth [...]. With their zeal, they unintentionally set society up for a fall. If the reader takes away only one idea from this whole thesis, it should be that pursuing a single (variational) goal, while failing to consider its agonistic counterparts leads invariably to a bad end. Directions are essential elements of the evolutionary drama, but, like the propensities that give rise to them, they *never* occur in isolation. [Ulanowicz, 2009, p. 95]

A cooperative economy, lodged in a relational perspective, is in a better position to accommodate the pluralistic demands multiple stakeholders emanate. It should therefore be the goal of governments worldwide to ensure that their cooperative sectors receive sufficient support to become self-sustaining systems that have reached sufficient magnitude, and whose internal connections have become sufficiently redundant, such that they can remain resilient and adaptive to external changes. Measures like ascendancy and overhead can help provide targets for policy.

### When Growth, When Ascendancy?

Ulanowicz elaborates the idea that systems typically grow at any cost in their early, chaotic stages and later place more emphasis on ordering processes. “In fact, during early stages of development, when  $T$  [the size of the network, as measured by system throughput or flows] dominates the increase in  $A$  [ascendancy], the optimization of  $A$  is virtually indistinguishable from the Lotka maximum power principle [...] During the later stages of maturation, as network configuration becomes more important, the nature of ascendancy as a work function<sup>35</sup> becomes more apparent.” [Ulanowicz, 2012, p. 130] This has dramatic implications for the cooperative economy, which we address in the next section.

Mathematically described, Ulanowicz describes this process by a function similar to Equation 8.1:

$$A = WT, \quad (8.1)$$

where  $A$  refers to the ascendancy of the system, while  $T$  and  $W$  are the size and the degree of ordering (work) inherent in the system. Taking the total differential, we get

$$dA = WdT + TdW. \quad (8.2)$$

According to Ulanowicz’ reasoning, during early stages of ascendancy, the first term on the right side of Equation 8.2, emphasizing the dependence on size, dominates the expression and at latter, maturer, stages, the second term on the right, emphasizing the contribution of work (organization), dominates the expression.

A hypothesis worth pursuing in the construction of an independent cooperative economics is the question regarding whether the above schematic can help shed light on some contemporary crises and debates. For instance, another way of representing the present conflict between economic growth and ecological degradation is as the result of a “monistic” focus on growth at the expense of development. In other words, much present economic policy arguably ignores the last term in Equation 8.2,  $TdW$ . An increasingly interdependent global economy based on increasing the “wealth of nations” creates a system too brittle to mitigate the negative effects it introduces into the environment. Such a hypothesis would suggest that focusing on the  $W$  function would provide a foundation for shifting toe economy to increased resilience.<sup>36</sup> We pursue such a hypothesis below. First we make some general observations based on the preceding discussion.

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<sup>35</sup>Work in the physical sense is defined as an ordering process.

<sup>36</sup>An example of such a shift can be found in authors like Yochai Benkler, who have called for a focus on “the wealth of networks”. Cf. [Benkler, 2008].



### 8.3.6 Irreversibility and Metaphysical Patience

One could argue that one of the reasons for shifting our view of the social context of agency and for preferring more distributed decision-making in organizations is the flattening out of the discount rate towards long-term orientation and away from time-inconsistency, whether hyperbolic or quasi-hyperbolic, as discussed in Chapter 6. In this section, we give two justifications for this shift. They are the irreversibility of large-scale thermodynamic processes (like those leading to climate change) and the concurrent notion of *metaphysical patience*.

The non-ergodic, complex quality of human social system renders any “easy” (in the sense of monocausal) solution to problems within such systems suspect. To take an analogy from cancer research, “[t]he worry is that an exaggerated confidence that human physiology is genetically driven could divert needed attention from the focus that cancer is fundamentally a system-level disease.” [Ulanowicz, 2009, p. 153] There may be many organizational phenomena that are similarly driven by system-level agencies that cannot be captured by resorting to micro-level foundations. In particular, notions like the “human rental contract” discussed in Chapter 5 come to mind. To return to the cancer metaphor, “[b]y thereby widening our search, we are more likely to encounter effective treatments, which might include system-level therapies such as those that involve the immune system.” (Id., p. 154) Orthogonally, it may be socially desirable to reform the human rental contract by actively promoting cooperative and democratic enterprise, thereby facilitating the growth and development of a new understanding of enterprise governance over the long term.

As opposed to a single individual suffering from cancer, the human ecosystem is embedded in and dependent on a fragile global ensemble of interdependent ecosystems. Considering the contemporary scientific consensus of the combined threats of overpopulation and ecological devastation<sup>37</sup>, there is a need in the contemporary world to order many social processes at system-wide scales. In fact, we must also mention the notion of redundancies whose impact and purpose lies beyond our comprehension<sup>38</sup>.

This observation calls for a metaphysical patience, or a “willingness [...] to admit that we inhabit, as Ilya Prigogine (and Stengers) put it, a world of radical uncertainty.” [Ulanowicz, 2009, p. 156] Such a world view would attempt to organize human social activity in such a way as to reduce human encroachment upon natural ecosystems to an accommodating minimum. It

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<sup>37</sup>Cf. [Wilson, 2016].

<sup>38</sup>Cf. E.O. Wilson’s notion that 80% of species have not been discovered or studied, footnote 37, Chapter 3.

thereby relates to Popper's notion of *intellektuelle Duldsamkeit*, introduced in 2.2.2. Each of these perspectives appears to support a search on the part of scientists and the broader human community as to how to organize the remaining incursions on the natural biosphere in a democratic manner. Because constraints promote scarcity, which in turn raises the specter of competition for scarce resources, human intelligence needs to create systems for fairly allocating such resources via an active multi-stakeholder dialogue, thereby enabling the mutualism that underlies natural (including human) systems to operate synergistically. Notions of stewardship, discussed above, can facilitate this process.

The next section represents the culmination of Chapters 6, 7 and the preceding discussion in this chapter, an attempt to apply the various tools we have developed there towards understanding how cooperative enterprise can serve as a tool for organizing such system-level shifts towards a more just, sustainable economy.

## 8.4 Cybernetic Feedback in Cooperation

In this section, we begin to near the end of the theoretical rainbow. Our intent in this section is to draw a point on the way in which cooperative principles can serve as a tool to promote ascendancy. They can do so by acting to promote certain macrocultures and distinguish themselves particularly in the latter stage of ascendancy: *development of a qualitatively mutualistic economic substructure*. That is to say, as the developmental components of the economy take precedence over the growth components, a cooperative logic appears to be in the best position to serve as a motor of re-orienting the economy away from detrimental and towards beneficial linkages and associations.

Part of this is due to the dualistic nature of complex systems. The last of the three corollary shifts suggested the heuristic “never push single goals too far because doing so invariably leads to system catastrophe” and in many ways, the era of growth-fueled advancement of human economies has outlived its greater social and environmental use. [Dietz and O’Neill, 2013] A shift towards more effective organization, along the lines of DCMs and elective hierarchies, taking into account the trade-offs of singular focus, appears to be a promising solution. We suggest that notions like ascendancy, propensity ensembles and autocatalysis can help actually measure the contribution such shifts can have on the stability of the greater systems in which they occur.

The section is organized as follows. Immediately below, we return to the exercise begun in 7.6.3, interpreting the last two cooperative principles in their impact on organizational agency. After completing this task, we attempt to

interpret the cooperative principles as propensities in the manner introduced above. Following this, we attempt to interpret the cooperative principles in general as a form of negotiated coordination. Finally, we study the potential to implement applications of the notion of ascendancy to “translate” the benefit the cooperative logic generates into a measurable quality.

### 8.4.1 Modeling, Redux

In this section, we return to the discussion of 7.6.3, of attempting to model the cooperative principles as coordinated equilibria. However, we wish at present to shift to an ecological perspective, thus, in the place of “coordinated equilibrium”, we attempt to interpret principles 6 and 7 as *propensities*.

### 8.4.2 Cooperation among Cooperatives

The sixth principle, cooperation among cooperatives, states that

“Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.”

It represents a realization that “co-operatives must explicitly nurture and support one another” [Rodgers, 2015, p. 72] and was adopted at the Vienna Congress in 1966 as a “clarification” of the cooperative principles. The 1966 report stated that “[...] we have thought it important to add a principle of growth by mutual co-operation among co-operatives.” Moreover, the report states,

[...] although the principles originated as rules governing the relations of the individual members of co-operatives with one another and with their societies, their application is not confined to primary societies. They should be loyally observed by institutions which represent the co-operation of co-operative societies rather than of individual persons [...] The idea of a co-operative sector in the economy is too often an intellectual concept without a corresponding material reality, simply because of the lack of unity and cohesion between the different branches of the movement. [...] If the co-operative movement is to rise to its full stature, either within each country, or internationally, [...] co-operative institutions must unreservedly support one another.” (Id.)

The *Notes* describe it as “a practical expression of the co-operative value of solidarity” that “shows two dimensions of the nature of co-operatives.” These

are the *economic* and the *social* logics. Therefore, “[i]n joining a co-operative members are not only helping to build their own co-operatives but the wider co-operative movement [...] to create wealth for the many, not personal wealth for the few.” Moreover, in a statement reminiscent of the discussion of Pfeffer’s notion of inter-organizational interdependence, the notes state that “the normative approach, subject to compliance with anti-competition and anti-trust legislation, is for co-operatives to co-operate with each other in competitive markets through forming co-operative groups, secondary co-operatives and federations to realise the co-operative advantage and create common wealth for mutual benefit.”

In terms of realizing the 6th principles, the *Notes* emphasize the dual nature of the principles: it first specifies a reason for higher-order cooperation: according to the *Notes*, “creat[ing] economies of scale and build mutual representative strength.” The *Notes* mention that such ambitions require “a difficult balancing of interests”, as such coordination must be counterbalanced with “maintaining independence and member democratic control.” (p. 72) The means suggested are general, but differ from the extremes of either mergers or loose collaborations as seen in the world of investor-owned enterprise:

This 6th Principle is about working together continuously to the same end, not simply about occasional collaboration. Collaboration, though similar[,] works for a single defined objective, whereas co-operation is a more intense commitment and longer term engagement to achieve shared goals. (Id.)

Thus, cooperation involves *relational contracts*. These are, simultaneously, “a crucial part of expanding the co-operative enterprise sector of the economy, both nationally and globally” and “require sacrifice to achieve shared goals.” (p. 73) Such a high-level endeavor therefore “takes time, resources, and problem-solving skills.” (Id.) We see here again reference made to the dual traits of *cooperative rent* and *costs of cooperation*. The *Notes* describe a number of key features of inter-cooperation: a) *Openness and transparency*; *Accountability*; *Representation*; *Flexibility*; *Reciprocity*; and *Adherence to the Co-operative Identity*. (p. 73) These traits should be seen as extensions of the conditions described in Chapter 6, which outlined a general *logic of cooperation*, to the inter-cooperative level.<sup>39</sup>

The *Notes* mention several stages of inter-cooperation, ranging from “Informal project based collaborative arrangements” to “networks” and even

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<sup>39</sup>With respect to this point, the *Notes* state, “Co-operation among co-operatives involves many of the challenges individual co-operatives face, albeit at a different scale.” [Rodgers, 2015, p. 77]

cooperative federations. Each of these phenomena is characterized by increasingly formal degrees of coordination. We return to the roles these forms of inter-cooperation in the next section, when we introduce the notion of a *cooperative n-tuple Helix*. For the time being, we will merely cite the *Notes*, which suggest that “informal collaborations contribute to building trust and solidarity and can lead to the creation of formal structures to facilitate co-operation among co-operatives.” (Id.)

The *Notes* specify two competing focal points of inter-cooperation, again reflecting the dual nature of cooperation, *per se*, as described above. Therefore, efforts at inter-cooperation tend to “focus on one of two types of activities. They tend to focus either on the economic dimension of co-operatives, to trade goods and services, such as Coop2Coop trade, or on the social and political dimension of joining forces for networking purposes and to advance shared interests.” (p. 74) Nevertheless, inter-cooperation provides a foundation for integrating these focal points. A quote from the UN Food and Agricultural Organization (FAO) represents this well: “Through the device of federation, co-operatives are able to organize very large-scale business operations at the national – or even international – level without detriment to the democratic control of the primary co-operatives by their own members.” (p. 75)

Moreover, it provides discursive grounds for communicating the cooperative principles across the business community. As the *Notes* claim, “the application of this 6th Principle enables co-operatives to achieve the strategic positioning of co-operatives as a leading business model, proudly demonstrating they are democratic institutions, leaders in stakeholder participation and in facilitating genuine community engagement.”<sup>40</sup> (p. 77) This appeal applies especially to larger and more established cooperatives, who are in positions, e.g., to provide “[f]inancial support and assistance [...] to new co-operatives through grants or soft loans within countries or at the international level”. (p. 78) But also simple Coop2Coop trade “is the most direct economic expression” of the principle of inter-cooperation. The *Notes* here draw attention to the

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<sup>40</sup>The *Notes* continue,

Building a strong sustainable co-operative economy is at the heart of why many people in the 21st century in numerous countries are choosing to form co-operative businesses. Co-operatives offer an empowering model based on self-help and self-reliance; a stark contrast to the consolidation of wealth and power in the hands of the small number of wealthy investors that has characterised the global economy for decades. Co-operation among co-operatives is fundamental to creating an economy in which the production and distribution of goods and services is undertaken in the spirit of mutual self-help and in the best interests of all the communities co-operatives serve. (Id.)

role of the cooperative movement in developing international standards like *Fair Trade* (Id.). Examples like *Fair Trade* show that inter-cooperation can be extended even beyond cooperatives.<sup>41</sup>

There is also some emphasis on *emergence* as a phenomenon in the 6th principle. The *Notes* state that while individual cooperatives can “succeed alone, [they] will only thrive and grow the co-operative commonwealth when they work together.” (p. 80) A factual limit to creating such a “cooperative commonwealth” is the behaviors and attitudes the 4th principle instills. The *Notes* recognize this, stating that “[i]t is, perhaps, because each co-operative can do so much by themselves that co-operatives fail to realise how much more they can do together.” (Id.) The sixth principle is central in the process of synthesizing the autonomy the fourth principle underlines with the fact that, through higher-order cooperation, cooperatives “can be greater than the sum of their parts.” (Id.)

Central to inter-cooperation is the International Cooperative Alliance (ICA). ICA represents both “the largest non-governmental organisation in the world in terms of membership” (p. 71) and “the largest democratic membership organisation in the world.” (p. 76) This role gives ICA a powerful position with respect to both defining and defending the spirit and letter of the cooperative principles.<sup>42</sup>

The *Notes* outline a number of future challenges to effective inter-cooperation: *Balancing dialogue with action; Effective power sharing; Transcending barriers; Transcending barriers; Awareness building; Effective communication; Developing a shared sense of purpose; Periodic assessment of the application of the 6th Principle; Developing effective global co-operative trade; and Developing effective global co-operative banking facilities and insurance arrangements.* We will argue in 8.5 that many of these challenges can be addressed by resolute commitment to what we will refer to as a *cooperative n-tuple Helix*.

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<sup>41</sup>As per the *Notes*: “co-operative movement has, since its foundation, allied itself with and co-operated with other progressive movements and peoples working towards social justice and collective human progress. Joint campaigning work, combined with the economic work.” [Rodgers, 2015, p. 80].

<sup>42</sup>As per the *Notes*:

As an officially recognised global representative organisation, recognised especially through the provisions of ILO Recommendation 193, the Alliance also has the power to intercede on behalf of co-operative movements in countries where they are threatened by governments that lack understanding of the principles on which co-operative enterprise is based, a power the Alliance uses effectively. [Rodgers, 2015, p. 76]

### 8.4.3 Concern for Community

The seventh cooperative principle states that “Co-operatives work for the sustainable development of their communities through policies approved by their members.” It is the last principle to receive recognition and was only recognized at the 1995 Congress. The *Notes* state “[t]he 7th Principle combines two elements of the Co-operative Values in the Alliance’s Statement on the Co-operative Identity: those of ‘self-help and self-responsibility’ and ‘the ethical values of honesty, openness, social responsibility and caring for others’.” (p. 85) This ensemble principle arises, argue the *Notes*, “because co-operatives emerge from and are rooted in the communities in which they conduct their business operations.” (Id.) Moreover, it serves as a reflection of the fact that “[t]he ethical values in the Alliance’s Statement on the Co-operative Identity emanate from the special relationships co-operatives have with their communities which goes beyond simple business economics.”<sup>43</sup>

In many ways, the 7th principle is the cooperative version of “triple bottom line” reasoning. The *Notes* comment “that [. . . t]he triple sustainable development logic of concern for economic, social and environmental sustainability tends to reinforce each other in that concern for social and environmental sustainability makes business sense and helps to sustain a co-operative’s economic success.” (p. 86) Its inclusion in 1995 coincided with multilateral dialogue at the time on “sustainable development”, which connected the Smithian logic of wealth creation with logics of combating inequality and environmental degradation, i.e., balancing needs and limits (Id.).

Therefore, the text of the principle is to be read as an appeal to balance “three aspects: ecological balance, social justice and economic security. They are mutually interdependent and regenerative, hence must be pursued concomitantly.” (p. 87) The text’s focus on members’ communities “shows that the primary emphasis of concern is for the local communities within which a co-operative carries on its business operations.” (Id.) Moreover, the text again leans on the second principle, emphasizing the democratic member control over such activities. The *Notes* make clear that the wording and broader context of cooperative principles and values means “[i]t is this social dimension of sustainable development that the unique nature of co-operative enterprise has the power to deliver.” The *Notes* describe the response to the devastating 2004 tsunami in Sri Lanka, “co-ordinated by the Alliance” as an example of this ability.

Another validation of the seventh principle is to be found in phenomena like

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<sup>43</sup>Phenomena like open membership and education have already been discussed in the prior chapter, where we mentioned the fact that the Rochdale Pioneers had converted one floor of their store into a reading room for members of the community.

“Italian social cooperatives”, which according to the *Notes* “are increasingly filling gaps caused by austerity regimes introduced by governments in response to increasing public debt in the wake of the global financial crisis.”<sup>44</sup> We discussed this issue in the previous chapter and review case studies in Part III.

The purview of the seventh principle can be extended nearly indefinitely. International coordination of peace-promoting activities (Id.), good employment situations (p. 90), support for youth (Id.), contributions to efforts to stem economic inequality in the wake of globalization (p. 91), promotion of green consumerism and organic produce (p. 92) are all domains where cooperative principles, practice and the needs of the greater community can be mutualistically pursued, revealing the versatility of the cooperative logic in relationalizing with other logics. Moreover, the *Notes* make clear the synergies between these mutualistic goals and certain aspects of human nature<sup>45</sup> and underlines the reciprocal benefits in following such missions:

The benefits from this responsible commitment to sustainability circle back through new members, increased turnover and higher surpluses that reinforce a co-operative’s economic success. The long term sustainability of co-operatives requires a long term commitment and positive ongoing relationship with the communities in which they work. It is to the mutual advantage of communities and co-operatives alike. (p. 93-4)

The *Notes* extend the domain of consideration to concerns like the proactive adoption and support for open-source software and a renewed focus on providing essential services like health care (p. 95). In the face of the global Covid-19 pandemic and present-day debates about the accountability of online platforms, these concerns are no longer future-oriented, but very much present day challenges to fulfilling the appeals in the seventh cooperative principle. It should be stated here that recent reforms like the EU’s adoption of SDG-reporting as discussed in 7.7.4 provide a foundation upon which to gauge the relative contribution of cooperatives and other forms of enterprise at meeting these goals. The cooperative sector should invest much energy and resources in convincing more jurisdictions of the benefits of such in-depth reporting.

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<sup>44</sup>The *Notes* continue, “[t]he most distinctive characteristic of social co-operatives is that they explicitly define a general interest mission as their primary purpose and carry out this mission directly in the production of goods and services of general interest.” [Rodgers, 2015, p. 89].

<sup>45</sup>We discussed many of these issues in Chapter 6.



#### 8.4.4 Cooperative Principles as Examples of Negotiated Coordination

Here we wish to interpret the coop principles as examples of negotiated coordination (NC). In fact, the quote from the UN FAO report cited above seems to bring this to a point. The report suggests that inter-cooperation provides an impetus for scaling without losing the benefits of local information, tacit knowledge and sovereignty. The FAO Report continues, “secondary co-operative[s] can, because of [their] larger volume of business or [...] wider representational base, undertake functions, provide services, and make representations which would be beyond the capacity of all but the very largest primary co-operatives. Secondary co-operatives are a form of vertical integration providing the opportunity for economies of scale, scope for development and improved administration.” [Rodgers, 2015, p. 75-6] Thus, secondary cooperatives – and especially cooperative federations – should be interpreted as a practical manifestation of the *negotiated coordination bodies* (NCBs) Devine speaks of.<sup>46</sup>

To recall Devine’s point about subsidiarity, he argues that production units at the local level are better equipped to estimate local demand for their stocks and are therefore in the best position to realize social value *from their perspective*. Decisions in the longer-term or at greater scales, of which Devine focuses mainly on the *investment* function, frequently go beyond the purview or the resources of the individual production unit and it is here that greater social *and* individual benefit can be gleaned by transferring some decision-making capacity to NCBs. Comparing these notions with the discussion of secondary agricultural cooperatives as outlined by the UN body in the quote above, it is easy to see the isomorphic qualities of the division of labor between small- and large-scale organizations in the two assessments.<sup>47</sup>

NC and similar paradigms are therefore useful framing devices for discussing, assessing and communicating the benefits and costs of the cooperative principles in practice. It also represents an analytical shift away from ontological individualism and towards a dynamical worldview that considers emergent social properties in the first instance, instead of as an afterthought, as is the case with neoclassical perspectives. Such a worldview recognizes that, in many ways, as systems become more complex and scale up, the causal linkages between the higher levels become simpler [Chvykov and Hoel, 2021]. This occurs on the one hand because inter-dependencies become looser and less acute and also because coordination at higher levels is in itself a more complex

<sup>46</sup>I must thank Aaron Benanav for helping me make this connection.

<sup>47</sup>Indeed, Italy’s cooperatives transfer 3% of their profits to cooperative development funds, which serve as NCBs. [Ammirato, 2018].

undertaking and elegance can be seen to be a virtue at scale. The cooperative principles can thusly be interpreted as simple signals and heuristics along which higher order organizational change can occur.<sup>48</sup>

Recognizing the isomorphism between the cooperative principles and NC may provide the impetus for consideration of the need for “lower order” and “higher order” principles for cooperation. We argue below that the fifth principle, education, can serve as a lever between these levels.

### 8.4.5 Principles as Propensities

In Chapter 6, we discussed the idea of causal equilibrium as a condition of behavior of groups. We introduced the idea of social norms as such choreographers. Here, we intend to connect this with the concept of macroculture. We are particularly concerned with connecting the two principles just introduced with the four discussed in the prior chapter. As the discussion immediately above has shown, however, the latter “ecological” principles depend upon the primary principles, one through four. We will argue below that principle five acts as a lever to connect these two sets of principles

Moreover, it would appear that the cooperative principles serve precisely as an *ensemble of propensities*, which facilitate non-random responses to environmental changes. Therefore, while investor-owned businesses may also react non-randomly to specific changes in their environment, the fact that they are only generally connected by the principle of profit maximization restricts the degrees to which they may coordinate behavior and in general limits the predictability of their responses. Cooperative enterprise, on the other hand, actively constrains itself on a number of levels which we have been outlining in general since Chapter 6.

The fact that cooperatives are democratically controlled by members means that ideally, a small cadre of elites cannot steer policies. The fact that members participate economically means that logics besides maximizing return steer investment and other decisions. The fact that they are autonomous means that policies like mergers & acquisitions are to be avoided if possible within the cooperative sector and do not become a routine. It is easy to see that these principles operate as an ensemble of constraints that channel behaviors and expectations for both members and the wider community with whom cooperatives interact. The fact that the principles specify open terrains for behavior means they cannot be modeled using deterministic or mechanistic methods. However, using information theory, Bayesian networks and a high

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<sup>48</sup>In this sense, the cooperative principles follow Albert Einstein’s dictum that “everything should be as simple as it can be, but not simpler”.

degree of indeterminacy and interdependence may allow us to more concretely establish the degree of connectedness among cooperatives and the level of redundancy of interpreting the principles.

Such exercises may help both underline the strengths and identify weaknesses in the dynamics that underlie cooperative enterprise and the broader cooperative movement. We attempt such an exercise in 8.5.3. But before this, we must still introduce a central idea.

## 8.5 Towards a Cooperative n-tuple-Helix

Before moving on to the empirical part of this work, we wish to introduce one last concept, that of the *Triple Helix*. The idea has been championed by Dutch communications scientist and cybernetician Loet Leydesdorff and refers to a model of communication. In particular, it is a higher order model of communication that attempts to understand, interpret and develop metrics to measure the evolutionary dynamics of knowledge-based innovation. [Leydesdorff, 2021]

### 8.5.1 The Triple Helix

As part of a greater “communicative turn” [Leydesdorff, 2021, p. 43], which Leydesdorff attributes to the results of “the scientific-technical revolution”, the nature of the logics driving production, consumption and innovation have fundamentally changed. Leydesdorff suggests that Marx was aware of these shifts when the latter wrote that “if technology could enable us to free man from work sufficiently, the nature of capitalism would change, since *the basis of this mode of production would fall away*.”<sup>49</sup> According to Leydesdorff, such a shift requires a more active focus on communicative acts, on information, and the dual role of individuals as both *observers* of existing codes and *builders* of new codes. Leydesdorff emphasizes that these two roles are distinct and require the application of different logics.

As we observed above, phenomena like the cooperative principles act not only to constrain behavior; they also act as signals. This relates social norms like the cooperative principles to natural selection. However, there are some distinctions between biological evolution and the evolutionary dynamics driving processes like those the cooperative principles regulate. In particular,

Biological selection is based on genotypes that are *hard-wired*, historically present, and thus observable (e.g., as DNA). The

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<sup>49</sup>Marx, cited in [Leydesdorff, 2021, p. 2].

“genotypes” of cultural evolution are codes of communication which can further be developed *because they are not hard-wired*. [Leydesdorff, 2021, p. 11]

Therefore,

flows of communication are molded by selective codes, on the one hand, and variation, on the other. These contexts provide two analytically different perspectives on the same events; the data can be organized using different logics. From an historical perspective, one focuses on variation and agency, and the potential morphogenesis of systemic relations in the data. From an evolutionary perspective, the focus is on the same data indicating selection environments which can be specified on the basis of a reflexive turn. (Id., p. 21)

In particular, Leydesdorff argues that the term *political economy* “can be explained in terms of two coordination mechanisms (markets and governments).” (Id., p. 22) Meanwhile, the scientific-technological shift that inheres in contemporary discourse and practice requires a shift away from the dual-helix of government and industry. This is to a large degree because “[t]he control function is no longer carried by individual agents [...]. Functions are [instead] coded at the above-individual level.” Thus,

a knowledge-based economy is the result of three coordination mechanisms interacting and operating upon one another. Interactions among three selection environments shape a triple helix with properties very different from double helices (22)

An example of what Leydesdorff means with a *Triple Helix* is represented in Figure 8.2. [Leydesdorff, 2021, pp. 23-4] expands on the concepts entailed by the figure:

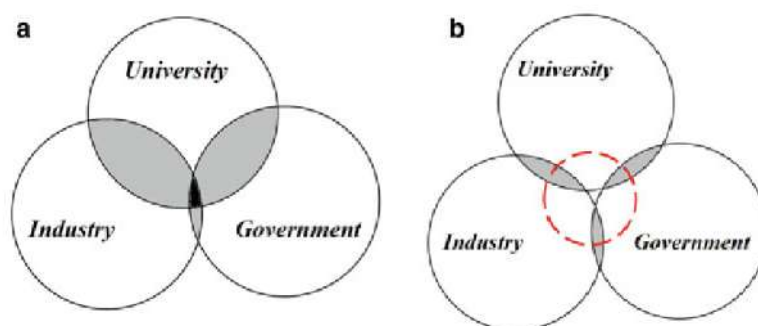


Figure 8.2: a) a traditional hypercircle representing integrative bifurcations; and b) represents both differentiation and integration in the manner of the Triple Helix, from [Leydesdorff, 2021, p. 23].

The “hypercycle”—indicated with a dotted line in Fig. 8.2—provides a metaphor for the supra-individual dynamics that give intersubjective meaning to the meanings provided by the carrying cycles. In other words, the emerging next-order-level “overlay” can contain a meta-representation of the individual representations and their interactions. This meta-representation in the hypercycle feeds back as a regime on the underlying dynamics which evolve historically along trajectories.

That means that both the cooperative principles themselves and the agency they facilitate (recall the shift from “Informal project based collaborative arrangements” to “networks” and even cooperative federations alluded to in our discussion of principle six) can entail such an “overlay”. But even more interesting and significant is the potential for higher-order “overlays” where, e.g., interactions between higher-order organizations subscribing to cooperative principles and, e.g., governments and academic institutions. Following arguments that Leydesdorff provides, we may quantify the level of “bleeding over” of the logic of cooperation into the other carrying cycles. At this point, the role of *incursion* should be mentioned. Leydesdorff continues that

This historical development is recursive: the current state of a system ( $x_t$ ) is a function of the previous state ( $x_{t-\delta t}$ ) in the historical world. However, the feedback of a hyper-cycle operates against the arrow of time: the expected state at a next moment of time ( $t + \delta t$ ) incurs on the carrying cycles. Expectations can incur on the present system because they are no longer only subjective; the intersubjectively carried code is the operator. This incursion of a mechanism operating on the recursive (that is, historical) dynamics against the arrow of time introduces the logic of anticipatory systems. (Id.)

This process of *incursion* occurs via the effect of the “correlations among the distributions of relations” (p. 91) on expectations. These incursions occur within the individual domains, the regions outside of the (red) hypercircle in Figure 8.2, via specializations. At the same time, incursion occurs within the domain of the hypercircle, which represents the impact of synergies between the respective domains (here novelty production, profit-maximization and regulation). We see evidence of such incursion, e.g., in the EU and UN’s receptivity to facilitating enforcement and expansion of cooperative activities, etc.<sup>50</sup> The point, according to [Leydesdorff, 2021, p. 93] is that “the same

<sup>50</sup>Cf., e.g., <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0682>.

events [...] can have different meanings with reference to each of these three selection environments [while] the trilateral interactions among the bilateral ones can be expected to provide an emerging feedback on the constituent helices and their mutual interactions.”

### 8.5.2 The Cooperative n-Tuple Helix

We wish to extend Leydesdorff’s idea of a Triple Helix to an “n-tuple Helix”, which can be done by adding more dimensions to the respective hypercycle.<sup>51</sup> However, as this dissertation concerns the *cooperative*, and not necessarily the *knowledge* economy (they are certainly related), some adjustments must be made to the remaining helices. In particular, we attempt to move in labeling away from attributes and towards outlining relationships by emphasizing the logic of each respective helix. For example, while Figure 8.2 describes one of these with the label “University”, referring to Universities’ functions as novelty producers, a cooperative n-tuple helix would relationalize the *educational* function of Universities in addition to novelty-production.

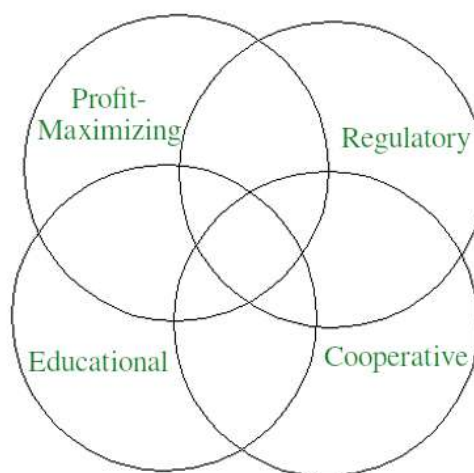


Figure 8.3: A quadruple helix adding educational and cooperational logics, adapted from [Leydesdorff, 2021, p. 23].

This scenario can be shown in the *cooperative quadruple helix* represented in Figure 8.3. Here, we see logics of *regulation*, *cooperation*, *profit-maximization* and *cooperation* at work. However, this representation is unsatisfying, as it still leaves out the important function of novelty production. While the cooperative logic does itself present a form of innovation, there are innovations that do not necessarily derive from a cooperative logic. In fact, as we have described throughout the text, cooperation and competition exist in an agonistic relation to another and the present contribution seeks merely to compensate for the lack of attention cooperation has received in the economic literature.

Thus, the final cooperative n-tuple helix we produce is a *quintuple* helix,

<sup>51</sup>Cf. [Leydesdorff, 2021, p. 21], [Carayannis and Campbell, 2009] or [Carayannis and Campbell, 2010].

represented by Figure 8.4, which includes the logics of the quadruple helix in addition to the novelty-producing logic driving the evolution of the knowledge economy. This can involve technical innovation as well as network effects. The point being that a cooperative quintuple (sextuple, etc.) helix emphasizes the centrality of the *cooperative* logic’s contribution to the evolutionary dynamics of complex social systems. The quintuple helix is represented by Figure 8.4.

Such a schematic can be operationalized via n-dimensional matrices and be modeled using agent-based modeling. We should state that the *regulatory* logic in this scheme is organized according to DCMs, meaning such a perspective does not necessarily require a separate vector for “government regulation”, but could comprise the (dynamic) beliefs of stakeholders, to whom the recursive and incursive processes of the helix are accountable.

The reason we wish to apply both the fifth and sixth principles actively in those opportunities represented by the educational and novelty-producing carrying cycles is that these parameters have characteristics where extra-local cooperation can be mutually beneficial and non-displacing. We learned in the discussion of autocatalysis in 8.3.3 that, while mutuality is the general rule in complex systems, two (or more) autocatalytic circuits drawing from the same scarce resource drives both systems to compete for these scarce resources. However, education is a classic non-rivalrous public good, meaning, e.g., that multiple national cooperative federations can invest in education internationally without turf warfare or competition<sup>52</sup>, because they wouldn’t automatically be drawn to compete for scarce resources and can, in fact, enjoy mutual benefits in terms, e.g., of the *economy of esteem*<sup>53</sup>.

In essence, investing in extra-local education and training institutions

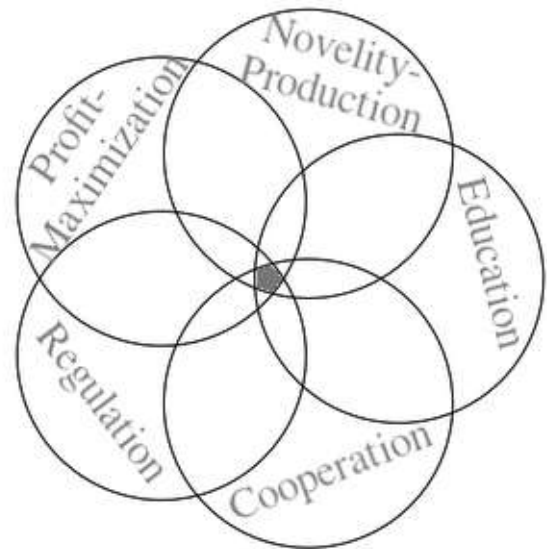


Figure 8.4: A *quintuple* cooperative helix, reintroducing the novelty-producing logic.

<sup>52</sup>Cf. [Shaikh, 2016, p. 282f.].

<sup>53</sup>Cf. [Warren, 2015].

appears to fulfill all three of the last principles and serve as a strong foundation of strengthening the cooperative identity and providing for the next generation of cooperative leaders, as well as actively communicating the cooperative advantage to the general populace. Here, the *Notes* are clear in comments on 6th principle: “Co-operatives need to co-operate with one another to develop co-operative movement-wide leadership; a precursor to realising wider economic, social and environmental transformation.” [Rodgers, 2015, p. 78] The *cooperative n-tuple Helix* is a rubric under the guise of which more and more international cooperative federations can and are beginning to invest in the next generation of cooperative innovation, development and growth.<sup>54</sup>

### 8.5.3 Examples of A Cooperative n-Tuple Helix

‘When a farmer ploughs a field with a big rock in it, he ploughs around the rock — close on each side, leaving a triangle of unploughed land on each end.

“Mrs Frisby’s house is beside the rock, and will get ploughed up — and probably crushed, as the owl said. But if we can move it a few feet — so that it lies buried behind the rock — in the lee — then she and her children can stay in it as long as they need to.”

—*Mrs. Frisby and the Rats of NIMH*, Robert C. O’Brien

In order to draw a line under the advances made in Part II and prepare the stage for the empirical research program developed in the concluding chapters, we now attempt to connect the theoretical discourse of the *n-tuple helix* with the concrete notion of ascendancy. In particular, in order to *measure* the contributions of the synergies of the individual cycles, we proceed iteratively, following [Krippendorff, 1974]. Using this approach, we intend to interpret analogs for TST and CE for key bilateral and trilateral relations within particular manifestations of a cooperative *n-tuple*.

An example of this can be found in the calculation of these figures for the cooperative development fund of Italy’s largest cooperative federation, CoopFond. It receives funding from around 15,000 cooperatives, who each provide 3% of their profits annually for investment and development in the cooperative sector. CoopFond itself engages in investments in education, training and research and has a maximum of €2 million annually available for

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<sup>54</sup>A recent initiative from the Spanish and Brazilian cooperative federations appears posed to push education to the foreground in all future discourse concerning the fate of the global cooperative movement.



such purposes. Using this €2 million as an indicator for the synergy between the cooperative, profit-maximizing and educational helices, we get a capacity of roughly €11,5 million and an ascendancy of €10 million, leaving only around €1,500,000 in a “reserve” state.<sup>55</sup> This means that, with regards to this trilateral relation, CoopFond could increase resilience by either increasing system complexity (perhaps by increasing the funding rate from 3% to 5% of profits<sup>56</sup>), or by diverting more of its existing capacity to such funding.

In particular, we note that the helix we depict in 8.5 disentangles both (monetary) transfers as well as *forces*, in the form of *propensities* in the *qualitative* impact that CoopFond’s spending on education has on the profit-maximizing logic. The transformative potential of such an analysis cannot be overstated. One of the frequent discussions in social sciences has been that of the “two cultures” of *qualitative* and *quantitative* approaches. The relational perspective seeks to be pluralistic in the sense of embracing methodological pluralism, e.g., mixed methods approaches [Hesse-Biber, 2010], and, within such a context, the n-tuple helix depicted above can open the door to investigating qualitative shifts within *out of* or *near equilibrium systems*

Such shifts can be represented via the epistemic perspective of an n-tuple helix and the methodology of process ecology. Such an approach can be approximated, quantitatively, by a log-log measure, which can show the effect of incremental (cf. qualitative) changes. This would allow researchers to move beyond notions of “state dependence”, which operate on the basis of distinct domains, possibly distinguished via psycho-social norms<sup>57</sup>. Most discussions of state dependence do not discuss the *how* of switches between states, which arguably requires the introduction of process parameters. Education within

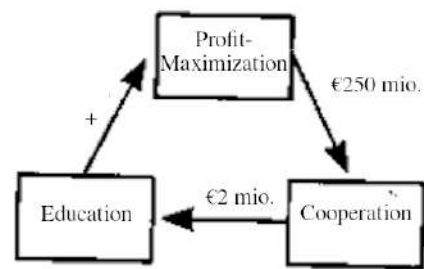


Figure 8.5: A *Triple Helix* derived from the quintuple helix above, showing the interactions (flows) between Legacoop cooperatives, CoopFond and educational projects.

<sup>55</sup>These are calculated using the respective formulas for capacity and ascendancy from [Ulanowicz, 2012, p. 102ff], and subtracting the latter value from the former to get the CE, or “reserve”, value. We provide background on these calculations in Appendix A.

<sup>56</sup>[Ammirato, 2018] has called for increasing the contribution from 3 to 8%.

<sup>57</sup>Cf. [Warren, 2015], [Bowles and Gintis, 2013] or the discussion of “non-separable preferences” above in 6.4.7.

the above helix is such a process variable, whose contribution, while not easily quantifiable, can be *approximated* via process ecology<sup>58</sup>.

We could perform similar calculations based on bi- or trilateral relations among other cycles in the n-tuple helix. The point we wish to make is that such an analysis connects a theoretical analysis of relationships with measurable quantities that can then translate real flows into comparable – and scalable – quantities. Using such a method, both practitioners within the cooperative economy and policymakers can learn more about the resilience of their enterprises and federations and additionally plan reforms with respect to these.

The connection between system level flows, capacities and “redundancies” has been usefully applied in multiple fields, including urban planning [Kiss and Kiss, 2018], water supply [Dave and Layton, 2019] and ecosystems analysis [Ulanowicz et al., 2009]. Its application to the cooperative economy appears a promising endeavor.

## 8.6 Conclusions

In this chapter, we have attempted to both extend the analysis to a higher level (i.e., that of the inter-organizational landscape), while at the same time extending our context of justification to the market system itself. We therefore began the chapter by recalling Dow’s *imperfection principle*, which states that explanations for the dearth of LMFs over and against KMFs must look at the nature of markets as they truly exist, which are far from displaying notions of perfect competition. The real competition we instead see is one with strong inertial forces that benefit large, concentrated enterprises and which often prevent more effective (or even efficient) organizations due to the degenerated state of the law in many jurisdictions.

Following this, we drew a line under the distinction between market *transactions* and market *forces*, suggesting negotiated coordinated (NC) as a frame in which to interpret the former in a manner independent of market forces. We compared NC to Pfeffer’s *resource-dependency theory* and assessed its uncertainty-reducing qualities.

Following this, we summarized the findings of *process ecology*, outlining a number of its central categories, including the aleatoric, the notions of propensity ensembles, autocatalysis, ascendancy and overhead, and finished by connecting these themes with the notion of metaphysical patience.

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<sup>58</sup>I must thank Robert Ulanowicz for his helpful insight in clarifying matters related to the connection of process ecology and the Triple Helix, particularly with respect to the contribution of the former to approximating *qualitative* shifts in complex systems.

We next connected the above ideas to the cooperative economy, by analyzing the sixth and seventh cooperative principles as propensities. We also interpreted the principles using the filter of NC.

Finally, we developed the concept of *cooperative n-tuple Helix* to synthesize the above discussions. Viewing the principles as elements in a process of cybernetic feedback, we derived a model following Leydesdorff, to measure the impact of the cooperative principles on a field of both specializing and integrative logics that incur on the underlying carrying cycles, one of which can be cooperative enterprise. We concluded this discussion by an application of the Cooperative n-tuple Helix to the largest Italian cooperative development fund, which is financed by an amount equivalent to 3% of each cooperative's profits.

In closing, we should ask ourselves whether, under the lessons learned and the arguments made, self-organization along the cooperative principles helps with transformation, adaptation and resilience in a changing environment? We believe it does and much research is needed to fully understand the dynamic impact and potential of the cooperative principles to promote environmentally, socially and culturally sustainable agendas. More research is also needed on rendering self-organization along these principles ascendent. We have seen in this chapter how mutual benefit may not be sufficient to break a negative spiral, but at the same time, connected back with the concept of macroculture to point a potential path towards a more pluralistic economy, centered on the logic of cooperation as a foundational principle.

The next section of the book attempts to apply some of the lessons of the preceding discussions in empirical settings.

# Appendix A

## Calculations for 8.5.3

Here we describe the path by which we arrived at the results in the Triple Helix example from the last chapter. We apply the methods of process ecology and proceed to calculate the system capacity, ascendancy and overhead of funds going from Legacoop, the Italian cooperative federation, to CoopFond, its cooperative development fund. In particular, these two elements would in themselves only represent a dual helix of cooperation and profit-maximization. What interests us is the inclusion of funding by CoopFond of education and research, a third helix. Thus, the formulas for calculating capacity (C), ascendancy (A) and overhead (O) are presented below<sup>1</sup>

$$C = K * p_{ij} * \log(p_{ij}) \quad (\text{A.1})$$

$$A = K * (p_{ij}) * \log\left(\frac{p_{ij}}{p_i * p_j}\right) \quad (\text{A.2})$$

$$O = C - A \quad (\text{A.3})$$

Regarding the parameter K, [Ulanowicz, 2012, p. 102] writes,

The usual convention is that K defines the units of information. For example, if the base of the logarithm is 2, a single unit of K is referred to as 1 “bit” [...]. Should natural logarithms be used, K = 1 then represents one “nat” of information; when the logarithmic base is 10, K is measured in “hartleys.” Early in most introductions to information theory, the base of the logarithms is specified; K is set equal to 1, and thereafter it disappears from discussion. However, Tribus and McIrvine (1971) suggest that the purpose of K is to impart physical dimensions to the index it

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<sup>1</sup>Cf.[Ulanowicz, 2012, pp. 102ff.] or [Kiss and Kiss, 2018, p. 163].

scales. As the total systems throughput has already been cited as characterizing the size (or scale) of a network, it is appropriate to equate  $K$  with  $T$ .

Thus, in our example of the cooperative Triple Helix we've established in 8.5.3,  $T$  is equal to the total system throughput (TST) in Legacoop, specifically Legacoop's annual profits, which, from the revenues, which in 2018 totaled roughly €25 billion, can be generated to be equal to €8.33 billion. Thus,  $T = €8.33$  billion. Meanwhile,  $p_{ij}$  relates the flow to CoopFond to TST. It is thus equal to 3% of €8.33 billion, or €250 million. Meanwhile,  $p_i * p_j$  represents individual in and outflows to the synergy in question (here, the element of  $p_{ij}$  going towards education), which is equal to €2 million yearly.

Thus, the respective formulas for *capacity*, *ascendancy* and *overhead* are

$$C = 8.33\text{billion} * 250\text{million} * \log(250\text{million}) = 11,500,000; \quad (\text{A.4})$$

$$A = 8.33\text{billion} * (250\text{million}) * \log\left(\frac{250\text{million}}{2\text{million}}\right) = 10,000,000; \quad (\text{A.5})$$

$$O = 11,500,000 - 10,000,000 = 1,500,000. \quad (\text{A.6})$$

We have used just profits as *total system throughout* in this calculation. The result was a rather low “overhead”. We could have derived a higher value by using the €25 billion in total revenues. The point was to show how CoopFond's impact could be increased by leeching a higher percentage of profits to efforts like education and research, thus the decision to restrict TST in this model. We could certainly re-run the calculations, replacing  $T = €8.33$  billion with  $T = €25$  billion and would receive a result showing a higher level of “conditional entropy”, funds that are not productively employed with respect towards cooperative development. The point, however, was to demonstrate that if each Legacoop cooperative was willing to transfer a higher amount of its retained profits, that it would make the entire federation more resilient, by reserving more funds for research and education<sup>2</sup>.

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<sup>2</sup>As research and education cannot be quantified in their contribution to value production, I have marked the edge connecting “education” with “profit-maximizing” with a ‘+’ to denote it as a qualitative contribution: a propensity, or force. I thank Robert Ulanowicz for engaging with me on clarifying this idea.

**Part III**  
**Synthesis & Applications**



# Chapter 9

## Applications of the General Theory of Cooperation

### 9.1 Research Design: Empirical Component

As stated above, the concluding part of this dissertation attempts to move towards a theory-testing framework. It seeks to select a number of dependent variables and mechanisms by which to shed further light on the discussions of the prior chapters. That is to say, we wish to test 1) theories of the evolutionary advantage of cooperation based on (non)ergodicity and macroculture; 2) theories stemming from “cooperative microeconomics” and social learning theory and 3) theories attempting to bridge macroeconomics and ecology under the guise of macroculture and *ascendancy*.

Accordingly, the following three chapters are organized as follows. This chapter first introduces the general framework most suited to studying the theories outlined above, including testing for the existence of cooperative rents and a cooperative advantage. Chapter 10 attempts to demonstrate how this methodology can be applied to case studies, on the one hand, in contingent preference development and cooperative education and on the other hand, one relational governance, providing preliminary qualitative results in each domain. Chapter 11 then attempts to lay out general criteria for ecologically based case studies. At the same time, it presents the preliminary results gathered in case studies in Italy, the UK and Germany.

### 9.2 Methodology

In addition and parallel to qualitative social analysis applying surveys and observation, the primary methodology which we advocate for in order to



elicit knowledge on cooperative advantages is causal inference in the manner of [Pearl, 2009], [Pearl et al., 2016], [Pearl and Mackenzie, 2019], which usefully combines qualitative and quantitative approaches and is flexible in its application. Given that we have introduced many of the primary ideas and concepts already in Chapter 6, we confine ourselves at present to a few precursory remarks before demonstrating the connection of the methodology to questions of cooperative and relational economics.

In a talk given at UCLA Faculty Leadership program in 1996, Judea Pearl observed that “Though it is basic to human thought, causality is a notion shrouded in mystery, controversy, and caution, because scientists and philosophers have had difficulties defining when one event *truly causes* another.” [Pearl, 2009, p. 331] After unraveling the genealogy of scientific discovery from antiquity through the Renaissance, stopping at milestones like Galileo, Pearl emphasizes the deleterious effect Pearson had on the development of a science of causation. (pp. 339ff.) In particular, “Pearson categorically denies the need for an independent concept of causal relation beyond correlation.” (p. 340). As the discussions of Part II progressively showed, the notion of correlation is not useful to determining meaningful results in situations where complex events are based on uniqueness.

In the place of regression, causal models, including both the conceptual language and the graphical architecture, have allowed scientists from a wide range of fields to advance to a more sophisticated understanding of causality. As we remarked in the discussion in 6.6.4, deriving suitable methods to revealing causal relations involves more than the application of probabilistic methods to experimental data. In essence, modern probabilistic statistics has remained in the vestibule of causation for nearly a century. [Pearl and Mackenzie, 2019] It has done this by focusing its energies on correlation and similar conceptions. Writes Pearl in the preface to his path-breaking work on causality, “I see no greater impediment to scientific progress than the prevailing practice of focusing all of our mathematical resources on probabilistic and statistical inferences while leaving causal considerations to the mercy of intuition and good judgment.” [Pearl, 2009, p. xiv]

### 9.3 Applying Causal Models to the Cooperative Economy

In this section, we ask how such a methodology can connect with questions deriving from the cooperative economy. The first question we should ask ourselves is how the methods we’ve discussed above can relate to the study

### 9.3. APPLYING CAUSAL MODELS TO THE COOPERATIVE ECONOMY 609

of the cooperative economy and cooperation generally. In order to answer these questions, we must go back to 6.5. In that section, we tried to show theoretically how constraints and social norms can act to facilitate higher welfare outcomes. In this section, we square the circle with respect to modeling constraints as beneficial phenomena, part of the *res extensis* connecting human individuals to one another in meaningful ways.

In particular, it will be our purpose in this final part of this attempt at systematizing tools for studying cooperation from an economic lens to translate phenomena like the cooperative principles discussed in 7.6, 8.4.2 and 8.4.3. In other words, we wish to connect cooperative principles and values – and, ultimately, practices – with the DAGs and SCMs introduced above. It can be done, and surely doing so will get closer to answering vital questions within the domain of cooperation, including finding suitable corridors (behavioral, environmental, etc.) for cooperation to flourish and maintain itself. As [Nowak et al., 2010] suggest, initiating cooperation can be a challenge: maintaining a cooperative culture that’s established is much easier.

Because cooperative firms make up such a small segment of the economy, they will only be able to move out of the margins if there are both higher levels of firm creation *as well as* conversions of existing enterprise. Thus, finding suitable dimensions for cooperative corridors (cf. Wieland), tools for moral training, gauging opportunities for scaling cooperative values, lowering the costs for cooperation and maximizing the “cooperative rent” are essential. At the same time, devising measures for assessing dynamic progress towards realizing such principles in practice appear essential. It is our belief that the tools outlined above offer a transparent means for working towards these ends, enabling an autonomous *science of cooperation*, by means of which the above issues, and many more, can be effectively addressed. Such a goal will help facilitate a shift away from epistemologically “closed” domains like NIE and offer vistas into an open, dynamic and flexible science.

In the following chapters, we introduce three research agendas based on the preceding and each focusing on a particular research strand. Chapter 10 introduces two research strands based first on contingent preference development and cooperative education, the second on issues of relational governance. Then, in Chapter 11, we introduce the third research strand on a mission-oriented approach to cooperation.

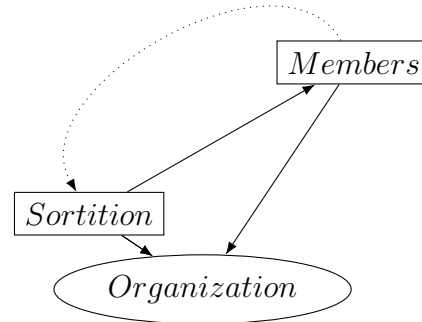


Figure 9.1: Simple Causal Graph of Sortition Intervention

## 9.4 A Causal Model for Testing DCMs and Relational Rents

Being that the introduction of DCMs in organizations is a very context-dependent endeavor, it is difficult to design general methodologies for interpreting such phenomena. Thus, many of the discussions on DCMs in the preceding chapters were quite abstract and general. At present, we wish to fill this gap with a case study simulating the introduction of sortition in an organizational setting. In particular, we are interested in the potential effects of introducing sortition as a leadership selection tool within organizations looking to transfer from CCMs to DCMs. In connecting the conceptual “vanguard” model with notions of moral competence and self-efficacy, we are interested in finding tools to answer questions regarding interventions involving random selection.

As we saw in Chapter 3, inertial forces (hysteresis) has a strong role to play in terms of constraining organizational outcomes. We have proposed the inclusion of DCMs and their respective discourse ethics as a route out of such “double binds”. To connect these theories with a practical case study, we are interested in applying [Dowlen, 2017]’s notion of a lottery as an arational “blind break” to investigating questions of the nature outlined above. Such effects are by nature dynamic and may display cyclical feedback effects. In the following, we introduce a basic model for representing such an intervention. Then, we carry out a preliminary analysis based on data from an experiment where students in an accounting class were “cold-called” at different rates.

The effects of a lottery on organizational outcomes can be represented in its most basic form by the arrow attached to a dotted line in Figure 9.1.

However, such higher order (or “feedback”) effects of the exogenous parameter “sortition” on the organization (via its members) cannot be directly observed, so the cyclical graph must be broken down to a DAG, where effects are mediated through things like values and on capacity-building. Thus, Figure 9.1’s simplified model will not help us in designing the case study and should only serve to sketch out the basic parameters that interest us. We cannot view organizational members as endogenous variables as we cannot look into their heads or intuit such higher-order effects from merely observing them. However, we are able to observe their take-up of capacity-building activities. We are also able to ask them about their values at various points in time. Moreover, we are not interested in the organization, *per se*, but rather in the impact of sortition on the rules and relationship which comprise the organization. Developing a model adequate to represent these relationships is a bit more difficult than the above.

However, as there has been a great advance in recent years in representing and isolating causal interactions, there is no need for us to retreat to older methods of carrying out interventions in slow, cumbersome processes of deductive elimination. Using [Pearl et al., 2016]’s causal inference, we will seek first to outline the most reasonable interventions, ie., those that most effectively capture the causal relations that we feel are responsible for the dynamic interactions between values, members, organizations and capacities, and then carry out an intervention designed to isolate these, and, if possible, not other parameters. Then, using matching techniques developed by Rubin, et al.<sup>1</sup>, we plan on comparing these results with an “as if” random control setting. Such results can then be compared with qualitative data from surveys, interviews and observation.

A representation of this thinking can be seen in Figure 9.2, where we’ve devised an improved causal model, attempting to break down the activating properties of the exogenous parameter sortition on the organization via interactions mediated by the impact of sortition on changing rules and relationships in the organization. The changed *default situation* impacts the degree of capacity-building among the members. At a higher level, both this capacity-building process and the changed rules and relationships in the organization have an impact on members’ and organizational values (seen here as [weakly] exogenous) and these, in turn, impact both capacities and organizational rules and relationships.

Figure 9.2 attempts to isolate the main organizational dynamics which the introduction of a lottery operate upon. Here, the main feedback effect operates via sortition’s impact on capacities via changes in rules and relations within

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<sup>1</sup>Cf. [Ho et al., 2007].

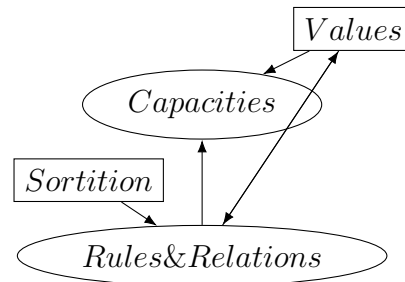


Figure 9.2: Updated Causal Graph of Sortition Intervention

the organization. That is to say, the introduction of a sortition mechanism – an intervention – changes both the institutional structures (“rules”) and the expectations of its members (“relations”), which in turn impact the importance of capacity-building activity like training and education. At the same time, the changed rules and relations impact both the organization’s and the members’ core values, which additionally influence capacity-building activity. Finally, we assume that the increased role of capacity-building feeds back into the process of changing values.

This describes our basic causal model. We see that *values* are demarcated as exogenous (items in boxes are exogenous). However, this is obviously mistaken, or at least a simplification<sup>2</sup>. Following Pearl’s suggestion that the predictive power of causal graphs are improved by including *exogenous variables*, we attempt to expand Figure 9.2 by including these where pertinent. We see open “back doors” to *values*, particularly via *capacities* and *rules and relations*. Moreover, there is a cyclical graph between capacities and values, which must be simplified into a DAG. Thus, in order to both endogenize *values* and at the same time capture the exogeneity of prior experiences, we introduce an exogenous factor impacting *values*, namely, *prior experiences* into our final causal graph, Figure 9.3. The inclusion has the possibility to capture the above cyclicity if the intervention is tested longitudinally, i.e. if we carry out observations at two time periods after the intervention.

Moreover, at a higher stage, we assume that *sortition* becomes *weakly* exogenous or is itself rendered endogenous by the outlined feedback mechanism<sup>3</sup>. The dotted line from *Values* to *Sortition* represents the impact of the change in values on the role and scope of the sortition mechanism, mediated both

<sup>2</sup>Exogenous variables “stand in for any unknown or random effects that may alter the relationship between the endogenous variables.” [Pearl et al., 2016, p. 36]

<sup>3</sup>We have left *Sortition* exogenous in the graph, as the higher-order feedback effects remain beyond the scope of the present study.

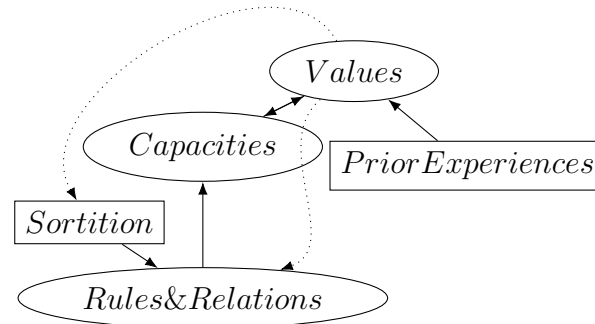


Figure 9.3: Improved Graph with Assumed Higher-Order Feedback Effects

by changing rules and relations as well as by the changed role of capacity-building.<sup>4</sup> Additionally, the dotted line from *Values* to *Rules & Relations* attempts to capture dynamic (feedback) effects of the interchange between changing rules, capacity-building and values on rules and relationships. These latter two feedback effects are beyond the scope of the present analysis but should surely be of interest with regards to future study of long-term impacts of sortition on organizational governance.

Thus, our case study will be designed to focus on interpreting the longitudinal effects of the introduction of a sortition mechanism on the parameters demarcated by solid black lines in Figure 9.3, that is, on rules and relationships within the firm, on values and capacities.

## 9.5 Research Question

Now that we have a suitable model, we return to the research question: How does the introduction of lottery mechanism dynamically impact capacity-building in organizations? Obviously, one of the greatest claims made against applying sortition to strategic decision-making in organizations is *that it would result in incompetent leaders* [Pek, 2019, p. 9]. In fact, this has been a popular claim of detractors for millennia. One only has to read Plato's *Republic* or Aristotle's *Politics* to encounter classical arguments that inclusion begets incompetent leaders<sup>5</sup>. However, such an argument seems to upset

<sup>4</sup>Again, such a second-order feedback effect can be tested by means of longitudinal analysis and also by means of eliciting tacit information from stakeholders via interviews and observation.

<sup>5</sup>Cf. [Popper, 2020].

the *replication principle* if applied to organizations *carte blanche*<sup>6</sup>, which we can interpret in this instance as meaning that we mistakenly exogenize endogenous parameters.

In this case, we would be interested in testing not only the hypothesis that a system of random selection (even in the form of a weighted lottery) would increase the quantity and range of individuals who will potentially be selected for leadership positions (and therefore increasing the likelihood that incompetent members are chosen for the positions). Significant theoretical and empirical evidence tell us this is generally the case, and mathematical proofs of this result exist and are quite elementary<sup>7</sup>.

Instead, what we are interested in investigating is the *second-order implications the introduction of a lottery would have on organizational capacity-building and values*. There has been some, but not detailed, evidence that suggests that randomly “calling on” students increases voluntary contributions in classrooms. [Dallimore et al., 2013] The question of whether an increase in contributions is then also connected with higher performance might give analogous insight as to potential increases in, e.g., moral competence and other democratic values, as outlined in Chapter 6. This type of observation seems to support the conclusion that the introduction of randomization or rotation mechanisms increases the likelihood of capacity-building activities in organizations.

This leads to a secondary question: *which organizations are best suited to introduce sortition?* Firstly, we can think about the problem from the standpoint of the lottery selection criteria: if weighting is desired, as is likely in order to (ideally) reduce the risk of incompetence, then organizations with clear gradations or certification processes would be best equipped to most efficiently set and enforce criteria. Secondly, we can think about the problem from the standpoint of the costs associated with introducing such a change. This leads us to ask *what are the costs of introducing such a change and what type of organization can bear them?* If the introduction can be seen as a Constitutional-choice change [Ostrom, 1990, p. 52], then it obviously comes with high up-front costs and not every organization will be equally

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<sup>6</sup>See [Dow, 2018, pp. 52ff.]. The principle merely states that one should not essentialize non-intrinsic characteristics of firms when analyzing market and firm behavior. For example, “it would not be satisfactory to explain [productivity advantages of capital-managed firms (KMFs)] by asserting that KMFs have managerial hierarchies but labor-managed firms (LMFs) do not. There is nothing about the principle of ultimate control by labor suppliers that rules out the use of a managerial hierarchy.” [Dow, 2018, p. 9] Dow says that one instead “would have to show that control by labor suppliers makes managerial hierarchy more costly or less effective than it would be in an otherwise identical KMF.” (ibid).

<sup>7</sup>See, e.g., [Elster, 1989] or [Dowlen, 2017].

well-equipped to minimize these costs.

Therefore, if a main secondary effect of lotteries is capacity-building and value-shifting, then the type of organization that is likely best equipped to sustain this cost is one that is well-equipped to carrying out capacity-building and value-shifting activities, as well as to accommodating changes in these. Since capacity-building typically involve education and training activities, an organization with a higher-than-average level of monitoring, which of course requires people on the ground, would be in an advantageous position. Organizations geared towards education or training, like schools or Universities, would appear to meet this latter criteria, as would public health institutions, counseling services, social cooperatives and a whole range of labor-intensive organizations geared towards dynamic capacity-building and value-shifting<sup>8</sup>.

It is our belief that firstly, there is a gap in the understanding of how the rules and practices of democracy impact economic organizations that the relational view spelled out in the above chapters and in recent new literature [Biggiero, 2022] offers new perspectives on. Secondly, we believe that there is no “one size fits all” approach to ensuring economic democracy. Problems like degeneration are real [Pencavel, 2002], and clever approaches are needed that take into account the full spectrum of human endowments, including the interaction between beliefs, preferences and behaviors in generating rising self-efficacy, as well as notions like relational rents. Whereas much focus in existing literature has been placed on so-called “shop floor” democracy, i.e., inclusion of input from all levels of a democratic firm’s membership on operational management issues, much less focus has been given to “democratizing” strategic management. It is our opinion that this pilot study provides an excellent grounds for conducting such research.

Lastly, it is assumed that voting in general is a sub-optimal decision-making structure for ensuring democratic, consensual outcomes<sup>9</sup>. This has been pointed out in a wide range of literatures on democracy. We wish to apply the real lessons learned from the work of political scientists on phenomena like “economic juries” in the domain of organizational behavior. In this vein, this pilot study has the potential to enrich the debate on firm degeneration, inalienable versus translative hierarchy and on the important topics of scaling democracy and organizational learning. Particularly the opportunity of studying the introduction of lottery selection in the context

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<sup>8</sup>Just as the democratic macroculture of the hoplites shifted to the more general Athenian population, values emanating from such institutions can also replace alternative macrocultures. Cf. above 6.1.

<sup>9</sup>We do not need to point out again that even a conservative thinker like Aristotle associated voting with oligarchy.



of an active and flourishing democratic organizational culture is an excellent opportunity to fill in a number of key research gaps.

## 9.6 Methodology

The research methodology envisioned for this exercise is presented below. The below application uses cold-calling<sup>10</sup> as a stand-in for the introduction of the DCM sortition in an organizational context. In this exercise, we were interested in the dynamic effect of increased (randomized) participation in organizations on changed values and capacities, e.g., in terms of leadership skills, learning outcomes or comfort in actively participating in decision-making. We are, by extension, interested in investigating claims like the *Spillover Effect*, discussed by Carole Pateman in an influential book, discussed in the preceding. In order to test this and similar theories, we will be looking at data from a study by [Dallimore et al., 2013], looking at the impact of increased rates of cold-calling on classroom discussions of case studies in an accounting course at Northeastern University.

We have attempted to look at this issue using both matching and structural equation modeling (SEM) designs<sup>11</sup>. These methods use slightly different assumptions about the data at hand. While matching looks mainly at the average treatment effect of the population (ATE) or the average treatment effect of the treated (ATT) depending on the model specifications<sup>12</sup>, SME looks at interactions between multiple co-variates and dependent and independent variables and is particularly apt for disentangling forms of causal mediation between co-variates.

The first question to ask is how to best frame this question with the data at hand. As the question relates to the dynamic impact of introducing a lottery in a situation of group decision-making, the case of the accounting classes appears to stand in well enough for the parameters of the general research question. The data we have is a single-period survey, given towards the beginning of the semester, after case studies were discussed in class, in addition to observational data. These capture several key value-based parameters that can give insight into changes in values and capacities outlined in Figure 9.3, for example, expectation of future participation, preparation and comfort in class discussion.

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<sup>10</sup>I am eternally grateful for Professor Marjorie Platt for sharing her data with me for the purposes of this experiment.

<sup>11</sup>For the latter, cf. [Pearl, 2009, p. 249].

<sup>12</sup>Cf. [Ho et al., 2007].

Oliver Dowlen has referred to lotteries as a "blind break"<sup>13</sup>. This means that power relations, symbolic logic, human rules and conventions, prejudices, ambitions, dreams and virtues do not pass through the break and therefore fail to interfere with the decision-making mechanism. In the past, this mechanism was referred to as an act of God (occasionally even with such poetic phrases like *deus ex machina*) [Gataker, 2013]. From this theoretical perspective, the parameter *cold-calling* can serve as an "as if" stand-in for a random lottery.

Thus, our treatment variable, *hiCC*, which refers to all cohorts taught by *FacCode*=18, will account for both [sortition] (mediated by "rules & relations") in Figure 9.3, while parameters like *ipart1*, *expect1* and *like1* represent values. At the same time, parameters like *comfort1*, *famil1*, *prep1* and *eval1* approximate perceived capacities or self-efficacy. We have chosen *FacCode*=18 as our treatment because these cohorts had a particularly high level of cold-calling, as the observational data cited in the paper confirms. Thus, our question, reformulated in the context of the data at hand, resembles the following: *how does a high level of cold-calling influence students' values and capacities, as measured through self-reported survey, both relative to low and moderate cold-calling?*

The next question we need to ask is what kind of data we need in order to answer this question. First, we must specify the question in a way that makes it testable. Moreover, as we only have access to survey data from a single period, our ability to draw clear causal inferences is limited. A fuller picture of the causal impacts outlined above would refer as well to the time-dependent impact of cold-calling on the parameters outlined above, which can be studied using a Difference-in-Difference methodology<sup>14</sup>. Nevertheless, the questions analyzed in the single-period survey can give us a first indication of causal implications of the introduction of a lottery-like mechanism in terms of capacity-building and value-shifting.

In the following we rephrase the question in order to answer *how does the level of cold-calling impact performance?* Preparation? Participation? Evaluation of the course? Familiarity with the material? Expectation of master? Enjoyment? Comfort participating? It is these parameters which we have access to and they will help us answer the question by mediating for capacity-building and value-shifting.

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<sup>13</sup>Cf. 7.5

<sup>14</sup>Cf. [Angrist and Pischke, 2008, pp. 169ff.].

### 9.6.1 Matching

After conducting balance checks and trying different permutations of the data and matching methods comparing the *hiCC* cohort with both *medCC* and *loCC* cohorts<sup>15</sup>, the following results can be ascertained.

Firstly, the *hiCC* cohort has roughly 35% more familiarity with classroom discussion than the *medCC* cohort with propensity score matching, p-value=.11; and 15.5% more familiarity with genetic matching<sup>16</sup> and a p-value=.13. Secondly, we see that the *hiCC* cohort has 29% higher grades than *medCC* cohort, using propensity score matching, p-value=.0003; and 15.6% higher grades than *medCC* cohort, using genetic matching and a p-value = .003. *hiCC* cohorts had 18.831% higher grades than *loCC* cohorts, using propensity score matching, p-value: .03; and 6.5% higher grades than *loCC* using genetic matching, p-value: .0466. Thirdly, students in the *hiCC* cohort have a 6.54% higher self-evaluation than their *loCC* colleagues, using propensity score matching (not significant), p-value: 0.7749; and 7.8% higher self-evaluation than *loCC* cohorts, using genetic matching (not significant); p-value: 0.6235.

Similarly, *hiCC* cohorts have a 14.654% higher rate of *general* participation in classroom discussions (*ipart1*) than their *loCC* counterparts, p-value: 0.45517; and 14.286% higher general participation, using genetic matching, p-value: 0.34653. *hiCC* cohorts have 16.234% more general participation than *medCC*, using propensity score matching and a p-value: 0.41853; -5.1948% less general participation than *medCC* cohorts, using genetic matching, with a p-value of 0.71709; multivariate matching also establishes a statistically insignificant and very small negative effect between *hiCC* and *medCC*<sup>17</sup>.

In most cases, Propensity Score Matching had the least best improvement

<sup>15</sup>In the former of these, a middling range of cold-calling was encountered, while *loCC* featured almost none or no cold calling.

<sup>16</sup>Cf. [Diamond and Sekhon, 2013]

<sup>17</sup>The author does realize the hypocrisy in applying p-values here while elsewhere in the text critiquing their relevance. This is primarily due to having no longitudinal data, which can give insight into phenomena like prior updating and allow the researcher to calibrate data without recourse to such inappropriate methods. [Kaplan, 2014] Nevertheless, there is no strict contradiction between the causal inference methods outlined above and probabilistic approaches. As long as one clearly specifies the causal model, as we have done above, one can draw useful information from statistical tests.

More generally, causal effects of the type  $P(Y=y \mid do(X=x))$  equals the modified probability  $P_m(Y=y \mid X=x)$  within the *modified* or *manipulated graph*. The variables in this graph have two properties of interest: firstly, the fact that the marginal probability  $P(Z=z)$  does not change as a result of the manipulation. Secondly, neither does the conditional probability  $P(Y=y \mid Z=z, X=x)$  change. Using these facts and the further fact that  $Z$  and  $X$  are d-separated, we can derive the *Law of Total Probability* [Pearl, 2009, pp. 2ff.].

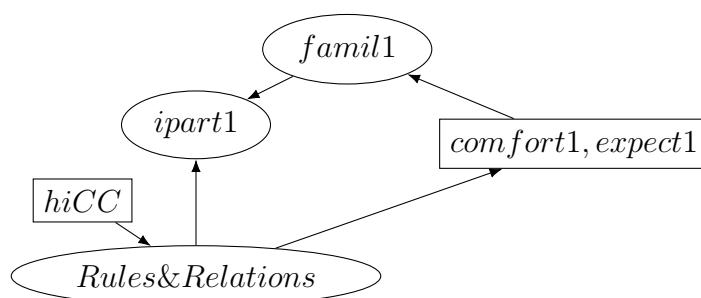


Figure 9.4: Representation of the SEM run in 9.6.2.

upon the unmatched data. However, this was not always the case. Conversely, Genetic Matching generally provided the best improvement upon the unmatched data, though this was not always the case<sup>18</sup>. Multivariate matching<sup>19</sup> usually lay somewhere in between. We've usually provided at least two different matching estimates between both the *hiCC* vs. *loCC* and *hiCC* vs. *medCC* cohorts in the above. It was the author's intention to generate a graphical plot of the matching results, but this proved too difficult.

### 9.6.2 SEM

We have run a structural equation model, testing the mediating relationship between the treatment *hiCC* and expectations of increased participation in discussions as depicted in Figure 9.4. The results are not a clear indication that the treatment has an identifiable effect (the p-value is larger than the estimate). However, looking at the mediating covariates, we see one particularly interesting result. Specifically, the value for *ipart1* (general participation) is a strong indicator for increased expectation of participation. Thus discovering a dynamic, long-term and persistent effect between *hiCC* and increased general participation would provide strong evidence of causal mediation between *ipart*, *expect1* and our treatment<sup>20</sup>. Our matching exercise above showed a large but statistically insignificant relationship between the treatment and increased general participation. Thus, the results of our SEM further underline mediators and present us with important interactions which a longitudinal (e.g., Difference-in-Difference) analysis should be able to shed significant light on. Unfortunately, we were not able to do this with the data

<sup>18</sup>For instance, with regards to grading, which may have to do with confounding factors like self-selection (perhaps one of the classes was earlier in the morning).

<sup>19</sup>Cf. [Rubin, 1980]

<sup>20</sup>Cf. [Kline, 2015, 181ff.].

and time constraints at hand.

### 9.6.3 Discussion

We see from the above that the combination of the epistemic framework developed in the preceding chapters, interpreting *propensities* and *propensity ensembles* as forces and the methodological apparatus of causal inference, integrating mediating influences and a dynamic set of modeling tools that allow

us to encode existing knowledge by way of *chains*, *colliders* and *fokrs*, as well as represent *interventions* and *counterfactuals* substantively can be employed in a wide range of settings, including the elicitation of *qualitative* information. In particular, the preceding discussion has attempted to demonstrate that it is possible to employ such a methodology in both quantitative and qualitative contexts, with DAGs serving as tools to “translate” from one domain to another.

Moreover, the preliminary results of the toy model, as applied to data from [Dallimore et al., 2013], has provided a provisional context for framing the three research strands we develop in the two concluding chapters, Chapter 10 and 11. We briefly outline these and discuss how the above research methodology can be employed to elicit knowledge on these three fronts.

### Contingent Preference Development & Cooperative Education

The first research strand introduced below connects to the discussion of *macro-cultures*, *constraint theory*, notions of norm-based rationality, co-determination and *propensity*. It in particular attempts to interpret distinctions in the development of key organizational traits on the basis of qualitative shifts in, e.g., macroculture or propensities. Thus, as we learned, it is often more difficult to change an existing firm culture than it is to build up new facilities and resources. This research strand investigates several primary causes and intermediary contributors to such observations.

In particular, it aims to understand the importance of hysteresis and social learning in establishing certain routines (which we above learned are an incursion of a particular regime into organizational behavior). If we have more

Regressions:	Estimate	Std.Err	z-value	P(> z )	Std.lv	Std.all
expect1 ~						
treatment2	0.165	0.121	1.363	0.173	0.165	0.052
comfort1	0.191	0.040	4.758	0.000	0.191	0.238
ipart1	0.379	0.044	8.537	0.000	0.379	0.430
famil1	0.009	0.042	0.219	0.827	0.009	0.008

Figure 9.5: A table reflecting the .

understanding of the parameters that contribute to contingent preference development, then we will be in a better position to develop training and education regimes that reduce the costs of cooperation generally, and of “switching” cultures, specifically. Thus, methods like the above combination of structural equations and DAGs with both qualitative and quantitative data can facilitate new knowledge as to means of reducing the costs of things like worker buyouts and business to cooperative conversions (BCCs). Moreover, they can also clearly specify which elements cooperative education should invest the most resources in.

### **Implications of Relational Governance Models**

The second research strand connects the above discussion of contingent preference formation and cooperative education with psychological theories of self-efficacy and with notions like relational transactions, seeking to connect theoretical constructs with both the events and processes that cause and adumbrated with their realization in practice. In particular, it seeks to view organizations as opportunities to increase and extend relational rents. This perspective is in many senses in keeping with [Commons et al., 1918]’ organizational theory and is congruent with a relational economics perspective.

In particular, the research we summarize in the latter part of Chapter 10 attempts to derive qualitative information as to both the psychological and organizational implications of reforms in the status (“state”) of different stakeholders within an organization. This research was conducted both within the traditional, as well as within the platform, economy. It concludes with a reflection on a case study of Basque employment legislation. These case studies hope to demonstrate the necessarily interdisciplinary nature of such questions and the need to develop a coherent research program to integrate various approaches into a coherent whole. The preceding analysis’ relevance to that agenda is clear, although both it and the research presented in Chapter 10 are necessarily abridged.

### **An Ecosystem/Mission Approach to Cooperation**

Chapter 11 finally attempts to synthesize the various strands presented throughout this dissertation into what I refer to as a *mission-oriented cooperative ecology*, combining the perspective developed by [Mazzucato, 2021] with the methodologies developed above, especially the notion of process ecology introduced by [Ulanowicz, 2012] and [Ulanowicz, 2009], and which we discussed in Chapter 8. By means of such a lens, we mean to demonstrate the inevitable interdependence cooperative approaches to making provision

ultimately face. It will attempt to combine a view couched in social learning, ascendant macrocultures with a view towards achieving particular *missions*.

The three case studies we showcase in Chapter 11 are the development of underdeveloped regions in Italy, the conversion of legacy businesses into cooperatives in the UK and steps towards making businesses in Berlin more resilient in an age of digitalization and unstable freelance work relations. Such qualitative research can again be combined with notions of *n-tuple cooperative helix*, as well as methods such as those we applied in this chapter. We carry out some preliminary synthesis to this end.

#### 9.6.4 Conclusion

The above results confirm an effect resulting from a change in the rules and relationships among peers in a capacity-building organization. They show distinct differences in both values and capacities between different cohorts of an accounting class, based on a treatment of high levels of cold-calling, controlling for factors like individual students' preparation and liking of class discussion.

Certainly to have a better grasp of the effects, a dynamic approach is required. Repeating the exercise with data from the second survey employed by the authors would shed further light on the dynamic and feedback effects of a change in rules regarding participation. A mistake in reading the data originally led the author to believe this was multi-period data. However, even this single-period data confirms a structural difference in capacities and values between the three groups (*loCC*, *medCC*, *hiCC*). Moreover, the matching variable – originally thought to distinguish the two periods – actually reflects students' grades. This new information was incorporated into the model and added an interesting dimension, as the grades revealed one of the more significant distinctions between *lo* and *medCC* on the one hand and *hiCC* cohorts on the other. From the data reviewed in the paper by [Dallimore et al., 2013], it does indeed seem that the effects became stronger over time. The next step would be to conduct a difference-in-difference (DiD) analysis with the second-period survey data. Moreover, having more fine-grained information on the gender, age and prior experiences of individual students would also aid in disentangling other potential confounders on parameters like comfort in participating.

A structural equation modeling (SEM) exercise conducted by the author reveals that the incidence of *hiCC* is indeed implicated in both higher rates of general participation (8.3% higher rates of general participation than *loCC* cohorts) and higher expectations of participation in the course (16.5% higher than *loCC* cohorts), though neither of these effect was significant. Our model

furthermore reveals that much of the effect is dampened or mediated by an increase in discomfort among students in hiCC courses. Further analysis using the second period data would shed light on whether this increase was a temporary effect of “being put on the spot”, a result of the learning process or if it reveals a more permanent or general aversion to being called upon at an increased rate. The authors’ own conclusions from their second-period analysis reveals a reduced effect of discomfort [Dallimore et al., 2013, p. 329]. We would need to corroborate their findings.

These preliminary results show the essential quality of longitudinal data for determining dynamic shifts in values and psychological attributes due to the introduction of DCMs in organizations, which take time to manifest and often act in non-linear and discontinuous ways on group and individual behavior, as our discussion of macrocultures in Chapter 6 revealed. As a meta-study on quantitative studies of organizational democracy by Christine Unterrainer and Wolfgang Weber at the University of Innsbruck [Weber et al., 2020] has revealed, firstly, most studies on related issues of “democratization” of organizations take place in firms with questionable participatory or democratic character and secondly, the extreme minority of studies were conducted longitudinally. This is unfortunate for the reasons pointed out above, and this short chapter demonstrates the vital importance of longitudinal data in relevant social contexts when attempting to address issues of causal inference that pertain to such contexts (e.g., capacity-building and value-shifting in democratic or inalienable hierarchical organizations)<sup>21</sup>.

It is hoped that the research agenda spelled out above will contribute to fill this gap.<sup>22</sup>

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<sup>21</sup>In particular, one member of an Italian industrial cooperative asked about the firm’s leadership culture, responded that “Certainly the most effective way, in addition to the personal inclination, to train the inclination to leadership is the so-called ‘learning by doing’; In the case of CPL [the cooperative], members of the [board] are free to express their leadership in a way that best suits their individual personality.” Notions of contingent preference development and cooperative education can serve to bridge gaps that otherwise exist in this respect.

<sup>22</sup>For background on the above methodologies, please see above 6.6.4, as well as Chapter 9 and [Pearl, 2009, pp. 133ff.]. or [Kline, 2015, p. pp. 164ff.].



# Chapter 10

## Case Studies in Cooperative Microeconomics

In this chapter, we draw in particular on the theories developed in Chapter 7 to develop a concrete research program for extending knowledge, as well as for providing confirming or dis-confirming evidence for the theses developed in the course of the research laid out above. While the next chapter develops frameworks for applying the research agenda to the third, ecological, set of case studies in the form of missions, this chapter outlines criteria and parameters, as well as setting up the outlines of particular case studies to derive knowledge in the two primary domains of *democratic choice* and *inalienable hierarchy*, respectively.

Thus, this chapter is structured as follows. Immediately below, we establish a framework for carrying out research in the domain of contingent preference development and cooperative education. These domains extend respectively from discussions in Chapter 6. Following this, we move on to outlining a framework for the second research strand, which centers around analyzing and interpreting *relational governance* models. This research extends discussions from Chapter 7.

### 10.1 Research Strand 1: Contingent Preference Development & Cooperative Education

As has been argued throughout the present work, democracy can be seen as a progressive ideal which aspires to relationalize ever more aspects of social activity in a recursive process of developing suitable moral competence and

self-efficacy through a process of relationalizing labor within and between organizations. We saw that Hegel speaks of the dialectical nature of traditional labor relations, which, while lodged in a master-slave logic, nevertheless present the laborer with opportunities for *learning*. As we learned furthermore, this process of social learning takes place dynamically, during or *despite* the authoritarianism (Piaget speaks of a tendency from heteronomy towards autonomy), thus facilitating a progressive shift in both material relations and a civic imaginary, in the language of Castoriadis.

This development can occur fortuitously and sporadically, but it can also be *cultivated*. Numerous economic actors have recognized the benefit to a well-educated and morally competent workforce, and so interest has grown as to the potential for distributed leadership and more broad dissemination of leadership skills generally. The above chapters have outlined numerous milestones in this tradition.

In this context, below, we provide a case study of a potential manifestation of a cooperative n-tuple helix, in the form of LEINN, a Bachelor’s program in Business Administration that operates an international network of campuses and provides a cooperative alternative to an entrepreneurial degree. We present our findings below.

### 10.1.1 LEINN and Traveling University

Travelling University, a project developed jointly by Spanish education and consultancy cooperative Tazebaez (TZBZ)<sup>1</sup>, Mondragon Team Academy (MTA) and Mondragon University (MU), has since September 2016 offered a Bachelor in “Leadership and Innovation” (LEINN). The program is dubbed “The official European Bachelor’s degree in Entrepreneurial Leadership and Innovation” and has seen through 2,500 student-entrepreneurs from 29 nationalities, with 30 startups being developed in that time.<sup>2</sup>

### 10.1.2 Structure

is in part modeled on the so-called “rocket model” developed by and for the Finnish Timi Akatemia, a “business school without teachers, lectures or exams”. Appropriating this model, TZBZ, MTA and MU have developed a derivative called the “falcon model”, which places emphasis on three skill areas: a foundational basis in legal, financial, technical and digital skills; a second basis in both “community” and “individual” skills like individual

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<sup>1</sup>TZBZ was actually itself a startup begun by the first cohort at LEINN.

<sup>2</sup>Cf. <https://leinninternational.com/>.

## 10.1. RESEARCH STRAND 1: CONTINGENT PREFERENCE DEVELOPMENT & COOPERATION

learning, empathy and friendship; and a third basis in explicitly practical entrepreneurial skills. Similar to the structure of the Finnish model, the distinction between teacher and student is eliminated in the program. Instead of professors, LEINN features “Team Coaches” and instead of students, the program features “teampreneurs” (emphasizing the collective process of value-creation).

The idea of the program, which is organized into four years, is to give “teampreneurs” the opportunity to develop and scale the values outlined above in an international, practice-oriented setting in which the first year is spent in Bilbao, the second in Berlin, the third is split between South Korea and China and the fourth is spent establishing a startup<sup>3</sup>. As part of the curriculum, leadership skills are ideally developed and, in particular, “the idea is to achieve a balance between different aspects” (e.g., individual vs. team skills). In order to achieve this balance and to develop suitable skills, projects and curriculum are organized both into modules as well as “universes” (the three skill areas outlined above), each of which intends to facilitate one or more 1) professional and 2) personal values.<sup>4</sup>

The program is based on self-evaluation and responsibilities are split between Team Coaches and teampreneurs themselves. The program features a “Learning Compass”, which exists in both a team and individual version, and which facilitates the self-evaluation process. In terms of evaluation, 70% of grades are team-based, while the remaining 30% reflect individual contributions. This is seen as a compromise between collective labor division and person initiative. The time spent in formal parts of the program is split between what are called “training” and “learning sessions”, as well as weekly Team Leadership Team (TLT) sessions and around 30 minutes of individualized discussion with Team Coaches. The Team Leadership Team ideally consists of four members of each team who are currently (November 2021) elected for one-year terms. These occupy leadership positions in 1) General Team, 2) Financial, 3) Customer and 4) Communications.

The role of Team Coach can be likened to that of a mentor, and any “pushing” occurs in the TLT sessions, rather than the training sessions, which are designed to facilitate knowledge transfer within the modules and “universes” described above. Ander Etxeberria, professor at Mondragon University and one of the Team Coaches at LEINN remarked that “the [traditional] language on entrepreneurship is based largely on VC [venture capital]” and, referring to the presence of cooperative values in the degree program, remarked that

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<sup>3</sup>This structure is currently being reformed.

<sup>4</sup>Source: Team Coach Handbook and personal communication with Alice Wood, a Team Coach at the Berlin campus.

the program “works in [a domain of] ambiguity” and that “selling the degree involves a language of ‘team entrepreneurship’” rather than explicitly propagating cooperative values. This can be seen as an implication of the relationalizing of cooperative values within a context of entrepreneurship, in which a resultant “third culture” is produced.<sup>5</sup> Similarly, Team Coach Alice Wood commented that “we wouldn’t say we’re a ‘coop degree’, although that’s what we are” and emphasized that “language is important”, using as an example the fact that “we don’t call them students” (the term, as stated above, is “teampreneurs”).

### 10.1.3 Distinguishing Features: Student and Alumni Evaluations

The program is in many ways geared towards a particular audience. Its website and promotional material present the program using words like “revolutionary” and “future” oriented, mentioning notions like “becoming a world citizen”, and promoting the connection to firm (enterprise) foundation.

Moreover, there seems to be a process of self-selection. Thus, both alumni, as well as current students, expressed in interviews the desire to find new forms of entrepreneurship, or described dissatisfaction with “doubts about the business world”<sup>6</sup>. The sense that the program “breaks [with] traditional University education”<sup>7</sup> appeared widely shared. “normal business school makes entrepreneurial activities difficult”<sup>8</sup>, due to its focus on theoretical matters and frequent failure to connect theory with implementation.

Moreover, Aritz, a musician and second-year participant in the program, suggested that, having or being a member of two bands, he “was an entrepreneur all along, but was originally not interested in the concept.” LEINN offered “interesting ways of [engaging in] entrepreneurship” and led to “a change in mindset” on the part of Aritz. Alberto, a computer scientist and second-year participant, suggested he “learned many new things and ways of [doing] business.” He also alluded to the program’s attention to the “non-standard, darker side of business” (i.e., the critical view towards ecological degradation) as traditionally taught in business schools, and remarked that he had come to appreciate different qualities or types of business”. These observations can be considered evidence for a relational logic at work, where

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<sup>5</sup>[Wieland, 2018, p. 12] similarly remarks that “Business Ethics [...] is a comparatively new and distinct communication pattern for moral-economic events that consists of more than just “business plus/minus ethics”.

<sup>6</sup>Alumnus and current Team Coach, Haize Trueba.

<sup>7</sup>Alumnus Miguel

<sup>8</sup>Miguel

the social values and constraints inherent in the cooperative principles *as propensities* translate into a unique manifestation of an entrepreneurial logic, as outlined above in our critical discussion of Schumpeter's view in Chapter 4.

#### 10.1.4 Potential for Enlargening Domain of Democratic Collective Choice

As expressed by both teampreneurs and team coaches, there is significant attrition in the program, which, e.g., Miguel described as deriving from “people assum[ing] ‘delivery’ of entrepreneurship” and because of a failure “to act during the business phase [i.e., the final year of the Bachelor, which is dedicated to the entrepreneurial phase where participants are expected to develop their startup].” Moreover, Miguel is convinced that at “the average age of inductees [first-year participants] of 18-21”, many are “not mentally mature”, while at the same time “mental maturity is important for the degree.”

This again speaks to the importance of moral competence for leadership generally, and particularly, a broad based moral competence in an environment where teamwork is emphasized, such as at LEINN. It could be argued that the traditional interpretation of translative hierarchy, as practiced in the labor market generally as of writing (2022) inhibits the development of such a competence, due to its focus on principal-agent contracting and the contradictory opposition of *de facto* responsibility and *de jure* “pretending to be part-time robots”, in the language of David Ellerman<sup>9</sup>. This scenario, if true, can partly contribute to the self-selection that apparently occurs during the early stages of induction at LEINN.

Experiments in relational governance and the innovative use of DCMs like consensus and sortition could provide an impetus to prevent – or at least reduce – attrition in the early stages of the program. By introducing a strong foundation for a regime of discourse ethics, with its typology of consensus and its logic of discourse, many of those lacking a high degree of self-efficacy could learn in ways that can iteratively raise their estimation of their ability to achieve critical milestones. The view presented in the preceding chapters would argue for such a thesis<sup>10</sup>.

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<sup>9</sup>Cf. Chapter 5.

<sup>10</sup>The author is in an ongoing dialogue with stakeholders at LEINN about switching from a pure voting regime for selecting TLTs and to integrating a richer palette of DCMs, such as rotation or sortition, especially with inductees, who have no prior knowledge of each other's leadership abilities that can be exploited via voting.

### 10.1.5 Discussion

The experimental results of the cold-calling experiment in the preceding chapter serve as an indicator of how such research can be potentially validated. In particular, although the execution of such a research project goes beyond the scope of the current dissertation, the author is in touch with several organizations interested in deepening the scope of cooperative education and in conceptualizing implementing experiments in contingent preference development in order to extend leadership skills to a broader share of organizational stakeholders.

LEINN is one organization. In particular, one of the challenges LEINN faces is a perceived high attrition rate early on in the program. It can be argued that one of the mediating factors motivating people to leave the program is a misalignment in their sense of self-efficacy combined with the expectations the program imposes on them. Thus, whereas the program requires a high degree of self-management on the part of teampreneurs, many may not have acquired these skills in their past and are unable – or believe themselves to be unable – to acquire them autonomously. This may lead to a situation, as described by Bandura, where a negative feedback loop occurs.

Another organization is VME, which is profiled in 11.4.2. It is the result of a conversion from a traditional business with a CCM. As will be discussed in Chapter 11, one of the challenges facing the cooperative is stimulating worker engagement and changing the company culture from one where workers are “decision takers” to “decision makers”. This again appears to be an issue of dislodging a static situation where, in the past, workers have had their self-efficacy stymied and therefore often (possibly falsely) estimate their own capacities at self-governance to be low.

In both of these organizational settings, there is a “chicken and egg” problem that is not easily solved from a static perspective. Thus, we have above developed a dynamic perspective that views organizations as anticipatory systems. According to this perspective, the conversion from CCM to DCM frequently must occur at a constrained level, e.g., by implementing DCMs in limited functions within an organization. Moreover, to render static or habitual social relations more dynamic, a mix of DCMs may be desirable. Thus, in the case of LEINN, where the attrition rate appears higher toward the program’s start, it may behoove the integrity of inductees to assign leadership roles by lot in the first year, where knowledge of the capacities of individual teampreneurs may not be known to their colleagues, and may not be known to themselves.

Similarly, introducing consensual structures in VME’s sociocratic circles may contribute to a dynamic increase in capacities of stakeholders, who are

made to learn, through practice, new habits and routines. VME may also wish to experiment with allocating leadership positions within the circles by lot and combining this with a notion of shared responsibility. This would at the same time give stakeholders opportunities to surprise themselves by discovering new skill sets and at the same time remove some of the pressure on individuals, imbuing leadership with the relational qualities we've spelled out in prior chapters.

In each of these hypothetical cases, the point would be to shift contingent preference development away from a principal-agent framework and its legacy Master-Slave logic to a framework of shared agency, with a logic of discourse. If such a shift entails a "chicken and egg" problem, the point is that governance innovations like employing DCM mixes can help break out of routines and habits. While some of these routines may be desirable and beneficial, many may exist merely as formal or informal conventions that, once their utility or efficacy is established within the new governance mix, can be retained. The point is, however, to challenge "routinized" thinking and organizational inertia, which may include elements of prejudice and self-doubt, that may themselves be unfounded.

Developing structured knowledge as to the efficacy of innovative governance structures is thus a desirable outcome in order to develop systematic tools to translate the notions discussed in the preceding chapters into tools that organizations can easily implement in order to relationalize their governance structures.

## 10.2 Research Strand 2: Implications of Relational Governance Models

The second research strand facilitated by the above discussions consists of the analysis of governance relations internal to firms. In particular, these studies emphasize the qualitative impacts of different types of hierarchy on psycho-social outcomes. In fact, the case study in the prior chapter anticipates these, qualitative, studies. The point will be to add substance to a public or political theory of the firm by providing confirming evidence for concepts like relational governance: in particular, the studies of this type are all geared towards elaborating the effects of shifting from object-object relations entailed in the principal-agent paradigm to a situation of shared or *relational* agency, embracing a polylingual and polycontextual notion of multi-stakeholding that can be flexibly applied in a wide range of contexts, from providing public services to equipping existing firms with tools to adapt to new environments.

Many SMEs are in fact deeply embedded in their local communities and are seeking ways to improve relations with that community and include it in their decision-making, as we have observed in the prior chapters.

Research in this strand investigates, e.g., the connection between membership and the aforementioned parameters, by comparing otherwise identical laborers in an environment where the only parameter to change is the membership of workers in the business. In a survey conducted in 2015<sup>11</sup>, I have demonstrated clear evidence of what Otto von Guericke refers to as “fellowship” (*Genossenschaft*), that is, the existence of a causal relation between self-organization, or what we have called inalienable hierarchies, and feelings of autonomy and self-esteem<sup>12</sup>. Expanding such findings by carrying out further research, in particular, longitudinal study, would help further disentangle this from confounding influences.

Moreover, the envisioned research agenda will carry out studies of the second type in the emerging domain of the *platform* sector, which present countries, regions and municipalities with new challenges. Thus, the study of *entrepreneurial dependence*, where small enterprises and individuals are dependent on large and dominant platforms for their livelihood, is a central component of a progressive agenda of both understanding the effects of such a circumstance and evaluating alternative structures<sup>13</sup>. The project envisions among others, a study comparing taxi collectives like Montreal’s Eva or New York City’s Drivers Coop with competitors like Uber or Lyft. In particular, these studies will attempt to draw out dynamic causal relationships between platforms featuring clear associational relationships between multiple stakeholders and parameters like autonomy, trust, satisfaction and self-esteem.

Such studies can be conducted in multiple domains. In addition to the ride-share industry, I have done research with respect to “new cooperatives” like Smart, data cooperatives like Polypoly, as well as exploratory research into networks of mutual aid among platform sex workers (e.g., Onlyfans performers). Some of the provisional results of this research will be presented in the following chapter. The nature of this research facilitates linkages to prior empirical and theoretical agendas, like Carole Pateman’s famed “Spillover Hypothesis”, which asserts that individuals who participate more strongly in workplace environments experience “spillovers” of such participatory values into other domains of their life (e.g., politics) [Pateman, 1970].

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<sup>11</sup>See, e.g., [Warren, 2015].

<sup>12</sup>My survey even found a clear willingness to accept lower pay for jobs associated with inalienable hierarchy.

<sup>13</sup>Cf. [Srnicek, 2017] and [Woods and Böhme, 2020].



### 10.2.1 Relational Governance & Membership

It is our aim in this section to convert the theoretical discussions on membership from Chapters 3 and 7 into a research program for carrying out comparative case studies. As the global economy becomes ever more heavily service dependent, questions relating to the quality of a very diverse assortment of sectors, statuses and networks will necessarily be of increasing importance. That is to say, interdisciplinary perspectives on the various intersections within the domain of the workplace will take on increasing significance. As part of this question, the issue of work quality is an abiding one. As discussed since the beginning of this dissertation, labor belongs to the domain of fictitious commodities and is *inalienable* from the laborer performing it. It is therefore necessarily treated differently than commodities like apples or luxury underwater film equipment.

Returning to the consequences and promises of membership in the organization, a recurring theme throughout the present work (recall the discussions in Chapter 3 on membership to the Greek polis as a central factor in the creation of a civic consciousness), we wish at present to move towards testing the hypothesis that shifts in the membership of an organization employing workers towards increasing strategic control on the part of the workers has a positive impact on a number of factors related to intrinsic motivation and association with an organization. As such, to recall, we assume the organization has aims besides the maximization of profit subject to constraints and attribute to it instead the goal of *balancing* among a number of different rationality profiles, repeated to the differing interests of the respective classes.

It is thus our belief that such increased strategic control provides workers with *voice* within an organization and also enhances their credibility inside the employment relation. At the same time, such a change should also impact the perceived legitimacy of decisions within the organization.

Thus, whether in quantitative studies such as in the prior chapter, or in the qualitative research featured in this chapter, we are performing a “surgery” on the parameter of employment status to test the impact of a change of membership structure in otherwise comparable organizations. We have chosen supermarkets, both for their ubiquity and for the public nature of the labor that transpires there. Similar to [Ferrerias, 2017], we believe that the nature of work shifts when it is done in what may be reasonably compared with the public sphere. In this case, the supermarkets have been chosen because of their similar arrangements in all matters save for the status of ownership and strategic control within the enterprise. On one extreme end, we have Rewe, which is a retailer-owned chain of German supermarkets. Next, there are a number of consumer cooperatives, including Greenstar and Eroski,

and rounding it off is Centro Olimpio, which is a supermarket in Palermo organized as a worker cooperative.

By way of qualitative interviews, we intend to discover whether a significant difference exists in a number of indicators we propose as proxies for the interests being balanced in an organization. For instance, we may discover that workers in supermarkets with more representation with workers on the board have happier workers but tend to fail financially. This would be an indication for the argument that in fact, if supermarkets are desirable, then they should be organized according to the instrumental rationality of a *domus* (translative hierarchy). However, if we discover significant improvements in worker welfare at low or no cost to either firm survival or long-term stability, then that may in fact be an argument for adopting further employee representation generally in supermarkets. In particular, it is our belief that such increased strategic control provides workers with *voice* within an organization and also enhances their credibility inside the employment relation [Hirschman, 1970]. At the same time, such a change should also impact the perceived legitimacy of decisions within the organization [Weber et al., 2020].

### 10.2.2 Rewe

Rewe is a service or retailer cooperative, where individual franchisees are the members. It was founded in 1927 as *Revisionsverband der Westkauf-Genossenschaften*, serving to facilitate purchases between different grocers and is today the second-largest grocery retailer in Germany. Its practices have been scrutinized in recent years and frequently described as “not in keeping with cooperative principles. [Menzel, 1968]. Civil suits in recent years have also damaged its reputation<sup>14</sup>. It has recently begun a large-scale campaign of selling off its stores to local franchises.

Sladjana Nikolic works in a Rewe in Frankfurt. She has worked for Rewe since 2010, beginning first at its discount subsidiary, Penny, where she worked for three years and then moving on to Rewe, where she “got better hours.” While the Penny store had less workers (10), her Rewe colleagues number “around 60”: There is in general “a feeling of being appreciated, if one does one’s job right, then one is treated with respect.” In terms of treatment by clients, “between 10 and 20% are unfriendly. Sladjana comments that she finds such treatment “awful”, but “doesn’t let it get to her”, but that her daughter, who worked for Rewe part-time some years ago, at night on weekends, “couldn’t take it”

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<sup>14</sup>“Praktikantin ausgebeutet: Rewe trennt sich von Markt-Inhaber”. In: *Kölner Stadt-Anzeiger*. 1. April 2014

She is generally “satisfied” and does not feel surveilled, although others do. There have been some cases of workers stealing merchandise. She relates well with her colleagues and is friends or acquaintances “with around 50%”, who meet each other regularly, for instance “for coffee”. Contact to the bosses is always “difficult, as they always change after two years.” She has never had a leadership position and wouldn’t take one, because there is no pay difference, as she has no college degree. She feels “like part of a team” and in many ways “like a family”.

One of the problems on the horizon is that Rewe “is selling 80% of its locations” to private individuals, including the franchise where she works. The work conditions “will certainly be worse” after the store is sold, as the new owner is only required to keep existing work contracts, etc. for one year after the sale. This process began “five or six years ago”. It will be difficult to find a “non-privatized” Rewe to work in and even the franchise she was interested in working in after the sale “is going to be sold.” The workers are not asked for their input on such sales, and usually find out “one month in advance.”

Many of her colleagues will not be taken on at the new “privatized” stores, as the new owners “prefer those who have been working less time, as they get paid less”, meaning a form of “LILO”<sup>15</sup>. Moreover, the “private” owners do not provide the same vacation pay or a public transit pass.

Sladjana knows of a case where a colleague was working in a kiosk associated with her Rewe branch and had to use the bathroom, leaving his station unattended to do so. The manager “chewed out” the colleague in front of the store, in front of clients “and everyone”. The incident led to an investigation at the branch manager’s office, where employees were questioned about the incident. Sladjana was asked “how she had the courage” to tell the manager that his behavior was not acceptable. She responded at the time that she “feared no one”.

She suggested that there were colleagues who were more shy and unwilling to speak out in such cases, but that “someone else almost always takes them under their wing.” There are also some people who “exploit” the labor law protections, using sick leaves, etc. She says of the job, “I could always earn more elsewhere [like Aldi], but work has to be enjoyable.”

### 10.2.3 Greenstar

Greenstar Cooperative is a consumer cooperative in Ithaca, New York, with roots in the environmental and anti-war movements of the late 1960s and

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<sup>15</sup>I.e., “Last in, first out”, in logistics jargon.

early 1970s<sup>16</sup>. It was founded in 1971. Its original members were “the town’s leftists, vegetarians and anti-war movement (Vietnam), as well as the ‘back to the land movement’” and Quakers. The store “began on a pre-order” format, meaning members purchased together in bulk. At one point, a store was opened in a basement, which provided more convenience, i.e., without the need to pre-order. Tensions arose between the pre-order system and the store system.

Around 1980, there was a split, with most members going to the store. The pre-order system “died out a few years later.” Membership at the store increased “a lot”. “people liked the convenience of not having to pre order”, according to Dan Hoffman. Changes happened as a result of the change in size of the store. The cooperative took on consultancy opinions from a firm today called Caluminate. There was a change to a “translative” hierarchical structure with “a manager at the top”.

### Structure

The cooperative is a consumer cooperative, meaning a single-member model with consumer-members. There is a board elected by members that has its meetings on Zoom<sup>17</sup>. General managers are elected by the board. In case of conflicts, workers have recourse to either the manager(s) or to the council (board). The by-laws have seen “a gradual erosion over time”, according to several members, that has, in effect, “put membership more on the margins [and] put board and paid workers [i.e., managers] in charge”, according to Mary White. The drift has been occurring “since the 1980s”. “Prices are going up, [but are still] fairly good.”

In 2010, the board adopted “policy governance” (PG), briefly discussed in 2.3.4, after a debate that lasted over ten years. During the course of this debate, the council began to shift its position from skeptical to embracing PG, at first with reservations, and later without reservations<sup>18</sup>. PG, to remind the reader, is designed to help organizations with two characteristics: firstly, it serves “organizations that are not part of the ‘market test’, i.e., not subject to the need to deal with” market forces. Secondly, policy governance is directed towards organizations that “do not have a defined constituency to which they are accountable”. As Dan Hoffman argues, “neither of the two reflect food coop[erative]s in the U.S.” Firstly, they face “stiff competition” and secondly,

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<sup>16</sup>The sources for information on Greenstar were provided by members Mary White, Ed Swayze, Yayoi Koizumi and unofficial historian of the cooperative, Dan Hoffman.

<sup>17</sup>During the pandemic, there were no member meetings for 1.5 years, with the first meeting after this break being poorly attended. Source: Yayoi Koizumi.

<sup>18</sup>Source: Dan Hoffman

“cooperatives do have a defined constituency”, i.e., the members.

Moreover, PG distinguishes managing and operations and promotes the reduction of “interference” of governance entities like boards on operations (which is left to management). [Carver and Carver, 1996] Boards set general “ends”, which specify very few particular policies and leaves much to the management. Management “is entitled to a reasonable interpretation”, which gives high leeway to management, according to Dan Hoffman. Such a circumstance can breed conflict among stakeholders and lacks clear avenues by which to channel the conflict. Moreover, it raises serious questions of accountability, as the recent crisis at Greenstar seems to demonstrate.

### Crisis

In recent years, Greenstar has experienced significant attrition of members, leading to financial difficulties and occasional labor conflict. At the same time, a crisis of liquidity has threatened the sustainability of the cooperative. Meanwhile, its new members include “young leftists, homeschoolers and Bernie Sanders supporters”<sup>19</sup>, as well as “college students and University [Ithaca hosts Cornell University] types”<sup>20</sup>. According to Mary White, many “University types get to Wegman’s [a local chain] and get the hell home.” For the middle classes, there is also Top’s. Thus, members have perceived a change in culture.

According to Ed Swayze, the cooperative has responded by adopting a “corporate model” which “is not working.” As Dan Hoffman has argued, “since the pandemic, management is much more focused on economic survival than anything else right now.” In part, Mary suggests that the conflict is one between “old line radical” and so-called “realists”, the latter of whom have resisted, e.g., unionizing efforts on the part of workers. Managers hire and fire “at will”, as it currently stands (November 2021) and there is “no membership influence on staffing”. The “corporate model” includes hiring “more business school degree managers”, according to Mary White, who have worked to eliminate legacy routines like having members’ children volunteering, a common practice in the past. According to several members, under the new managerial style, there has been “less volunteering in general”.<sup>21</sup>

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<sup>19</sup>Mary White

<sup>20</sup>Yayoi Koizumi

<sup>21</sup>Member Yayoi Koizumi reflected,

I used to work as a superworker at the old store [...] in the early 2010s or so. I cleaned [shelves] with vinegar spray. It was boring and I felt invisible. I didn’t find people there to be friendly [or] nice. I just wanted a discount but it was so boring I [would] just go in and work and make no friends and the

Mary is “getting less interested in voting” and has in the past “resigned [her] membership”, but “renewed [it] due to economic necessity, or self-interest”. In many ways, as mentioned, the board “is concerned with the bottom line”. Several members have complained about the difficulties in introducing waste-reduction approaches and lamenting a general “lack of innovation and energy”. Members have also lamented the changes in inventory and membership classes. Thus, the cooperative no longer offers “family memberships, only individual” memberships, leading to “most customers [feeling] fairly anonymous.” At the same time, in terms of the selection, there is now a “huge amount of junk food”, as Mary White put it, or “a huge amount of packaged convenience food, lots of shiny plastics” as Yayoi Koizumi put it.

### **The Workers’ Perspective**

As mentioned, there have been multiple labor disputes in recent years, worsened by the pandemic. This included layoffs of a number of long-time staff that resulted in at least one lawsuit with the National Labor Relations Board. One female worker, who started originally as a “super worker” (another name for volunteer consumer members who receive an additional discount on purchases based on their work in the store) suggested that “there were changes in it becoming more and more of a hierarchy. It was feeling less like [a] community, less like everyone had a lot of say and more like higher ups were [...] who were ultimately making choices”.

Moreover, this worker, who currently still works at Greenstar, suggested that these changes occurred “between 2012 and 2015” and followed “the first firing.” After this point, the worker pointed out that “it seemed like we were suddenly getting hires that came from a different place, [i.e.] not people who shop at Greenstar. They weren’t people I’d ever seen there before. They were hired for specific jobs.” Moreover, after this member returned to work after a pandemic-induced layoff, the store this member returned to “was not the same”, including “reforms [that apparently] other co-ops had of having [for instance] a central store manager”.

Asked whether management encouraged existing workers to apply for such management positions, the worker responded, “they did welcome internal applications, and a couple of workers did apply, but they did not get the job. It ended up being someone from the outside, who was not at all familiar with

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discount didn’t justify the loss of time so I quit soon after they started to offer FLOWER discount [a charity discount for people with disabilities or unemployment].

the coop, who'd never shopped at Greenstar. And not surprisingly, it didn't work out. I don't think she lasted six months."

Thus the work environment has changed, such that "Many people get hired who haven't shopped at Greenstar and they see it just as a job. And they're not shopping there. And it's not [...] a way of life for them." When asked how the work environment was originally, this member suggested that, originally, "everybody took [...] ownership for their job. It felt like everyone was empowered at the job they were doing, [such that everyone was working] in their own unique way and [knew] what their strengths were. And they were supported as individuals." Speaking about the environment in the store prior to the rationalization, this worker said, "Yeah, we had a lot of crazy times; [for instance,] we played all kinds of music and the [...] occasional food fight and craziness, but we were like this big family."

Asked to speak more about the nature of "super workers" (volunteers), this worker recalled,

What we call "super workers" haven't been able to come [since the pandemic] and that [...] changes a lot to not have that. I mean, not only are we understaffed and not doing well financially, so we would benefit from that labor [...] and that sense of community again, [it] would be great. I knew we used to even have "super workers" that gave massages! And that was amazing! I felt so blessed, [thinking] 'how many jobs do you have for on your 15 minute breaks you can go get a massage' [where] they give two hours of massages and they get a discount for the month on their food and I thought that was great.

When asked whether this worker had given up hope, the worker responded,

No, no, I haven't because I think sometimes [that] even if it folds [i.e., goes out of business], I feel like this town is going to want something [else like Greenstar]. Sometimes things [...] fail and are rebuilt. So that's a possibility. But hopefully, it won't go that far and people just realize that [it] hasn't been working the way we're trying to do it.

Asked what could improve the present situation, the worker suggested that "one thing that I think would really help us a lot right now is to have more member labor again, [as] since the pandemic we have not had member labor." The worker continued, "if council was more staff [oriented], I think that that would probably be a good thing. Either [if] staff members were in council or council was asking us more questions now and getting involved with us more."

### 10.2.4 Eroski

Eroski is the second-largest supermarket chain in Spain. Eroski is a multi-stakeholder cooperative (MSC), with “50% representation of workers, 50% of clients”. It has engaged in a cooperative development program entitled *Cooperativismo* and can thus provide an additional specific case study on cooperative education. Fran, an Eroski worker, described Eroski as “a futuristic model” for Spain (“un modelo futuro”), as there are not many supermarkets in the country, more small stores. Eroski decided to organize into a larger entity.

Eroski has two classes of members: consumers and workers. In total, there are more consumers than workers. In terms of the culture, Fran suggested that it was described by “*Entra sin llamar*” (“enter without knocking”). The structure is similar to other Mondragon cooperatives, with a general assembly. This is the largest assembly, with a representative group for the 8,000 worker members. The assembly comprises 50% representation of workers, 50% of clients. One point of argument is that workers carry the larger risk and should therefore potentially have a veto, although this is not currently the case. Governance has two pillars, an executive council of 12 persons and social council, which is just comprised of workers. In addition to this, there is a “client council”, with just customer members. In addition to these, there is also a “*commission legada*” (“delegate commission”), which decides individual issues (e.g., purchasing).

Fran suggests that a MSC is more complex than a worker cooperative, requiring “workers [...] to have the same philosophy as the company”. There is also a problem of transferring values across generations. In this respect, Fran “worked with stakeholder number 92” and has been at Eroski 21 years. Some years, one puts money in rather than taking it out, as profits as well as losses are shared. One of the present tasks of the cooperative is the breaking down of barriers between departments, which are often times operating in a cloistered manner.

### Multi-Stakeholding

Asked about the impact of the multi-stakeholding model, Fran suggested that it is “better to have two types of member”, because “you really need consumers, this is the business”. Thus, the interest of clients is central for the continuing existence of the going concern. Having the workers be members “keeps the money in the coop[erative], as workers shop here”. Of the work environment, he said that it “feels more comfortable [here]... like [being] a public worker, a *Beamte*.” Compared to other jobs in the sector, there is “less



pressure. . . more holidays, better wages, etc.” The company has different tools to promote competitiveness and is currently working on developing an online platform for sales.

One of the problems the company faces is the lack of pay differences. There is no significant difference in remuneration along the hierarchy. For example, the wage differential between cashier:manager is 1:6 and this is “a problem”, according to Fran. Any reform “needs to be mutual and consensual”, however. Of his own position, Fran states that he “could earn 20% or 25% more [elsewhere], but [I] am here because I believe in Eroski”. Moreover, he argued that the philosophy appeals to him, as “it’s better to work together because [collective] benefits will be bigger”.

### **Cooperativismo**

Cooperativismo was a largely failed project to convert all firms within the group to coops.[Hafner, 2009] Fran suggests the problem was risk-sharing, “socializing losses”, as well as the issue of engendering long-term thinking. In particular, the lack of cooperative education is pertinent: “other parts of Spain don’t know what a cooperative is”, according to Fran. Also, culture was an issue: people “don’t learn [active involvement in their firm] in school, don’t live in [an] environment” conducive to such forms of agency. The program was “well-planned, but [people] didn’t want it. . . people just wanted a job”. Fran’s lesson from the program is that “you have to change the mind first, then the business”.

Regarding the teaching of cooperative values, Fran suggested that “education is important, [as it – metaphorically] creates the soil in which [other values] grow”. In fact, in recent years, there has been a great effort at expansion, meaning “the number of stakeholders has doubled, not all have cooperative values”. For many, they “get [a job,] like [in] a regular company”. Ultimately, Fran is convinced that “if you have a good culture, you have a good company”. For him personally, he says “I [learned] values from [member] number 92, I can pass on [this spirit]”. Important for this process is “fluid communication”.

#### **10.2.5 Centro Olimpio**

While Eroski is a MSC, where both consumers and workers are member-owners, Centro Olimpio is a supermarket on the outskirts of Palermo, Sicily, organized as a worker cooperative. Centro Olimpio is a special case in that it was formerly owned by the Sicilian mafia and converted into a worker cooperative partly through a process of expropriation. Thus, it does not fit

neatly within the rubric of either a “negotiated” or “class struggle”<sup>22</sup>, being a case between these two categories, initiated in part by workers resisting unfair labor practices and in part as a succession facilitated by the state.

The store was originally organized as a limited liability company, which was controlled by the Sicilian Mafia<sup>23</sup>. At the time, “there was little or no interest in worker welfare, skills development, etc.” on the part of the management. There was also a “general lack of transparency” with respect to the bookkeeping and other affairs of both management and operations, according to President Gaetano Salpietro.

The legal situation changed in the 2000s, when new laws for the expropriation of Mafia property were passed or implemented<sup>24</sup>. The dissatisfied workers slowly transformed the firm into a cooperative. This was particularly due to the fact that there were no buyers for the supermarket. Together with CFI in Rome (as CFI in Sicily was too weak financially to facilitate), a workers’ buyout was promulgated, making use of the Marcora Law, discussed in 11.3. Thus, together with CFI financing and equity stakes via the Marcora Law, the process was undertaken and eventually promulgated in 2014.

Gaetano Salpietro, the current President of Centro Olimpico, argues that the conversion “wouldn’t have been possible without outside help”.

### Current Situation and Challenges

The cooperative had 34 worker members in 2020, in addition to 22 non-member workers<sup>25</sup>. Gaetano and other members are convinced “that cooperatives have the ability to invest in long-term, not just in short-term profit”. An understanding of this idea “has to first develop, however” and this presents “a challenge”. This circumstance is exacerbated by the “regionalism” in Italy, wherein Sicilian culture is particularly individualistic, making such a collective process of social learning “difficult.” However, loyalty to the enterprise is an asset, as workers frequently “want to continue working in their firms, even in times of crisis”.

One of the main challenges, argues Gaetano, is “convincing workers to embrace the new firm type”. Frequently, there is “no interest” in participating in particular decision-making processes. The “switch” in culture was most readily internalized by “*inspettori*” (managers). Salpietro suggested that

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<sup>22</sup>Cf. Chapter 7.

<sup>23</sup>Source: Gaetano Sapietro, President of Centro Olimpico and Annamaria Ribaudi of Legacoop Sicilia.

<sup>24</sup>One early example is Law 559/1993, which enables a government agency to hold property taken from “criminal organizations”, such as the mafia.

<sup>25</sup>Our visit was on 5. February, 2020.

what wound up convincing many of the workers of the new model “was the hope of a dividend”. In the end, the combination of this hope and, at the same time, “the ease with which people can continue to work what they know” convinced many to stay during the difficult period of transition.

At the same time, Gaetano suggested that “banks are often more willing to support financing projects where there is a high degree of passion”. In the case of Centro Olimpico, it was “not easy” to access credit, since the region is poor. Moreover, frequently, business succession plans such as the one developed at Centro Olimpico “aren’t accepted by banks”. Moreover, there was “a lack of interest” on the part of the old management to support the project. In total, the workers were able to raise €2 million from the client base, CFI and from the credit market.

Asked whether the workers would consider a multi-stakeholder model, Gaetano Salpietro responded that the scale of the operation is “too small”, that the idea is “good in theory”, but “difficult to implement in practice”, considering the differing interests. Moreover, the consumer cooperative model is “underdeveloped” in the Mezzogiorno, whereas worker cooperatives are “relatively” more common.

### 10.2.6 Discussion

It does appear that relational governance can contribute to a shift in values, but that such a shift is not automatic. As Fran Ailer argued, “you have to change the mind first, then the business”, and this involves the type of cooperative education discussed above in the case of LEINN. Concerning Eroski’s failed attempt to incorporate non-cooperative locations into the multi-stakeholder model, we can also conclude that a delicate process of social learning, emphasizing tangible milestones along the path of self-efficacy, would facilitate a longer-term shift in the perceptions of workers at (currently) “non-cooperative” locations.

One must recall the observation made by the Caja Laboral Popular, Mondragon’s investment arm, that concluded it is “cheaper” to establish new firms than to convert existing “translatable” to “inalienable” hierarchies. However, understanding more the relations between innovation, investment and (social) sustainability, respectively the incursion of *regimes* into firms and the – often complementary – interactions between formal and informal, organizational and individual values, can help facilitate simplifying the process of conversions, a topic which we return to in the next chapter.

Moreover, while traditional investor-owned business *can* benefit from relational governance, it would appear that a cooperative form *requires* it, or, as the above examples clearly show, *flourishes* with relational approaches

to governing. As such, it can be very costly for a relational culture to (re)introduce principal-agent mechanisms, e.g., professionalized managers, outsourcing of certain functions, reductions of volunteerism, etc. This should emphasize the importance of maintaining an inclusive stakeholder dialogue at all points in an organization’s life cycle.

Such reforms, if badly implemented, can deeply compromise the foundations of shared value-creation and can facilitate what Friedrich Nietzsche referred to as *ressentiment*<sup>26</sup>. It must be recalled that a logic of cooperation comes with both additional costs as well as benefits. Figure 5.3, which we reproduce again as Figure 10.1, should remind the reader of the sensitive balancing of interests, logics and *values* underlying the exploitation of cooperative corridors.

To take an example from the above: the example of Sladjana Nikolic’s colleague’s bathroom break and the subsequent “bureaucratic” process and investigation stands in sharp contrast to Eroski’s “*entrar sin llamar*” policy. This is an example where the legal and formal institutional structures, together with organizational values, promote a governance style that we have referred in preceding chapters as “inalienable hierarchy”. Of course, such a style also entails its own costs, which the learning processes at both Centro Olimpio and Eroski attest to. The need for a change in mentality, which can come about through social learning, or be promulgated by crisis, such as in Centro Olimpio, is a requirement for the cooperative rent to accrue.

This can also be seen in the stated occurrence of workers opportunistically abusing their sick leave, as was observed at Rewe above. If there is no change in culture after a transfer to an inalienable hierarchy or the introduction of DCMs, then this type of behavior – what economists refer to as “moral hazard”, is likely to continue. On the other end of things, there is a need to promote (social) investments that extend the duration of cooperation. This involves the recognition of need for a holistic stakeholder dialogue that reduces

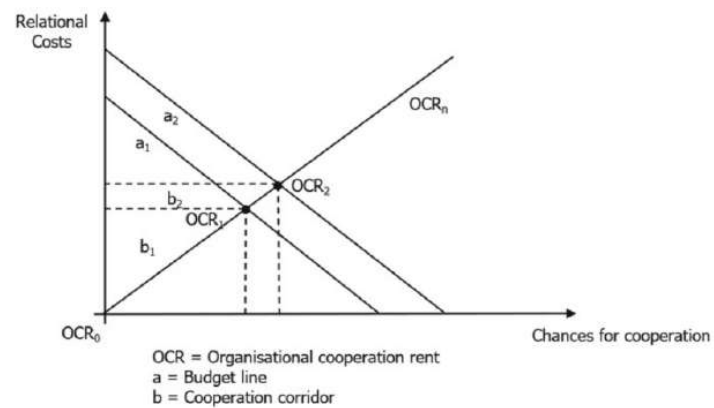


Figure 10.1: A graph representing the trade-off between cooperative costs and benefits, from [Wieland, 2018, p. 149].

<sup>26</sup>Cf. [Murphy, 2001, p. 132].

the risk of perceiving policies as illegitimate. Thus, Greenstar’s problem of “importing” principal-agent policies entails the cost of reducing investment *of time* in volunteering on the part of members, which should encourage the cooperative to consider if any increased efficiencies gained by importing professional managers are outweighed by the loss of the *effectiveness* of the organization due to *divestment* and a shrinking cooperation corridor.

Cooperatives need to realize the extent to which market forces constrain the operations and governance of a firm. To the extent that they do, the distribution of risks (costs) and benefits (rents) must be carried out in a way that recognizes the contribution of all stakeholders – both internal and external – to shared value-creation. Bicameralism, consensus or some combination of DCMs<sup>27</sup> can provide the necessary instruments to this effect. There is also a need to limit the relevant constituencies the cooperative serves. Thus, according to Dan Hoffman, “if you serve a broader and broader constituency, then you start to lose the appeal to ‘purists’.”

Greenstar member Yayoi Koizumi has compared Greenstar with Park Slope Cooperative in Brooklyn, New York, where the cooperative significantly reduces prices on goods by allowing members to work in the store, preventing the need for workers. This has kept prices at Park Slope low for its 15,000 members. While introducing reforms mimicking Park Slope may be difficult to implement immediately, the effect that the example of Park Slope can have on what we’ve above called the “civic imaginary”<sup>28</sup> can orient (social) innovation towards “emulation”, in the words of Thorstein Veblen<sup>29</sup>.

Thus, Dan Hoffman argues, “I think Greenstar can still be changed by determined members. It is still democratic[, meaning] ultimately the members elect the council.” In his opinion, the cooperative needs a model “going back to principles where members have more control over management.” He furthermore suggests that the cooperative needs a workers union and “ways to diffuse situations where people are fired.” Viz. issues of worker-management relations, Hoffman suggests that today, there is “no cooperation [or] balance between management, members and workers”.

A Greenstar worker stated, “I would love to see Greenstar get back to something that felt like less of a hierarchy, [...] and less like we’re going into corporate direction and [...] more all staff meetings and in ways to be heard and make decisions *together*.” (original emphasis) In closing, we should emphasize the benefits of relational contracts, broad “grooming” of the workforce for management and other aspects of relational governance in their

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<sup>27</sup>Cf. Chapter 7.

<sup>28</sup>Cf. Chapter 3.

<sup>29</sup>Cf. Chapter 1, footnote 1 above.

potential contribution to such a transformation. What is clear from the above case studies is that, where workers can secure binding commitments, the *willingness* to cooperate increases, *ceteris paribus*. This connection between the psychological and the economic logics – mediated by a logic of cooperation – must be explicitly exploited by cooperatives. The principles and *Guidance Notes*<sup>30</sup> can provide support in applying these in diverging contexts.

### 10.3 Social Entrepreneurship vs. Entrepreneurial Dependence: Rideshare/Delivery Sector

The revealing causal influences of a change from non-member to member in the traditional low-skill service sector can be tested in different domains, as well. In particular, many countries are currently facing an influx of new enterprise types that frequently exist in a gray zone. These are so-called *platform* enterprises. Therefore, a similar shift in this domain is an issue with regards to which more information would offer truly revelatory advances for policymakers, governments and civil society alike.

One of the growing problems in the platform economy is referred to as “entrepreneurial dependence”. This refers to a situation where small enterprises and individuals are dependent on large and dominant platforms for their livelihood and is a central component of a progressive agenda of both understanding the effects of such a circumstance and evaluating alternative structures. Therefore, below we engage in a comparative analysis of taxi collectives like Montreal’s Eva or Madison’s Union Cab with competitors like Uber or Lyft. In particular, these studies attempt to draw out dynamic causal relationships between platforms featuring clear associational relationships between multiple stakeholders and parameters like autonomy, trust, satisfaction and self-esteem.

Below, we first review some basic outlines of the status quo in the platform sector, connecting it to the discussions we have led above. Following this introduction, we reflect on some of the results of several empirical case studies comparing the experiences of “gig” drivers with those working in burgeoning platform cooperatives.

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<sup>30</sup>Cf. 7.6.

### 10.3.1 The Platform Economy: Contested Terrain & Grounds for Social Transformation

As [Kenney et al., 2020, p. 3] suggest, “the platform is to this digital era what the factory was to the industrial era, both a symbol and an organizing mechanism.” Indeed, Srncik points out that the term “platform” itself serves as a sort of umbrella term, as the functioning of *advertising platforms* is different from *cloud platforms*, *industrial platforms*, *product platforms* and *lean platforms*. Each of these share, however, the existence of an online platform of some kind (app, website, etc.) acting as the central lever or hub facilitating interactions. Before delving deeper into issues such as “platform capitalism” or “platform cooperativism”, it may make sense to take a step back and generally outline a few central concepts of *platform economy*. These include privacy, market power, information asymmetry, consent and piecemeal work.

From a policy standpoint, regulations and practice in the status quo seem to suggest that privacy is viewed mostly as an instrumental good, with consumers revealing their preference endogenously according to the expected payoff [Lin, 2020, p. 6]. However, as [Lin, 2020] points out, and in keeping with Polanyi’s notion of *fictitious commodities*, privacy may be an *intrinsic preference*: “[t]he intrinsic preference is a utility primitive: It represents a cultural intuition not directly connected to the intended usage of data, and persists regardless of the consumer’s ‘type’ relevant to this market.” (*ibid*) Moreover, we may also assert that the reigning view of privacy is lodged in an ontologically individualistic viewpoint that largely disregards the emergent properties discussed throughout the present text.

These observations point to a need to analyze the broader social context when dealing with the platform economy. It is this greater social context which we wish to investigate at this stage. We begin this section by reviewing [Srncik, 2017]’s notion of *platform capitalism*, before turning to some of the ethical issues arising from this model, including what [Woods and Böhme, 2020] refer to as *the commodification of consent*; the issue of *envelopment* and the concurrent rise of *data monopolies*; the notion of *entrepreneurial dependence* and lastly the issue of so-called *lean platforms* and the exploitative relations these often lead to. We then briefly outline the concept of “platform cooperativism” introduced in recent years by [Scholz, 2017] and [Schneider, 2018].

### 10.3.2 “Platform Capitalism”

Srnicek says that “in the twenty-first century advanced capitalism came to be centered upon extracting and using a particular kind of raw material: data.” [Srnicek, 2017] This for two reasons: firstly, the ever decreasing costs of information storage. Secondly, the competitive pressures of the market forces more firms into the fray to find ways to monetize data, which operates via network effects. These two factors created the conditions for the emergence of what Srnicik calls *platform capitalism*. “Given the significant advantages of recording and using data and the competitive pressures of capitalism, it was perhaps inevitable that this raw material would come to represent a vast new resource to be extracted from.”<sup>31</sup>

What facilitated this transformation was the rise of the *platform*, or “digital infrastructure that enable two or more groups to interact.” Platforms increasingly mediate interactions between citizens and citizens, between citizens and their homes, between citizens and marketplaces, with billions of users on Facebook and other platforms, which are increasingly seen no longer as social fora, but also as contexts for generating an income<sup>32</sup>. These platforms “[m]ore often than not. . . come with tools that enable their users to build their own products, services and marketplaces.” This is an enormous advantage, as “[r]ather than having to build a marketplace from the ground up, a platform provides the basic infrastructure to mediate between different groups.” This means “a platform positions itself (1) between users, and (2) as the ground upon which their activities occur.” This means that platforms “are far more than Internet companies or tech companies.” (Id.)

This of course means enormous *first mover advantages*. If a company positions itself early on in the spectrum of providing a platform for a dedicated user base, then it will be quite difficult for competitors to enter the market and displace the first mover. This difficulty is exacerbated by what are called *network effects* [Bamberger and Lobel, 2017]. These function in much the same way as gravitation, allowing more massive networks to displace more marginal ones. To return to the language of Chapter 8, ascendant platforms often make use of their size to marginalize potentially better organized or managed, but quantitatively smaller, platforms. This leads to what is dubbed *entrepreneurial dependence*, which we discuss below in 10.3.4. First we delve more closely into the issue of *consent*, which is central for the operation of the platform economy.

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<sup>31</sup>As pointed out above, authors like [Wark, 2021] actually speak of “vectorialism”, as the value-extraction model has moved so far from what Marx and others described as “capitalism”.

<sup>32</sup>One has only to think of platforms like TaskRabbit, Onlyfans, Uber or AirBnb.



### 10.3.3 The “Commodification of Consent”

In fascinating recent research from [Woods and Böhme, 2020], various higher order effects of data regulation policy are investigated. The authors conclude that market competition among dominant coalitions can lead to less than desirable outcomes. These include market concentration, deceptive behavior, entry barriers and further erosion of the non-economic basis of user data<sup>33</sup>.

The authors establish a theoretical model based on repeated game theory that shows that the increased costs to supply of explicit consent in the European Unions Data Protection Guidelines (EDPG) leads inevitably to what the authors refer to as *coalitions of consent*, which aggregate user consent from a number of different trackers and publishers. The authors point out that this increases the tendency for market concentration by benefiting large coalitions and disadvantaging small, niche or newer entrants. Thus, a policy designed to improve data protection and privacy may itself lead to an increase in concentration in the market for user data. [Woods and Böhme, 2020, p. 13]

This should again remind us of Polanyi’s discussion of the various historical policies intended to insulate other fictitious commodities from the ravages of the market, many of which failed at this task and led to further inflammation of the root conflict. One of the factors Polanyi points out as a potential cause for the many harmful policies was the lack of inclusion of the most affected classes in the deliberation. [Polanyi, 2018] In a similar light, one of the questionable practices in the process of commodifying consent is the fact that the standards for internet advertising are developed by an industry group, the Internet Advertising Bureau (IAB).

Indeed, when looking at the issue of engaging users, workers and other stakeholders in an inclusive dialogue with respect to drafting data-regulation policies, we must recall Adam Smith’s statement that “[p]eople of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.” [Smith, 1776] As the authors themselves conclude, “[i]n the face of regulatory neutrality on the ‘merits of particular forms of data collection’, firms will simply re-design the system of consent, which they control, in their own interest. [Woods and Böhme, 2020, p. 19] This speaks for the need for a more active role on the part of citizens in the design of policy regarding privacy. We will return to this issue again in the next section, where we will argue for a multi-stakeholder model including both users and advertisers.

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<sup>33</sup>See [Woods and Böhme, 2020, pp. 17ff.].

### Consent & Social Contract Theory

The notion of *commodification of consent* is also useful in a critical appraisal of market-based solutions to securing privacy in an increasingly tech-dominated and therefore data-centric world. If we critically engage with social contract theory, we may recall Hume’s dismissal of social contract theory as a fiction:

My intention here is not to exclude the consent of the people from being one just foundation of government where it has place. It is surely the best and most sacred of any. I only contend that it has very seldom had place in any degree and never almost in its full extent. And that therefore some other foundation of government must also be admitted. [Hume, 2020]

Elsewhere, Hume claimed, “If scarce any man, till very lately, ever imagined that government is founded on compact, it is certain that it cannot, in general, have any such foundation” [Hume, 1907, p. 201] Bentham also contested this contractarian notion of legitimacy. We need only remind the reader of the critical analysis of contract theory throughout the present work, especially in Chapter 4.

Similar to social contract theory, commodification of consent requires intentional activity. However, as empirical studies have shown<sup>34</sup>, ignorance of the terms of the contract of third-party data usage is ubiquitous. Indeed, titles like “Dark patterns”, “lemon markets” and “the biggest lie on the Internet” speak to the pervasiveness of this fact. If it is the case that data *quo* commodity results in perverse behavior with regard to consent and this behavior has aggregate effects that are socially harmful, then this is a good cause of collective action. Cases like Cambridge Analytica have put this in stark contrast [Isaak and Hanna, 2018].

The question of consent also raises the question of *translatio* versus *concessio* asked throughout this work [von Gierke, 1868]. In an era where concentration increases and the role of networking online plays a key role in job search, abstinence from social networks or other platforms may not always be an option. In fact, the idea of a *fiction of consent* has been applied to online privacy for some time. See, e.g., [Schwartz, 1999]. We address this dilemma at present.

#### 10.3.4 “Lean Platforms” & Entrepreneurial Dependence

A “lean platform” is a platform that reduces its business interests to the core element of the platform economy: providing a marketplace. Other costs

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<sup>34</sup>See, e.g., [Obar and Oeldorf-Hirsch, 2020], [Nouwens et al., 2020], [Vila et al., 2003].

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are outsourced to other platforms or to the users or workers themselves. Therefore,

[w]hereas firms once had to spend large amounts to invest in the computing equipment and expertise needed for their businesses, today’s start-ups have flourished because they can simply rent hardware and software from the cloud. As a result, Airbnb, Slack, Uber, and many other start-ups use AWS. Uber further relies on Google for mapping, Twilio for texting, SendGrid for emailing, and Braintree for payments: it is a lean platform built on other platforms. These companies have also offloaded costs from their balance sheets and shifted them to their workers: things like investment costs (accommodations for Airbnb, vehicles for Uber and Lyft), maintenance costs, insurance costs, and depreciation costs.

This renders the *lean platforms*

... asset-less companies; we might call them *virtual platforms*... Yet the key is that they do own the most important asset: the platform of software and data analytics. Lean platforms operate through a hyper-outsourced model, whereby workers are outsourced, fixed capital is outsourced, maintenance costs are outsourced, and training is outsourced. All that remains is a bare extractive minimum — control over the platform that enables a monopoly rent to be gained.[Srnicek, 2017, own emphasis]

Here we return to a theme brought up above with respect to the *first mover advantage*, which is particularly strong in the platform economy given network effects. This fuels the *fiction of consent* (*translatio*) by removing outside options and drives what has been variously termed *entrepreneurial dependence* [Cutolo and Kenney, 2021], where the platform company acts as a market – the grounds on which economic transactions occur, forcing entrepreneurs onto the platform to carry out their trade or offer their good or service.

This outsourcing of labor is a longer-term trend visible since the 1970s, as Srncik argues. Indeed, Marx critiqued a similar dynamic when he wrote “piece-wage is the form of wages most in harmony with the capitalist mode of production”<sup>35</sup>. As the sheer amount of money going into the debate on Proposition 22 in California reveals, “lean platforms” like Uber and

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<sup>35</sup>[Marx, 1867], cited in [Srnicek, 2017]

Lyft have an interest in maintaining their workforce under contractor status [Didlake, 2020]. This status removes the company from being held responsible for unemployment benefits and many other hard-won rights the working class achieved over the last century.

The pervasive presence of “lean platforms”, their market dominance – partly achieved by gaming the often outdated regulations on labor (what Ellerman refers to as the “human rental contract”<sup>36</sup>.) and partly by operating by undercutting competitors: effectively a long-term monopolistic strategy – means that the phenomenon is much larger than “gig work” or “the sharing economy”: it is, in fact, how a growing class of precariously employed or otherwise unemployed citizens make ends meet. As Srncik observes,

around one percent of the US labor force is involved in the online sharing economy formed by lean platforms. [Furthermore,] . . . the sharing economy is but a small tip of a much larger trend. . . In this context, self-employment is not a freely chosen path, but rather a forced imposition. . . Of the workers on TaskRabbit, 70 percent have Bachelor’s degrees, while 5 percent have PhDs. [Srncik, 2017]

In order to prevent “lean platforms” from becoming the workhouses of the platform economy, regulations need to catch up to the reality that for a growing sector of workers, the platform economy – and, in particular – “lean platforms” account for a household’s primary income. A legislative and institutional landscape reflecting these realities is highly desirable.

### 10.3.5 Envelopment and Data Monopolies

[Eisenmann et al., 2011] introduced the concept of “envelopment” to describe an activity where

a provider in one platform market can enter another platform market and combine its own functionality with that of the target in a multi-platform bundle that leverages shared user relationships. Envelopers capture market share by foreclosing an incumbent’s access to users; in doing so, they harness the network effects that previously had protected the incumbent. [Eisenmann et al., 2011, p. 1270]

Just as the *first mover advantage* renders much of entrepreneurship dependent on existing platforms and their rules, *envelopment* affords these platforms the

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<sup>36</sup>Cf. Chapter 5

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additional benefit of leveraging their dominant positions in existing markets in order to gain access to new revenue and profit streams in new markets.

[Srniczek, 2017] refers to Amazon in this light, which extended its virtual monopoly in online sales into online streaming, web hosting, home electronics and even organic groceries. Other platform conglomerates have done similar: Uber expanded into delivering food and Airbnb developed tools to allow services like tours and the like in its “Experiences” feature. Issues like Facebook’s attempt to introduce a standalone currency (named *Libre*) point to the need for understanding the role of the platform economy in shaping our choices and in finding more transparent and coherent strategies to meet changing needs in a globalized world. Many of these solutions may defy traditional antitrust regulation in that the fast-moving platform economy requires more stringent *ex post* regulations to prevent abuse of power and an extreme accumulation of data and market power in few hands<sup>37</sup>.

In the next section, we delve exactly into the quandary of to what extent the present antitrust paradigm can suffice to the task of regulating the platform economy.

#### Antitrust and Consumer Protection

There is a growing awareness among global governments that the power of the largest players in the platform economy, Apple, Google, Microsoft, Amazon and Facebook, is too great and that concerted action is required by states to curb the monopolistic behavior of these and similar firms. In this, there is a turn in legal jurisprudence concerning antitrust. Antitrust jurisprudence in recent decades had seen a shift away from antitrust to prevent monopolistic formations, and focused instead on price competition and the achievement of consumer satisfaction [Kovacic, 2020].

However, since the product of much of the platform economy: data, is more or less freely provided by users of applications and websites, there is no way to apply this pricing theory of regulation to the context of the platform economy. Also, the dynamics of the market for user data differ markedly from traditional markets, as [Jin and Wagman, 2020] observe.

First, data exacerbates the information asymmetry between firms and consumers [...]. Second, users stand to both benefit and lose from the externalities that are associated with data processing and provision, but the specific pecuniary and non-pecuniary

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<sup>37</sup>It should be noted that “platform capital” is not only concentrated in few firms, it is also geographically concentrated, with 66% of data capital in the US [as of 10.06.18]. Source: [Netzoekonom.de](http://Netzoekonom.de) and [platformeconomy.com](http://platformeconomy.com), Peter C. Evans.

harms and benefits to users vis-à-vis firms' data practices are often difficult to quantify [...] Third, the nature of data storage and usage raises new questions about property rights and data ownership, data portability and accessibility, data concentration and security, data-related disclosures and transparency, as well as privacy and the ease of data de-anonymization [...] More broadly, all of the classical market failures — asymmetric information, negative externalities, market power, and bounded rationality — are potentially exacerbated or face new complications due to data. [Jin and Wagman, 2020]

This requires states to both return to older theories like those of the Progressive era, which looked at cartels as something in and of themselves harmful to the economic order, and search for new combinations of antitrust and consumer protection. And, in many ways, the comparison to the Progressive era of antitrust is just. The cartels of the Progressive era were in industries like railroads and oil production, with high infrastructural sunk costs. Much of the platform economy is also built on this ‘high fixed cost, low to no marginal cost’ model [Woods and Böhme, 2020]. However, contemporary antitrust policy must also look beyond that era and connect with concerns like the neo-Abolitionist appeal reflected in notions like the *moral economy* and recognize the shift toward *relational contracts* in much of the contemporary economy. A new view is needed.

It should also be noted that the antitrust behavior of today also involves a large degree of surveillance. As Noam Chomsky observed in a talk to the Platform Cooperative Consortium in March 2021, “The major delivery services, UPS and others now describe how they are increasing efficiency, [that] thanks to the new techniques of surveillance means fewer drivers achieving more and faster delivery.”<sup>38</sup>

Moreover, companies with dominant positions have no incentive to increase the quality of their customers service.<sup>39</sup> Thus, a solution to the new types of anti-trust behaviors may not lie in a regulatory – but a cooperative – logic. As [Schneider and Mannan, 2020] have argued, the venture capital model currently dominant must be rethought in light of the dramatic decline in welfare of many in especially the low-skill service sector. *Platform cooperativism*, introduced by [Scholz, 2017] and [Schneider, 2018] is an alternative. In the

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<sup>38</sup>March 23, 2021. A transcript can be found at <https://marcuseadorno.wordpress.com/2021/03/25/transcript-of-talk-by-noam-chomsky-to-platform-cooperatives-now-march-23-2021/>.

<sup>39</sup>Cf. <https://www.nytimes.com/2021/03/24/technology/coinbase-bitcoin-complaints.html>.

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following case studies, we investigate the empirical outcomes of a shift from external labor supplier to membership within the platform sector, especially in the case of the rideshare and delivery industry.

#### 10.3.6 Data, Labor and Patronage on the Platform

In consideration of the above discussion, we wish at present to present a series of case studies seeking to contribute to the benefit in the distinction between different *types* of entrepreneurship. We begin by first presenting a number of individual case studies that demonstrate discrete effects of the above discussed issues relating to the present-day organization of the platform economy. By presenting these individual cases, we can demonstrate the impact the opaque, centralized model of platform firms today has on stakeholders like workers and small businesses. Following this, we engage in a brief interrogation between the cooperative principles analyzed in Chapters 7 and 8 and free and open software (FOSS) principles.

After concluding this cross-examination, we return to a number of organizational case studies, profiling several recent examples of the ascendant model of *platform cooperatives* in their attempts to contribute to resolving numerous contemporary challenges within the domain of the platform economy. These include, as we will see, high attrition rates, low service quality and very low rates of relational rent.

These are very real challenges. As Ken Lewis of Drivers Cooperative, a New York City based rideshare cooperative based on the Eva model, has observed, increasingly, taxi drivers are committing suicide as their ability to generate a meaningful income is increasingly eroded by rideshare apps like Uber and Lyft<sup>40</sup>. Finding creative solutions to provide this largely immigrant community of workers with tools to self-organize, innovate and adapt to the new environment will not only contribute to social stability, but also support mental health and prevent an increased loss of life.

#### Felipe Martinez, Uber, Lyft

Felipe Martinez was self-managed for many years, considers himself “a capitalist” and had two companies in Boston, in which he worked as an auctioneer and antiques dealer. In 2017, Felipe got into the rideshare scene, working for Uber. He enjoyed the work and initially considered Uber a “great company”.

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<sup>40</sup>Source: personal communication with Ken Lewis, who claims that one colleague committed suicide by jumping off a roof. The main reason he describes contributing to the increased suicide rates is “a sense of hopelessness and increasing indebtedness [...] many of these people do not see a way out for themselves and their families”.

He mainly worked “one way runs”, driving clients to Logan International Airport, turning off his app and returning to the city and repeating this “usually three times before rush hour”. He saw many drivers waiting at the airport, which is how he initially got in touch with other drivers.

Around this time (November, 2018), Uber changed its algorithm and lowered driver compensation rates from \$1.26 to \$.66 a mile. Felipe reports that, after this change, “We don’t know what’s happening” and that it appears that rides “no longer go to the closest person”, but instead “to the closest person with maximum profit for Uber”. In order to voice his protest and express solidarity with other drivers, Felipe put a poster in his window with “you have a voice” in several languages<sup>41</sup>.

With this sign, he encountered around 60 drivers a day, with whom he spoke and discussed their grievances. “Most were concerned with automation, not with Uber as a company or model, *per se*”. Felipe claims he learned much talking to drivers, especially their grievances. One acute issue was the state of the portable toilet facilities the airport had placed near the Uber pickup point. There were, according to Felipe, in an “inhuman” state. Felipe complained to the airport about the toilets. After this, the bathrooms were regularly cleaned and Felipe and his colleagues wound up telling other drivers to help keep toilets clean.

After the change in compensation and the adjustments to the algorithm, Felipe attempted to organize drivers via Facebook. At an initial event, the organizers “were expecting a dozen” drivers to show up, “but over 100 drivers came”. Many of those present founded the Boston Independent Drivers Guild (BIDG), which Martinez described as being “like an association” connected with the idea of “respecting drivers”. The drivers “weren’t sure how to organize at the beginning” and went through a trial-and-error period, which included one organizational split, which went on to form Rideshare United. Felipe Martinez in 2018 helped to organize a protest at the Boston Uber hub in 2018 (“rolling rally”).

When asked about treatment on the part of customers, Felipe responded that he “had no issues personally, but [has] heard frequently that passengers don’t respect drivers, don’t tip, etc.” Much of the situation, according to Felipe, “is Uber and/or Lyft’s fault”<sup>42</sup>. Felipe had an experience where “one client from the UK asked why Uber is so cheap” in the U.S. He also suggested that AB 5, which would apply a heuristic to recognize rideshare and other gig workers as *de facto* employees, might change that.

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<sup>41</sup>Felipe reported that “the drivers are very multi-cultural, diverse and that he had “never had Muslim friend before” becoming an Uber driver.

<sup>42</sup>It should be noted that Uber only added the ability to tip in 2017, some hysteresis may be at play.



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Asked whether he felt lonely working for a rideshare app, Martinez responded “yes and no”. In part, he argued, “clients are company” and reiterated that he used to like Uber. However, there is considerable loneliness, as there is “no meeting with colleagues, as no clocking in, no communal lunch breaks, etc.”

Regarding the question of whether he felt as though someone were looking over his shoulder, Felipe responded that he does feel like he is being watched. In particular, the algorithm is very intransparent. In addition to this, Felipe is being subpoenaed by Uber and Lyft, respective of an “efficient expedition” in an ongoing proceeding, in which he is being accused of being a “union agent”. He has not been “deactivated”, but has seen a decline in rides. Also, his destination filter (which allows drivers to select preferred destinations for rides) is “not working.” Speaking generally about the situation of drivers, he says that “people [are willing to] talk [i.e., voice complaints and grievances] with the door shut, but not when it’s open”. The “pressure [of organizing riders] is not easy”.

One of the high points of Felipe Martinez’s recent life was giving a speech at a Bernie Sanders campaign rally in New Hampshire. He said he was moved when he received “a standing ovation”, as he had merely “spoken from the heart and addressed my concerns”.

#### **John Sticha: Lyft, DoorDash, GrubHub**

John is, of writing (March, 2022), a 24 year old resident of Minneapolis with a Bachelor’s degree in Environmental Engineering, which he received from Notre Dame University in May 2019. Due to his volatile health situation, he needed a flexible job, where could take a week off when needed. He originally started working with Lyft directly after completing his studies, because of the flexibility, and enjoyed driving and socializing with clients. He continued working for Lyft until March 2020, when the pandemic struck and his parents were quite concerned. In total, he did 1,100-1,200 drives.

John feels like the “perfect demographic” for rideshare, with a car gifted by his parents, which is “just under” Lyft’s mileage limits of 150,000 miles and its age limit of 15 years. Moreover, his parents funded repairs on the car and his family knows a mechanic who does repairs cheaply. He also saved on costs by living with his parents. He observed that, working for Lyft, “mileage adds up”, sometimes driving more than 200 miles a day in one 8 hour shift. He realized that he had “no protections” and clients were on occasion aggressive. He occasionally had to kick clients out of his car.

After a pandemic-induced pause, in December 2021, John started working for DoorDash, the food delivery app, in part because he “got a sign on bonus”

through a friend, which was a \$600 bonus for a certain amount of deliveries in a certain amount of time. He “initially accepted every delivery”. This strategy was partly the result of “a psychological trap”. In explaining what he meant by this, John mentioned that on each ‘Dasher’s’ (as drivers are called) home screen, there are several rating systems, including one for the individual driver’s customer rating<sup>43</sup>; another “rating” system displays the acceptance rate of each individual driver, using a color-coded system (higher acceptance rates are green, lower ones, red). Terms like “Top Dasher” are associated with “Dashers” who accept at least 70% of offered deliveries and are given first access to delivery orders. A “Dasher’s” period of work is called a “Dash”, which can be used as a verb: e.g., to “Dash now”.

While declining orders is generally not punished and the contract makes this explicit, John noted that the color coding “gives the impression” that one should accept as many orders as possible. Moreover, GrubHub has three tiers and each new driver “start in the top tier”. At DoorDash, it is similar, although there are just two tiers. According to John, the system “incentivizes people to accept orders”. For instance, John noticed there is often a distinction between “estimated pay” and real pay. In particular, he noted the phenomenon of “hidden tips”, where drivers don’t find out about actual tips until after the delivery, even if the client has already transferred the amount. John feels this “probably incentivizes people to take unattractive deliveries.”

Declining too many order causes the app to “pause” a driver’s “Dash”. Moreover, drivers are not compensated for waiting at restaurants, which can sometimes take nearly half an hour.<sup>44</sup> DoorDash, during the current geopolitical situation of the Russia-Ukraine war, has begun providing a small subsidy for high gas prices until the end of April 2022<sup>45</sup>.

John frequently sees drivers waiting at restaurants, congregating (e.g., at Buffalo Wild Wings during NBA “March Madness” with many backorders). He didn’t observe much communication among the drivers, “mostly small talk,” discussing their work situation, e.g., “strategies of accepting or rejecting orders”. In terms of interactions with clients, with DoorDash, “between 50-75% of clients ask to ‘leave items at the door’.” Thus, especially since the pandemic, “there hasn’t been much interaction”. Nevertheless, where there are interactions, “clients are generally friendly”, although some “are

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<sup>43</sup>John suggested it is often the case that drivers are blamed for missing items, for which they are in fact not responsible.

<sup>44</sup>John noted that Lyft and Uber offer compensation for time in addition to mileage (“not much, but something”). GrubHub, on the other hand, does guarantee a \$13 an hour wage.

<sup>45</sup>According to John, the subsidy is set at “\$5 for 100 mi, \$10 for 175 mi, or \$15 for 225”.

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inconsequential”, i.e., they select the option of having the driver hand items over personally, but then ask to leave them at the door. With Lyft, John reports that the majority were nice, “although that could be as a result of me prioritizing the morning and daytime commute.” Thus, he generally experienced a small number of problems, and those “were mainly at night<sup>46</sup>.”

John generally does “not feel looked down on”. Most clients are considerate of his health situation and supportive. He reported one situation where drunk students from the University of St. Thomas remarked incredulously, “you went to Notre Dame and now work for Lyft?” John works on average around 20 hours a week, though he has on occasion worked “40+ hours”. He is looking to add Uber Eats, in order to do “app switching”. Asked whether he is lonely working such jobs, he answered that, while he hasn’t had much job experience, that, generally, he does “miss social aspects of other jobs (he has in the past worked in food service)”, but compensates by listening to music.

When asked about the issue of surveillance, John suggested that he “fell into trap with DoorDash”, where he started by accepting every single job. This attitude changed when he visited a Reddit subreddit dedicated to DoorDash drivers<sup>47</sup>. The forum is populated mainly by drivers and is filled with “lots of negativity”. John felt the forum was “filled with anger”. When asked to whom the anger was directed, he stated that it was “generally [directed] towards DD, although also towards CEO Tony Xu and general frustration with the app.” About this, John suggested, even for him, the “app frequently crashes” and he “[has] to restart the app at least one time per shift.” The forum also featured “much anger at DoorDash support [and] also people upset with others in their area, with high turnover.” “Some” individuals on the forum seem to “have no sympathy.” Much of the anger in the forum is apparently also directed at customers, “especially those who tip poorly and/or don’t respond to calls.”

After reading through some of the content on the forum, John realized that he “should have read the [employment] contract through thoroughly, as I learned I can’t be punished for rejecting deliveries.” John spoke here of a learning process. He also remarked that, once, in snowstorm, he got warned that his “delivery is too late”. While he has never been deactivated on either Lyft or DoorDash, he has “heard of people being deactivated.” Many “are not entirely sure about the criteria for getting deactivated”. While “some reasons are clear”, this is “not always” the case.

Generally, he describes the feeling as “scary” and does “feel like [he is]

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<sup>46</sup>For example, cranky clients who get upset at missing an exit, being unresponsive (“grunting responses”) and, on individual occasions, “having relationship arguments that turned physical”.

<sup>47</sup>In particular, [https://www.reddit.com/r/doorDash\\_drivers](https://www.reddit.com/r/doorDash_drivers).

being watched.” When he started with Lyft in 2019, John “was naive” and “accepted everything – out of fear of having someone surveille my activity, even if an algorithm”. He described having more intense feelings of surveillance with Lyft than with DoorDash. In terms of receiving food during his waits, John suggested, “I have gotten to keep two orders that were canceled during/after pickup and an extra drink that I was accidentally given from Taco Bell. Besides that, DoorDash’s own DashMart occasionally sets out inexpensive snacks for drivers to take. But, the majority of times I go there, the snack bins are empty.”

### **Sade Warren, Uber Eats, GrubHub, DoorDash**

Sade<sup>48</sup> lives in Atlanta and has a Master’s degree in business administration. She began working for DoorDash, GrubHub and Uber Eats in 2020 and worked for the platforms for “about one year”. She believes they “don’t pay workers well.” DoorDash “lowered the base pay” during her time working there. This led to “lots of people complaining”. Sade worked “full-time”, between 20 and 30 hours a week. She enjoyed the flexibility. Her partner also works for delivery apps from time to time. She saw it as “a good way to make extra money.”

In terms of the quality of work, there were “frequent delays”, which amounted to unpaid time waiting in restaurants. This was worst “on the weekends”, when there were frequent backorders. In such situations, she frequently encountered other drivers and would “give them tips” and exchange strategies. There was never much contact with clients, as she started working with such apps during the pandemic. Thus, she did not interact with “around 80%” of clients. Frequently, when delivering to apartment complexes, she “would not be given the gate code” and so “would have to wait or tail someone in”. This was frequently “stressful” and on one occasion caused damage to her car, when she attempted to follow another car into the complex. The apps “do not offer insurance” for such cases.

Prior to starting, Sade joined a number of Facebook self-help groups for DoorDash drivers, including “DoorDash Decline Now”<sup>49</sup> because she “was interested in other people’s views”. In these groups, “there was alot of negativity, people would be bullied if they accept low dollar orders.”

In terms of surveillance, Sade suggested that “DoorDash has a timeframe” in which to bring orders, because “DoorDash doesn’t like double orders; [they]

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<sup>48</sup>In the interests of full disclosure, Sade is the author’s sister.

<sup>49</sup>These groups frequently have names like “Decline” associated with some dollar value. The ethos appears to be to teach especially fledgling drivers not to accept low money orders that would amount to exceptionally low hourly wages.

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want you to be loyal.” Thus, “Dashers” frequently receive notifications if they are over the assigned timeframe. Sade referred to these as “dings”:

It wasn't that I was being watched [*per se*, because] of course you are. You're doing everything on your your mobile phone. I was more [...] frustrated because [you think to yourself], 'if you paid me more, DoorDash, I wouldn't have to sit here and multi-app and do two orders at the same time to try to make up for the money that you're not paying.' So that pissed me off [...]. It's frustrating when it's your only source of income and you're getting these little *dings* and you could be deactivated any minute and you don't know [...], especially if that's your main source of income. That's [...] frustrating.

On the other hand, with GrubHub, problems frequently occurred because orders are mistakenly assigned “to multiple people. So then you would get there and someone else's picked up the same order”. In such cases, GrubHub “will pay” the driver mistakenly sent “if you call, but just the base pay, not the tip”. Sade suggested she “could make the most money via Uber Eats”. Customers on that app “can tip after the fact”. With other apps, this wasn't possible.

Asked about her self-esteem working for such an app, Sade suggested that

at my age, a lot of people are off to bigger and better things, so I did [feel bad], it did kind of make me feel beneath other people when I was, in the middle of the day, going into restaurants and it got to the point for for me I wouldn't even really wear the [...] paraphernalia, [for instance] DoorDash shirts and bringing the DoorDash bag [into the restaurant]. Yeah, I was a little embarrassed so [...]that is a weird thing.

When asked if the apps are “ethical workplaces”, Sade responded, “No, there is lots of improvement necessary.” For instance, she and her partner tried an experiment once, where they each placed an order with the same restaurant for the same item via a delivery app and “got different delivery charges in the same household”, which she said “is not fair from a customer perspective.” Asked which of the two statements is more true, “I was happy working there” or “It pays the rent”, she responded by saying, “it didn't even pay the rent” and that she “was just there to make money”. The only perks were “getting to meet other drivers” and “getting to make [her] own schedule”. She did not feel lonely and observed that her partner brought his son on deliveries, which offered the opportunity to “bond”. She “would not work there again, unless I was in dire need.”

**Michael Donoghue Stewart, JustEat, Uber Eats and Hungry House**

Michael has worked as a delivery driver for numerous takeout restaurants in Glasgow, Scotland “for around eight years”. He started because he is a “stay at home dad”, with his wife working in the airline industry. His sense is that the delivery apps have an “untoward, dismissive attitude” towards workers. During his years of delivering food, he has had experience with JustEat, Uber Eats, Hungry House and Deliveroo. Small businesses in the UK “pay no tax for the first three years”. This leads to a situation where there is a high turnover, with many selling or abandoning the “hundreds of small take-out shops” on the High Streets.

Michael first noticed the advent of delivery apps “around 5-7 years ago”. He is employed in a so-called “zero-hours contract” [Ferrante, 2019]. In general, Michael suggests that there are less “free agents” working solely for apps in the UK, with more drivers associated with particular take-out shops. Thus, as opposed to restaurants “outsourcing” delivery directly to apps, they generally employ a number of precariously employed delivery drivers on a “zero hours” basis, i.e., not as permanent employees of the business, and combine deliveries via numerous sources, including a range of delivery apps.

When asked at what point the food delivery scene began to evolve into its current form, Michael suggested that “it began with shop owners being approached, that they had won a contest” and would receive a tablet from a delivery app “for free”, in exchange for “putting a sign in their window. Over time, these signs [became ubiquitous]”. At some point, “you were losing out customers if you didn’t have it”. Since deliveries on most apps are organized by postal code, there are frequently longer trips involved for delivering food. Tipping largely depends on the part of the city he delivers to, according to Michael. For example, “in the north of Glasgow, everyone tips, whereas students living around the University typically don’t. Many “are not aware that drivers are working gigs”.

Michael spoke of the fact that the long-term effect of the introduction of the apps has been that “people forget geography”, with the average distance of orders increasing significantly over time. This means that orders frequently go “over [a] four mile” radius, reducing the value of delivery fees, which are fixed between £2.50 and £3.50. This “has made delivery areas twice as large”, leading to increased competition between restaurants, a situation where “businesses are stepping on each other’s toes”. Michael believes the development, while increasing options, is in total “not good for society”.

Since profit margins are low in the restaurant business, the fees, even though they are “11-15%”, cut significantly into the income of restaurant owners. Thus, Michael reports that his employers “complain about JustEats”.

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Moreover, “there is a push to get customers to get off the app. He hears “at least once a week” complaints along the lines of “that’s 14% of our take.” Thus, “it’s no secret”, says Michael, that restaurant owners are not always happy with the situation, but feel obliged to maintain the relationship, for fear of losing large volumes of clientele.

Other restaurant owners the author spoke with were skeptical of delivery apps, “because there’s no quality assurance”<sup>50</sup>. Similarly, while other restaurant owners have observed the “convenience” of firms like Lieferando, which “unburdens” restaurants, “profits are considerably reduced”, leading to a situation where “a higher volume of orders is required to achieve the same level of income.”<sup>51</sup> This situation, exacerbated through recurring technical glitches and occasional problems with delivery drivers would lead many restaurants to “immediately take up” alternatives, if these were to appear.

#### 10.3.7 Union Cab, Madison, Wisconsin

Union Cab of Madison is a taxi cooperative in Madison, Wisconsin that was established in 1979 by a group of striking taxi workers. It now runs “the largest taxi fleet in Madison” and provides over 400,000 rides a year. It is connected to a number of local and national federations, including MadWorC (Madison Worker Cooperatives) and the National Federation of Worker Cooperatives (NFWC) and is also connected with local cooperatives like Isthmus Cooperative<sup>52</sup>.

David Rossing, the current president, has a degree in Landscape Architecture. He had only “used cabs as a client” and never worked as a taxi driver before working for Union cab and “never imagined being a driver himself”. However, after “trying out” Union Cab after being invited, he began “viewing cab drivers as a public utility” and feels that the job “is better than being at a corporate architecture firm ‘planning subdivisions.’”

**The Company** The worker-owners at Union Cab “consider themselves an ‘island of misfit toys’, who “each understand the difference we each provide” and have learned over time “how to convene a forum for speaking together, and dealing with problems collectively.” Important for these developments was “finding rapprochement for differences.” As an example, David spoke about Marcus, a black conservative member, who, when he started at Union Cab, was “not fond of democracy”, but who “became convinced of our values,

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<sup>50</sup>Gabi Giebel of “La Scuderia”, Frankfurt.

<sup>51</sup>Source: Giovanni Brafa of “Paparazzi”, Frankfurt and Offenbach.

<sup>52</sup>Itself a fascinating case study, as an engineering cooperative in Wisconsin with 40 of its 80 members serving on the board. Cf. a forthcoming report by Margaret Lund.

which [Marcus] says he missed from his days in the military”. These include “notions like ‘collective aspiration’”.

The company has invested in two buildings, both of which it outfitted with photovoltaic (PV) panels. The financing model was developed by another cooperative. It also regularly contributes to WHFA radio and contributes dues to federations like MadWorC and USFWC, the latter of which offers healthcare plans to worker cooperatives. There has also been cooperation with the University of Wisconsin on developing a climate friendly operation, which saw the establishing of so-called “Green teams”. Recent financial difficulties, especially since the pandemic, have put a halt to some of these projects.

President David Rossling argues the company “is loved and appreciated by our clients.” Union Cab, as mentioned, has the largest cab fleet in Madison, though it has been severely affected by the pandemic. The fleet consisted of 75 cars in 2019 and consists of 40 cars in March 2022. The pre-pandemic workforce totaled 230 drivers, while its current workforce is closer to 130.<sup>53</sup> The cooperative “benefited greatly” from the U.S. federal government’s loan forgiveness program in the wake of the pandemic. David Rossling argues that it “was necessary for survival”.

**Developments since Uber** Some more recent problems include a shrinking community of supporters for Union Cab, in many ways attributed to the influx of Uber. For example, Union Cab is “not servicing [many] newer buildings”, where 20-30 year olds “have abandoned” the company. These are frequently tech workers, drawn to Madison’s booming tech scene. Many of these young people “have been “wooded by the progressive image” of Uber, whereas the reality appears different.

When asked how the entry of Uber into the local market has affected business, David Rossling responded that it has “strongly” impacted business. Workers at Union Cab used to consider the company “the Big Yellow Family”, but this has recently changed. Uber’s entry “has led to de-professionalization” and “makes us feel less tied together, more replaceable.” Working at Union Cab “has become more of a job, less of a lifestyle.” The change “also affects intangible aspects, things like medical transport”, which was a big source of income for Union Cab and which has since been outsourced to companies like Logisticare<sup>54</sup>.

In order to survive in this new hostile environment, Union Cab is currently

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<sup>53</sup>Source. David Rossling

<sup>54</sup>A large national logistics firm servicing “24 million clients a year” and a wholly owned subsidiary of NASDAQ-listed ModivCare, which has a market capitalization of \$2.2 billion in March 2022.



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engaging in a number of efforts to restructure itself, including “considering introducing a meritocratic pay system, to replace its current seniority-based system.” David Rossling is convinced such a system “undermines solidarity and celebrates competition”. It “has [furthermore] dismantled Team Management” styles, “falling back on more traditional managerial styles”. The goal of the reforms is to “be more corporate” and this “has created more Principal-Agent relations” and led to “less voice” on the part of the members.

When asked about notions of surveillance, Rossling reported that such sentiments “are increasing via the merit pay system.” “The culture has changed”, he stated. In the past, Union Cab “was a kind of public utility, we used to be responsible for getting drunks off the street. Police would ignore speeding by drivers, etc.” Many of these policies disappeared after Uber entered the market. Hospitals, schools, and other anchor institutions “stuck with us.” When asked about the idea of forming a multi-stakeholder cooperative (MSC), Rossling responded that the idea “has been discussed, but [there is] some fear.” Nevertheless, steps towards an MSC-approach have been taken. As an example, Rossling listed the existence of “some LLCs [limited liability companies]” which Union Cab has. One of these was recently converted “into a public non-profit. providing wheelchair transport.”

#### 10.3.8 Cooperative Principles Interrogate FOSS Principles

The above case studies<sup>55</sup> demonstrate the difficulty in applying the cooperative principles as stipulated in the 1995 Statement of Identity to the nebulous and complex domain of the platform. In fact, notions like *network effects* as applied to social networks and platforms, as well as the idea of viewing data as a commodity were not yet prevalent the last time the cooperative identity was updated. Thus, as much has changed in the world since 1995, there is a need to update the cooperative principles, which formally define the logic of cooperation within the economic domain, as we argued above in Chapters 7 and 8. This changed status quo may entail an emendation of the principles towards dealing more clearly with issues including increased interdependence, reliance on network effects, “bundling”, envelopment and the ease with which much of modern intellectual property (IP) can be reproduced (often referred to as *zero marginal cost*).

For instance, due to the ease with which data can be copied and reproduced,

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<sup>55</sup>This section is in part based on a lecture I gave at the 3rd Karl Polanyi Conference at Concordia University in March, 2021, entitled *A Cooperative and Open Source Path to Achieving Post-Neoliberal Democracy*.

much of the platform economy exists in an environment reminiscent of the American frontier prior to the 20th century, described in a song by Woody Guthrie as “pastures of plenty”<sup>56</sup>. In order to deal with the new type of interdependent, networked and “zero marginal cost” IP, the *Open Source Definition*, a list of 9 “Free and Open Source Software” (FOSS) principles, was devised by the Open Source Initiative. These, in turn, were derived from the *Debian Free Software Guidelines* and entail

1. Free redistribution.
2. Inclusion of source code.
3. Allowing for modifications and derived works.
4. Integrity of the author’s source code (as a compromise).
5. No discrimination against persons or groups.
6. No discrimination against fields of endeavor, like commercial use.
7. The license needs to apply to all to whom the program is redistributed.
8. License must not be specific to a product.
9. License must not restrict other software.

Below, we engage in an interrogation between the cooperative and FOSS principles. It is hoped that such a dialogue can provide a context of justification for the ensuing case studies of platform cooperatives.

### **Voluntary Membership, No Discrimination**

*Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.*

In reference to collective choice situations in the platform economy, this principle appears to deal with the underlying problem of entrepreneurial dependence. For instance, the network structures of *platform cooperatives* should, according to this principle, be designed as to allow stakeholders to enter and exit organizations with no negative repercussions. This principle would also go to lengths in dealing with the documented issues of racial, sexual and other forms of discrimination in the contemporary platform economy.

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<sup>56</sup>[Billington and Ridge, 2001, p. 342] remark that, in the US in the 1870s, “[t]he market for any manufacturer producing cheap fencing was unlimited.”

### 10.3. SOCIAL ENTREPRENEURSHIP VS. ENTREPRENEURIAL DEPENDENCE: RIDESHARE

[Obermeyer et al., 2019] Clearly, this first principle is similar to FOSS principles, and particularly the 5th and 6th principles against discrimination 1) towards persons or groups and 2) against fields of endeavor (like commercial software), as well as the 7th FOSS principle, which states that the license must apply to all with whom the source is redistributed.

#### **Democratic Control; One Member, One Vote**

*Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.*

This principle would seek to reduce the concentration of power in platform firms and allow more input from users pertaining to data policies. Taken to its limit, the principle would require the owners of the large platforms to govern based on the principle of one member, one vote. This principle relates to the 2nd FOSS principle of inclusion of the source code (accountability), as well as the 3rd principle allowing for modification and derived works (member participation).

#### **Economic Participation, Limited Return**

*Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.*

Application of this principle has potentially dramatic implications. The notion of limited return and benefiting members in accordance with their transactions with the organization would be a basis of remunerating users for the provision of data in the modern platforms. Limiting return also has the effect of eliminating channels for speculative investment activity. This has the added benefit of reducing the incentives for market concentration and data monopolies, and can work to incentivize ordering rather than growth-centric activities.

Returning to the FOSS principles, the third ICA Principle relates to

Principle 1, free redistribution, Principle 2, inclusion of source code, and Principle 3, allowing modifications.

### **Autonomy**

*Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.*

In fact, we can say this is likely one of the most important contributions the Cooperative Principles can make to the knowledge economy, where the damage from monopolization and concentration is apparent in frequent abuse of dominant positions and just as frequently in (complete or partial) disregard of laws and regulations [Nouwens et al., 2020], [Matte et al., 2020]. It would help deal with envelopment and the development of data monopolies by encouraging decentralized networks of autonomous organizations.

This important principle relates particularly to the 4th, 8th and 9th FOSS principles. The fourth principle underscores the integrity of an author's source code. The 8th and 9th principles state that a license must not be specific to a product and it must not restrict other software. It can clearly also be said to relate to the principles of free distribution and modification.

### **Education**

*Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.*

The idea of education and transparency is paradoxically often lacking or misplaced in the knowledge economy today. Due to the market orientation of much thinking around knowledge, artificial barriers are set-up that actually prevent many citizens from accessing vital information, especially those citizens residing in the Global South [Rajani et al., 2003]. Pledging education and training reduces the large degree of information asymmetry and undermines the "lean" business model's reliance on outsourcing training to subcontracted workers. [Srnicsek, 2017]

Though not directly related, inclusion of source code (FOSS Principle 2) would clearly be a prerequisite for both transparency and a broader adoption of new techniques.

### **Cooperation among Cooperatives**

*Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.*

This principle is intuitively aligned with the knowledge economy, which relies on cooperation and networking between a sophisticated array of layers of groups using a shared infrastructure. This network of systems leads one to think of the principle of autonomy above. These two principles working in conjunction appear to offer a stable foundation for democratizing the knowledge economy.

This would relate to FOSS principles 3: allowing for modification of source code, 1: free redistribution and 7: the license needs to apply to all to whom the program is redistributed, particularly because these are prerequisites for Open Access collaboration, modification and development of new tools, which we return to later in cases like Sahana.

### **Concern for Community**

*Cooperatives work for the sustainable development of their communities through policies approved by their members.*

In keeping with the relational approach's commitment to extending the cost-benefit analysis beyond the firm's doors, a general *concern for community* is clearly associated with that end. This principle would affect the knowledge economy by solidifying the influence of non-member users in determining the priorities and parameters of data policy. As such, it directly addresses the dilemma of consent and allows for self-organizing activity to arise on an as needed basis with minimal interference from outside.

This principle relates to both the first FOSS principle of free redistribution, as well as the 4th: integrity of source code, the 5th and 6th: no discrimination against persons or groups, or fields of endeavor.

### **Is A Synthesis Possible?**

It would appear, from the above cross-examination, that there are fundamental isomorphisms between the cooperative principles and the FOSS principles. Events like the 2004 tsunami in Sri Lanka demonstrate the benefit in combining free and open source software development and the principles of cooperation, in that case, to use in rapidly and effectively dealing with a humanitarian crisis. Thus, immediately after the tsunami, responsible for upwards of 40,000 deaths in Sri Lanka, members of the island nation's Information and Communications Technology (ICT) community developed Sahana. Sahana's

vision “...is to help alleviate human suffering and help save lives through the effective use of ICT to help manage disaster coordination problems during a disaster.” [De Silva and Prustalis, 2010, p. 3]

By 2007, this open source project was well in development and saw early implementations in New York City’s storm-preparedness program. One of Sahana’s early prominent applications came in the wake of the devastating 7.0 earthquake off the coast of Haiti’s capital Port-au-Prince in 2010. Less than 48 hours after the earthquake, a Sahana-based portal was created that allowed dozens of international state and non-state aid organizations to coordinate and communicate openly and easily.

Those responsible for its development noted that scale was the main problem with coordinating disaster relief. Actors in Sri Lanka found that “[t]hough support is often forth coming, coordinating chaos ensures [sic] because each relief group on scene has little idea what the other is actually doing. As a result, there is a waste of pledged support, imbalances in aid distribution and a lack of proper coverage of support and services (*ibid*)

Thus, Sahana demonstrates the practical efficacy, with respect to relational rents (including speed, reliability, trust, transparency and accessibility) how the logic of cooperation, as manifest in the cooperative principles, can be meaningfully combined with FOSS principles. Below, we review a number of case studies demonstrating the use of this synthesis in a more strictly “economic” or organizational context, in particular with reference to the cases of Eva and Polypoly.

### 10.3.9 Eva Coop

Eva is self-proclaimed “Rideshare and delivery cooperative” founded in 2017 in Montreal, Quebec. The motivation for the company was that “By localizing mobility economy, democratizing governance and decentralizing data management, our co-founders redefined the next generation of mobility.” Moreover, it was thought that “[b]y bringing together riders and drivers as members, [Eva could] ensure a mutualistic relation with all the stakeholders involved and a better redistribution of wealth.”<sup>57</sup> The app launched in 2019 and has since become the second-place rideshare app in Montreal in terms of riders, behind Uber but ahead of Lyft.

Eva is a multi-stakeholder cooperative with ca. 50,000 users and ca. 3,000 drivers. Dardan Isufi, Eva’s COO, considers Eva, at root, “an app for getting from point A to point C, with a possible stop at point B”, that has, since Covid, integrated delivery functions.

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<sup>57</sup>Source: <https://www.goeva.com/#/about>.

### Uber and the “Stealing Economy”

Isufi sees Uber as “a shitty corporate citizen, but their service is great”. Thus, Eva seeks to adapt the service with a more socially sustainable model, in keeping with the two most pressing challenges of the status quo, “climate change and inequality”. Thus, “Uber is basically orchestrating its business model around the exploitation of its drivers”, citing [Scholz, 2017]’s notion of drivers being “overworked and underpaid”. Moreover, phenomena like “surge pricing”, where companies like Uber and Lyft strategically raise prices at times where demand is high, “undermines reliability” for clients.

All of this, so Isufi, leads “to a ‘stealing’, not a ‘sharing economy’” In the face of this situation, Eva “aims to improve the lives of its members with local and social and responsible mobility for rider members. This means predetermined and cheaper prices. For driver members, this means more human service and better income.” Part of this results from the fact that Eva charges “no commission”.<sup>58</sup>

Thus, Eva can be considered an “easily scalable blockchain based rideshare and delivery app” whose goal is to develop “neutral and transparent protocols governed by communities.” With its franchising model (there are currently two franchises in Ottawa and Quebec City), it can be thought of, argues, Isufi, as “a McDonald’s where we’re basically franchising a Big Mac recipe, which is the app, to different local franchises and these local franchises are locally managed by both drivers and riders. It’s like if we’re a McDonald’s owned by the workers [and customers].”

As mentioned, since the pandemic, Eva has taken on food deliveries and has facilitated restaurants becoming members<sup>59</sup>, and has seen ca. 40,000 rides in 2021.

### The App

The app, according to Isufi, “is entirely based on a decentralized protocol, using third generation blockchain technology”<sup>60</sup>. This allows the “blockchain-based rideshare and delivery app” to be “easily scalable” to various local contexts. Since the app is owned by the members, it “is not a middleman” engaging

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<sup>58</sup>There are fees for its service, although these are “predetermined and cheaper”. As Dardan Isufi has claimed, “there’s a cut per ride and for delivery [For Eva] in order to sustain this overall ecosystem. The reason why we’re not strictly speaking, a ‘decentralized autonomous organization’, what people call a DAO, is because we live in the real world. There is no way a DAO can get the authorization to ride people around the city.”

<sup>59</sup>Going so far in this endeavor as to offer “monthly transparent invoicing”. Source: <https://www.goeva.com/#/business>.

<sup>60</sup>Cf. [Kaur and Gupta, 2021].

in arbitrage [Krugman and Obstfeld, 2009, p. 330f]. Thus, regarding Eva’s multiple stakeholders using the app: “one is asking for supply and the other one is asking for demand. And basically the app is a mutual tool for them to to access the market they’re looking for.”

The very open and transparent nature of organizing the technology “enables us to allow public access to the database with inherent encryption of nominal data, allowing for our movement to scale up and our application to be used in different cities.” This increases the resilience and adaptability of the app and also enables cooperation with public authorities. As Dardan Isufi states, “when there’s a profit or a surplus, it is shared among the members, and of course transparency with our blockchain database, which is accessible to any municipal government or to tax agencies [etc.]”

### Structure

Eva is structure in two tiers, the first being Eva Global, which “develop[s] the technology, the branding, quality assurance and global marketing.” The second tier are the cooperatives, run as local franchises (e.g., Montreal, Ottawa, Quebec City, etc.). These “are members owned companies that are responsible for local marketing, drivers, management [and] operations.” Since Eva’s “rideshare drivers are also delivery drivers”, the cooperative takes advantage of Metcalfe’s law of network effect<sup>61</sup>. This in many ways mimics the business model of Uber, Facebook and other platform giants, who operate, e.g., via envelopment, as described in 10.3.5. As Isufi admits, “since we’ve added the delivery service, we now we fully underst[and] why Uber is doing different services, because it enables you to optimize your network.”

Customers have the app, which “is really just a tool that is controlled by the members by their code by their users.” In this tiered, decentralized and member-controlled structure, Eva is able to “creat[e] a real thick, collaborative economy.”

### Stakeholder Voices

**Martin Harrison** Martin, who worked for eight years as a taxi driver and also worked for Uber, has worked with Eva since its start in 2019.

Comparing cab driving with Eva and again with Uber, Martin finds that, while driving a cab “is more of an adventure”, “people are nicer in an Eva, because they don’t feel extorted.” He finds the fact that there is no surge pricing fair. Generally, he has the sense that “people feel more like a person

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<sup>61</sup>Cf. [Bamberger and Lobel, 2017].



### 10.3. SOCIAL ENTREPRENEURSHIP VS. ENTREPRENEURIAL DEPENDENCE: RIDESHARE

than an algorithm” and that “clients are generally happier when they are with [Eva,] they don’t want to go back.”

In general, while riding a cab is more of a “free-for all”, where he was often “nervous”, including with regards to issues such as whether clients would pay or not, and suggested that, on the whole, it was a “dangerous” job.

When Uber came to Montreal, Martin first noted that Uber drivers “were picking up all my people”. Thus, after a time of severely reduced fares, he “went to Uber,” which he described as being “better than driving a rented cab for \$390 a week”. Moreover, he felt less harassed, e.g., by the police, who Martin argues “chased cab drivers” for issues like speeding. He says he enjoyed the flexibility, although it is “hard on the car”. He suggests that the lowered rates in November 2018 also affected him and, in particular, that these changes were not communicated to the drivers, that Uber “didn’t bother talking with us”, instead referring to “vague” language about “the customer getting a better deal”. Thus, Martin suggests that Uber, as a company, “does the minimum to make money” and that he has the sense that they “don’t care about anyone but the shareholders” and that it appeared to him to be a culture of “greed”. He suggests he worked with Uber “because you have to”.

With respect to Eva, for which Martin has been driving “since the beginning in 2019”, he says that “they answer the phone” and that he has “even had the founders in [his] cab”, that “they are normal people”. With respect to the benefits of the cooperative form, Martin states that, to him, “the concept isn’t tangible” and that the difference to him relates to “how I feel”, that he “feel[s] more comfortable, appreciated”. In general, “Uber’s concern is only when we’re on the app”, that “when I’m online, that’s the business.” Regarding issues of surveillance, Martin suggests that “that was actually the attractive part”, compared to the relatively unregulated “dangers” of the taxi market. In fact, he suggests that he “was always on edge in a cab”, mentioning one incident where two clients did not want to pay and “pulled out a six inch knife” on him.

Martin says he “sleeps better with Eva” and that he is regularly invited to events. For example, Martin suggested he “would never volunteer” to speak with researchers like myself while working for another company. He describes himself as “not at all a team player”, that “never needed a boss to tell [him] what to do” and that is why he has driven taxis for years. Nevertheless, Martin stated that it “is good to know I’m backed [i.e., supported]” when there are problems and issues. With respect to Uber, he says he “doesn’t want to go back” after trying out Eva. He has never heard of any driver at Eva being deactivated.

In terms of the client pool, he suggests that the scale is Cab<Uber<Eva, with by far the most conflicts and issues with clients while driving a cab,

which he described as “a disaster”, considerably less when driving for Uber, but still issues like “unfair negative ratings”<sup>62</sup>. He believes that many bad ratings are the result of attempts to vent anger at “extortionate prices”.<sup>63</sup> He says he “would describe” Eva as an ethical workplace, as “they have a philosophy, consistency [and] are not in it for the money”. Asked, whether he is either happy to work at Eva or sees it more as a means to pay bills, he said “definitely happy, I am always a happy person, but I am happier!”

He would not go back to Uber, as he “has more principles, that I can afford now.”

**Maurice Shamoun** Maurice is a Syrian national who emigrated to Canada in 1996. He decided to emigrate due to the financial situation in Syria, which he says was “not good” even before the Civil War (2011-present). He applied for a visa at the Canadian embassy and was granted one in 1996.

The civil engineer began working for Uber in 2016-7. A friend helped him to finance an automobile. Maurice was quite “happy” with the line of work, as he considers himself “a social person”, wants to “communicate with people” and he enjoyed “meeting people from all over.” After around three years, his account was deactivated “for no reason”, or at least no reason that Maurice could ascertain, as “no one at Uber would return my calls”. After this, Maurice switched to Eva, which he says “is better”, as it is a local company and is full of “young people” with whom one can “actually communicate”. Maurice considers himself “retired” and continues driving for Eva part-time “in order to cover expenses.”

Since Covid, tourism has “disappeared” and most work has revolved around food delivery. Maurice regularly meets other Eva drivers in restaurants. Moreover, he comments that the company provides a channel for drivers to communicate, in order “to discuss incidents of an unusual nature, discuss trips” and to offer promotions. He suggests that there are two drivers with whom he regularly meets “for example, for coffee”.

Maurice “[doesn’t] care” if the company is a cooperative, “as long as the people are respectful.” Maurice has gone to one general meeting, which he attended via Zoom, due to his fears of Covid. He appreciates that he is often able to solve problems “on the phone”, problems like not being able to terminate a successful trip (i.e., a technical glitch). The number of glitches in

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<sup>62</sup>Martin described one client who had given him a negative rating “for playing bad music”, which he said was a subjective thing and “I’m not a DJ”.

<sup>63</sup>Martin stated, “So that’s what I used to notice in the Uber when the “spike” was up [i.e., “surge pricing”, customers respond by thinking,] ‘Okay, now, let’s attack the drivers. This is so damn expensive. So we’re gonna give them a bad rating’”.

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the app have become less and, since he started “two years ago”, the app has “improved”.

He “[does] not mind occasionally waiting” at restaurants. At many restaurants, which can also become stakeholders at Eva, as mentioned above, Maurice “feel[s] like they know [him]” and he occasionally receives “a slice of pizza” or a small meal.

Maurice has experienced a number of incidents that demonstrate a difference at Eva. For instance, he once had a flat tire and was able to call Eva to send another driver and contact a mechanic to repair the tire. This reinforced his sentiment that a sense of “solidarity and helping” exists at Eva. Asked whether he works at Eva rather because he is happy or rather to pay bills, Maurice responded that he is “happy” to work at Eva. He feels “that, since it is a small company, we are all like one big family.” He has picked up COO Dardan Isufi on several occasions, who he thinks “doesn’t have a car”. During their trips, they “laugh and tell jokes”.

This sense of connection “is valuable” and it would “feel bad” not to have such connections. It “is better to know the people you work with”.

**Other Stakeholders** Other stakeholders at Eva have praised its communal culture. One mentioned how much the drivers enjoy the chat function they have with another directly via the app. Opinions to the effect that “being a member is valuable” were variously expressed. One member who originates from Haiti suggested that he has experienced less problems with racism at Eva, in particular as the power of clients to have his account deactivated by providing “fake negative reviews” is reduced. All drivers spoken to had never heard of an Eva driver being de-activated. Most drivers suggested they “make more money with Eva”, as the company takes less out of each ride. At the same time, clients at Eva pay less for each ride, manifesting a philosophy of shared value-creation as opposed to value-extraction [Mazzucato, 2018].

#### 10.3.10 Polypoly

Redefining the parameters of public infrastructure with respect to notions like “entrepreneurial dependence” extends necessarily to the domain of user data, whose infrastructure is currently concentrated in the hands of companies like Facebook, Apple, Google, and Amazon. One remedy is to foster new, collaborative models of data governance and management. For example, Tim Berners-Lee, the inventor of the World Wide Web, introduced Solid in 2016 in the wake of the Facebook-Cambridge Analytica scandal, discussed in the introductory section above. Solid “aims to radically change the way Web applications work today, resulting in true data ownership as well as improved

privacy”; a number of promising organizations have emerged using Solid’s decentralized architecture.

PolyPoly, which employs Solid, claims to be “the first trans-European data cooperative” and functions by removing the platform monopolies’ exclusive access to user data. The idea is “like a union for data,” allowing users to magnify their voices by dealing with their data privacy collectively, not individually. It aims to fill a gap in autonomous data governance, as citizens become more aware of the need for privacy in the wake of scandals like Cambridge Analytica. Thus, Mercedes-Benz’s CDO, Sabine Scheunert, has argued that “[a] decentralised data economy offers the customer full, autonomous transparency, and precisely this transparency is one of the principles that we at Mercedes-Benz have anchored in our data strategy.”

## History

The idea for Polypoly originated with CEO and founder Thorsten Dittmar, who in 2014 became increasingly concerned with various developments in the data economy, such as increasing monopolization of data.<sup>64</sup> As a social impact investor, he searched for firms to invest in that were dealing with the issue suitably, but “could find none”. Thus, “after the Cambridge Analytica scandal”, he decided to establish Polypoly. The firm’s mission involves traversing the dilemma of putting data in people’s hands and at the same time facilitating the innovation that companies’ access to data enables.<sup>65</sup> Originally planned as a dual structure, it later evolved into a tripartite structure, discussed below.

Polypoly aims to *inform* its members about the use of their data various apps and websites make, because the company is convinced that “informed consent” can only occur when such interactions are transparent. At the same time, it wants to allow users to have *control* over their data. To these dual ends, Polypoly offers the *Polypod*, “a private server that securely stores [...] data, [...] that only [the user] control[s].” Thus, the Polypod allows a user to view which companies are accessing which data. In addition to this, users “can give trusted companies and institutions permission to run algorithms on [their] polyPod to gain anonymised data insights.” Thus, the idea is for users to “explore” in order to gain “knowledge”, with the ultimate goal of “correcting” what they do not agree to alienate.<sup>66</sup>

<sup>64</sup>Source: personal communication with Christian Buggedei, Thorsten Dittmar and <https://polypoly.coop/de-de/blog/meet-polypoly-christian-buggedei-de/>.

<sup>65</sup>Source: <https://polypoly.coop/de-de/blog/meet-polypoly-felix-dahlke-de/>.

<sup>66</sup>Source: <https://polypoly.coop/en-de/polypod>

### Structure and Purpose

Polypoly has a tripartite structure, with the Polypoly Foundation owning the rights to the name and intellectual property, the Polypoly Cooperative having exclusive rights over the data and governance and also a limited liability company (GmbH), which liaises with business interests. While there is currently much overlap in terms of personnel between the cooperative and the GmbH, the plan is to make the two entities completely separate firms. This means the cooperative is designated only for natural persons and should only have the interests of users in mind. Meanwhile, the GmbH can be joined by firms and can “ignore” civic interests in the interest of profit-logic. However, due to the ownership structure, the cooperative always has “upper hand”, according to Buggedei, as it owns and licenses the data<sup>67</sup>. The Foundation, meanwhile, acts as a “neutral arbiter”. In this sense, it is similar to Mozilla and Wordpress. The point in the structure is to emphasize interdependence and non-dominance of one over the other.

Polypoly’s legal architecture reflects its dual desire to be, on the one hand, pan-European, but at the same time its desire for local cooperatives in individual European countries. “Europe works on the one side from a ‘top down’ catalogue of values that provide the framework, and on the other hand from ‘bottom up’ processes of implementing this framework individually” in the member states. Thus, Buggedei concludes that Polypoly needs to be able to translate both logics. It is therefore “not only concerned with the ‘top down’ logic, which is why we started in one country: Germany.”

The company does not see itself as a commons, but as a collection of individuals. Christian Buggedei describes Polypoly “like a union or interest group” for data, representing the interests of individuals to collectively meet needs. In this sense, Polypoly “is similar to classical cooperatives, for instance agricultural coops, which helped farmers collectively meet needs.” In the view of Polypoly’s founder Thorsten Dittmar, the organization should become a “public utility for data” (*“Stadtwerke für Daten”*). In this sense, Buggedei says, Polypoly is a public good. At the other end, it represents a reaction to the unique version of “the tragedy of the commons” present in the data economy. The manifestation of this problem in the data economy is unique “because data can’t be used up.” Thus, “[t]he problem isn’t that one person is ‘using too much data’, but that data are being used for nefarious purposes”. These include purposes like revealing private information of users, manipulation and discrimination, among others.

In this context, Polypoly is building an infrastructure that sets up a way

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<sup>67</sup>Here, it is interesting to reflect on [Dow, 2018, Chapter 14]’s principle that the “weakest” stakeholder group should be in control of a firm.

to mitigate such mal-use of data. By setting certain preferences for data use *ex ante* at a collective level, for instance “a video-streaming service would be in less of a position to know members’ locations, even if it can suggest the next film to watch”. Thus, Polypoly views itself as public infrastructure, making use of network effects, meaning the more people use it, the more valuable it becomes and the more leverage it has over and against companies like Facebook. Of it, Buggedei argues that they “fence in” data, and Polypoly “rips down fences” and allows other firms to use data, with conditions (e.g., these companies are not, in turn, allowed to “fence in” the data, which remains with Polypoly).

Macroeconomically, Polypoly “[is] taking a large degree of data capital from large enterprises like Facebook” and “returning it to Europeans”. Buggedei observes that “[t]he stock price of a firm is not only dependent on the capitalization, but also on the expectation that these enterprises have (exclusive) access to data. Thus, we are taking value from Facebook. At the same time, we are bringing value to Europe.” Of the question of the Internet’s “primary” purpose, Buggedei suggests that the Internet “is a diverse terrain”, with both “commons” like Wikipedia and market forces with social media influencers, etc. The problem, for Buggedei, arises “when people have insufficient information in order to make a decision”.

Therefore, Polypoly wants to put data trails in the public view. For instance, “not many local online shops consider it a “selling point” (*Alleinstellungsmerkmal*)” to have a good data policy. Polypoly can help companies distinguish themselves by making such characteristics more publicly available, similar to “Fair Trade” labeling. In the end, a change can only come about, so Buggedei, by eliminating the “one way street” (*Einbahnstraße*) with respect to data. Buggedei, echoing Gierke’s dichotomy between *concessio* and *translatio*, suggests that one of the main aims of Polypoly is to “make individual actors powerful enough to speak with sovereignty and to have to be able to say ‘no’.” Thus, practically speaking, “many are forced to use Facebook, as associations coordinate via Facebook or Whatsapp.” Here, Buggedei speaks of Jellinek’s notion of the “normative power of the status quo” (*Normative Kraft des Faktischen*).

### The Role of Trust

According to Christian Buggedei, “trust is invisible and yet ubiquitous”. He compares it to going to the supermarket and buying a product. Such choices are not usually determined by rational expectation updating, but is usually influenced strongly by “basic assumptions” and a person’s “past experiences” purchasing such products. Buggedei went on to point out the existence of

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“transitive trust”, which involves trusting, e.g., friends or family. In other words, according to Buggedei, “We observe others and trust.” This phenomenon can be abused, similar to circus performers who exploit the relational good of a collective experience to present a false picture of spectators’ chances in games.

According to Buggedei, similar behavior occurs online, with the difference that, in such an environment, it “has consequences for machine intelligence”. Moreover, there is a relatively high level of anonymity online, e.g., Buggedei commented that one “can’t ask people on eBay what their experiences were”, and must often rely on opaque ratings systems, which are frequently influenced by paid reviewers. Thus, in this context, Polypoly seeks to translate trust into the digital world, “where the respective feedback loops are missing”, e.g., in the form of digital certificates. Thus, Polypoly’s Polypod aims “to moderate or mediate such trust relationships”, and is based on past experiences (even those of the extended network, as well). The notion is that trust is built up slowly, and can be quickly lost.

Polypoly views trust as a “context-dependent” phenomenon, according to Buggedei. Thus, “while some people can combine social and technical aspects of trust, others are not accustomed to technology, and are so not accustomed to establishing trust online.” Generally, Buggedei observes that people assume that there is a “social memory”, i.e., that people develop a reputation via their interactions, but the concern is that “on the Internet, these memories go too far”, in the sense that they are frequently shared with third parties, etc. Thus, Polypoly responds to this by building a system where people put their profile – complete with the data they agree to sharing – onto the Polypod, where firms then have to ask for data.

Buggedei argues that one of the primary motivators for Polypoly is the need for a “simplified system, because people don’t want to constantly ‘manually’ give permissions” to have others access their data. Thus, Polypoly is convinced that such interactions should be able to be intuitive, and respond to the profiles and behaviors of users automatically. Moreover, rendering such relationships explicit and transparent also allows users to be compensated for the usage of their data. Buggedei expects the average user to receive “around €250 per month” for data which today is utilized for free.

With respect to the idea that trust in contemporary society has declined, Buggedei argues that “trust has not eroded, it has shifted”, using examples like Covid lockdown critics as an example. These people “trust their friends, groups they belong to [as well as] various conspiracy theories.” In other words, Buggedei states that the problem is not that “people don’t trust, but rather that they don’t know whom to trust”, which leads to many mistakes. Within this context, Polypoly tries to show people “how they’ve built up their online

relations, including trust relationships, and brings people’s profiles closer to what they think and do”.

### Current Situation and Prosepects

Via the limited liability company, companies like Mercedes-Benz will be able to carry out market research, which “can be done by Polypoly, without having to carry out research [themselves].” Thus, according to Buggedei, “firms don’t have to save data locally, including backups.” They also save on security costs, as in Europe, companies must ensure that data is secured against illicit use. Moreover, firms save on the costs of providing users with their personal data, which the latter “can request via the European data law, DSGVO [European data protection law]”. With Polypoly, “data stays with clients, even analysis occurs with clients.” At the same time, “clients have more privacy.”

#### 10.3.11 Discussion

We see that most large platforms, including AirBnb, Uber and DoorDash live off of commissions generated through access to the apps, which have come to dominate their respective sectors via a combination of venture capital (VC) funding and network effects. Thus they receive up to 30% commissions on prices in sectors “with profit margins as low as 5%”<sup>68</sup> In many cases, this leads to an, at best, amoral situation where “companies [are] not respecting local regulations, [e.g.] taxi or hotel regulations, and just operating through this huge network effect.” It also leads to a situation where discrete exchanges dominate, with high turnover and evidence of “strong moral crowding out”, as the above case studies demonstrate.

In each of these cases, we see that a translative hierarchy and CCMs introduce many costs that prevent relational rents from developing. For example, Ruben Meier, one former AirBnb host referred to his hosting on the platform as “not a stable relationship”, even suggesting he “would never choose to stay in an AirBnb” himself. This despite the fact that, for years, he generated a large part of his income via the platform. Similarly, Uber driver Felipe Martinez’s observation that he and other drivers “don’t know what’s going on” with Uber’s algorithms speaks to a lack of trust and transparency. Such circumstances speak for very low relational rents, which negatively affect motivation and decrease the duration of and willingness to cooperate.

Therefore, John Sticha’s observation that many drivers on the DoorDash driver subreddit “complained about high turnover” appears to serve

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<sup>68</sup>Source: Dardan Isufi.



### 10.3. SOCIAL ENTREPRENEURSHIP VS. ENTREPRENEURIAL DEPENDENCE: RIDESHARE

as evidence of a *very low relational rent* in the domain of food delivery apps, where there are frequently few transaction-specific skills, but also low inter-stakeholder dialogue. Thus, all AirBnb hosts spoken with reported communicating with AirBnb directly “extremely rarely” over periods of between five and ten years of hosting on the platform. Given the fact that the suicide rate for taxi drivers in cities like New York is disproportionately high<sup>69</sup>, this is clearly similar in the rideshare scene. We may also mention the decision by Onlyfans, a platform used by sex workers, to remove explicit content from its site, which would have put the vast majority of its content-creating users in a precarious position in terms of content-creation<sup>70</sup>. Thus, Onlyfans’ policy created an adverse environment for creators and did not reflect a perspective of shared value-creation.

However, instead of attributing such phenomena to Schumpeter’s notion of a “Deklassierungsprozess”, in which “static” and “quasi-static economic subjects” are swept aside in favor of dynamic leaders with new ideas<sup>71</sup>, we may view the rising class of platform cooperatives as an *endemic* form of innovation, where workers, users, community members and other stakeholders, including local, regional or national governments work towards turning the “ambivalence” we attributed to technical innovation in the preceding chapters towards innovations that increase the respective stakeholders’ *ability* to cooperate. Thus, Eva’s COO Dardan Isufi has stated, “the corollary of innovation is disruption, to which we must adapt and to which must find new solutions.”

Thus, phenomena like the Reddit and Facebook groups discussed above can be seen to be forms of innovation, promoting social learning and collective agency, as can examples like Felipe Martinez’s organizing of BIDG and strikes such as over 200 gig workers in Belfast on March 23, 2022, protesting increasing fuel prices<sup>72</sup>.

Thus, platform cooperatives, their workers and their users are not “static economic subjects”, but are collectives – sometimes realized and sometimes potential – interested in innovating, learning and developing routines (mani-

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<sup>69</sup>ABC7, a local New York news station, reported at least eight suicides by New York city cab drivers in 2018. Source: <https://abc7ny.com/cab-drivers-taxi-suicide-new-york-city/4691254/>

<sup>70</sup>The decision was quickly rescinded after a wave of protest by content creators. Cf. <https://www.nytimes.com/2021/08/25/style/onlyfans-ban-reversed.html>. In fact, this decision is a paramount example of how following a strict profit-maximizing logic can actually undermine profit-maximization. A culture of trans-cultural governance and shared value-creation would not have led to the loss of trust many Onlyfans creators have developed for the platform in the wake of the decision, which spawned numerous alternative platforms.

<sup>71</sup>Cf. 4.3.4.

<sup>72</sup>Source: <https://braveneweuropa.com/gig-economy-project-the-fuel-price-is-up-the-delivery-price-is-down-belfast-food-delivery-couriers-strike>.

festations of trajectories) that facilitate shared value-creation. This involves developing relational contracts with workers, users, municipalities and other stakeholders. Thus, FairBnb, a short-term rental platform that seeks to provide a more socially sustainable platform than AirBnb, has had “some success” in convincing the city of Barcelona, as well as municipalities in France, to support the platform as an alternative to the discrete model offered by AirBnb. “Most hosts love the project”, says president Emanuele Decarlo.

Moreover, Dardan Isufi of Eva concludes that “the great thing about a [cooperative] model is [that] we’re creating a digital cooperative by aligning it with our blockchain technology, for the governance purposes and getting members involved within the process.”<sup>73</sup>

Transparency can facilitate shared value-creation by motivating the willingness to and duration of cooperation. Thus, Eva driver member Mahalia Dela Cruz claims that, “with Uber I never knew how much I was going to get. With Eva, it’s clear, simple, and transparent.” Similarly, as mentioned, Polypoly does not aim to totally block companies’ access to user data, but to relationalize it within a dual *cooperative* and *regulatory* logic, thus facilitating a notion of shared value-creation and likely increasing the *quality* of information users are willing to share, as well as the duration of cooperation.

While platform cooperatives display many benefits, they also face decided costs with respect to their corporate rivals. Particularly, their generally small size and lack of early capital injections via VC creates “a chicken and egg problem”, as FairBnb’s Emanuele Decarlo has said. Thus, FairBnb has had little success in convincing municipalities like Venice to invest in mutual cooperation, despite obvious mutual interests. Moreover, it expends much current effort in “keeping hosts engaged”, a problem rendered more difficult during the pandemic-induced decline in tourism worldwide. Nevertheless, as distinct from the motivation by the AirBnb hosts mentioned above, “most people [on FairBnb] are here for identitarian reasons, they do it for ethics”.

Moreover, Decarlo remarked that professionalization in the short-term rental market, where real estate and property-management firms and others have entered and taken large market shares meaning “the amount of [potential sympathetic hosts] available to us is decreasing”, leading to a “reevaluation” of potential growth strategies. Moreover, Italian law makes the conversion of worker cooperatives into multi-stakeholder cooperatives difficult, preventing a simple conversion of FairBnb to a model where hosts and clients share in governance, difficult. Nevertheless, the success of platforms like Eva shows that, given a suitable legal and institutional framework and a combination of determination and technical expertise, a platform cooperative can present a

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<sup>73</sup>Presentation at Exploring Economics Conference, “Which Pluralism?”, Oct 24, 2021.

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successful and vibrant business model.

Moreover, the up-front costs of developing such new models reduces as experience, including vicarious experience, increases. Thus, Eva's model has been successfully adapted in New York City, where Drivers Coop "was originally name Eva Drive NYC, which was created as a social franchise [of Eva, which] actually formed the initial team, grouping Erik Forman and Ken Lewis, and subsequently Alissa Orlando. [Eva] assisted them in the initial business plan which included the launch, the crowdfunding, and much more."<sup>74</sup>

#### 10.3.12 Conclusion

Each of the above case studies has shown the importance of notions like shared value-creation in traversing the complex and interdependent nature of the contemporary global economy. As opposed to interpreting relational transactions with concepts from neoclassical economics, which we have seen are not adequate, we see above why it generally makes sense to view these in terms of cooperative rents, rent corridors and the willingness, ability and duration of cooperation. Such an analysis sheds insight on the difficulty in establishing routines of social (cooperative) innovation, but at the same time, reveals the very real benefits of doing so. Only such a holistic analysis can provide meaningful knowledge on various paths to reforming the platform economy.

It is hoped that the case studies associated with "lean" platform and their cooperatives counterparts have provided new insight into vital political debates of the present, in particular in revealing information as to the nature of employment in such enterprises as Uber, its relationship with several indicators and the causal implications of shifting towards a multi-stakeholder ownership and governance structure. Moreover, the agenda outlined above should also provide insight into the unique domain of *user management* and *user experience*. Since multi-stakeholder enterprises like Eva include both their drivers and their users in their membership, comparing user experiences relative to a shift in the status of users as external agents or members, to whom management is directly accountable, will provide vital information to policymakers and governments key on improving data sovereignty in online transactions.

Lastly, the studies of enterprises like Eva and PolyPoly offer unique opportunities to integrate analysis of legal architecture with issues like data and labor sovereignty. Smart, which we survey in the following chapter, employs

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<sup>74</sup>Personal communication with Dardan Isufi.

a similar “social franchising” model as does Eva, however without exclusively being a platform cooperative (it can be considered a “new cooperative”, geared towards the growing class of freelancers). Studying the impact “new cooperatives” like Smart have had on their members’ welfare would provide a useful knowledge base as to potential strategies for regulating the gig economy. At the same time, Polypoly is in a unique position as the first pan-European data cooperative to contribute knowledge to the effects relational governance of data can have on things like market research. As issues like *data ethics* and *data sovereignty* occupy a more central place in public discourse, more detailed case studies of enterprises like PolyPoly (which is currently still being developed), with its unique tripartite structure, should serve to both gauge the success of such models *as business models*, but at the same time, provide ample material for policymakers looking for innovative solutions for data governance.

## 10.4 Basque Employment Legislation

Aitor Bengoetxea Alkorta has observed the fact that Basque employment legislation has developed a unique category of “associated labor” that is “neither dependent work nor self-employed work” [García, 2021] Thus, “[e]mployment in WCs [worker cooperatives] revolves around the peculiar legal status of worker-owners. The relationship between these persons and their WC is corporate and the obligation to supply work arises from the corporate contract of each worker-owner. So, what we have are people with the dual status of joint owners of the WC on the basis of their capital contribution, while being workers in it.” [Alkorta, 2021, p. 82]<sup>75</sup> This status is ontologically distinct from the traditional labor contract, which as we discovered in the discussion in Chapter 4 is based on a master-slave logic.

Thus, it would appear that an entire domain of realizing the parameters of the *political* firm, in whatever manifestation one would like, is possible via creating new legal architectures like “associated labor” that immediately channel labor towards an active role in the productive process, circumventing the incidental and conditional development that occurs via the master-slave logic. Such a legal architecture recognizes the autonomous, responsible and

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<sup>75</sup>For the legal background, cf. Art. 103.1 of the Basque Employment Law, which states “La relación de la persona socia trabajadora con la cooperativa es una relación societaria”, or “The relation of the worker-member viz. the cooperative is an *associated* relationship. (own translation). Note that this category does not, however, extend to the social security legislation (cf. Art. 103.8, *supra*), which only recognizes “personas trabajadoras por cuenta ajena” (employees) or “personas trabajadoras autónomas” (self-employed). [Aitor Bengoetxea, personal communication]

creative agency of workers that is always *de facto* present and facilitates a shift towards relational contracting, is such in keeping with the long-term orientation of social innovation, investment in organizational stakeholders and in social sustainability, in that it facilitates increasing the ability, willingness and duration of cooperation, as argued in Chapter 7 above.

### 10.4.1 Discussion

The experimental methodology introduced in Chapter 9 reveals its flexibility in being able to accommodate such cases. In order to establish causal effects in the manner as have been surmised throughout this dissertation, for instance the impact of autonomy discussed in Chapter 6, scientists interested in understanding the cooperative economy and learning more about the nature and limits of cooperative rents and cooperative corridors can perform observational and survey analysis in two comparable workplaces, one employing associational labor contracts and the other employing traditional labor contracts. Dynamic effects can be elicited by performing longitudinal analysis, i.e., carrying out the observations and surveys on the same subjects at a later date.

Further studies of the impact of employment legislation within domains ranging from the traditional, to the informal and platform economy would further contribute to the discovery of the impact of law on achieving and expanding a cooperative rent in practice and would thereby provide invaluable practical insight into a general theory of cooperation.

## 10.5 Conclusion

As the outline in this chapter has attempted to sketch out, causal reasoning is a powerful tool that can be applied in a multitude of settings to provide confirming or disconfirming evidence of a particular theory or family of theories. In particular, we have tried to outline two research strands on the basis of which we may pursue such an agenda, the first focusing on contingent preference development and a particular form of social learning we refer to as *cooperative education*. This research strand, represented by the social learning in programs like LEINN and at companies like VME, which we discuss in detail in the following chapter, focus on the attainment of milestones towards augmenting feelings of self-efficacy.

We note the need to dynamically organize such experiences in a way to equitably facilitate the development of leadership skills. This should involve the employment of “blind breaks” to eliminate the efficacy of human

prejudices and discrimination. Allocating some positions in a sociocratic circle by lot, randomly calling on students to increase engagement or organizing leadership teams by lot can push beyond both individual gaps in estimations of self-efficacy, pushing stakeholders to realize their potential and develop new skills, as it at the same time can break organizational inertia, facilitating a sense of camaraderie and a view of leadership as relation and function instead of a role for charismatic personalities. Combining such attempts at relationalizing with a dissemination of cooperative principles can act to reinforce such transformational learning processes.

Meanwhile, the second research agenda outlined above focuses on particular implications of relational governance models. This agenda seeks to understand how a shift in “states” – in particular, the state of membership in an organization – can improve upon relational rents, reduce costs of cooperation and increase both the duration and willingness to cooperate. We have furthermore attempted to provide preliminary evidence in each of these research agendas, in domains of high relevance, including in the low-skill service sector, education and the platform economy. We have learned that social innovations occur in the traditional platform sector, with self-help groups of “Dashers” assisting each other in navigating the lean platforms. Nevertheless, the primary lesson appears to be that strong relational rents and “moral crowding in” accompany a formal recognition of key stakeholders, whether workers, users or others, in the organization’s membership.

On the basis of such research, new information on “dignified labor” can be elicited. This is important, as both the International Labor Organization and the Universal Declaration of Rights emphasize the right to “dignified labor”. Developing a more coherent framework for specifying this concept further, and filling it with qualitative content from a comparative, international perspective would go to long ways to strengthening a general theory of cooperation.

In the next chapter, we reorient our focus to an ecological perspective, focusing on the inter-organizational perspective, embracing a view that *mission-oriented cooperation* can be facilitated with the appropriate legal and institutional framework and a combination of vicarious learning and emulation of successful social innovations.

# Chapter 11

## A Mission-Oriented Research Agenda on Cooperation

When they built the cathedrals that are among Europe's most magnificent cultural achievements, the medieval master builders took chances that would drive a modern architect out of business. Nobody knew how much it would cost to build a cathedral or how long it would take. But these were missions with a purpose – to demonstrate the glory of God through creativity – and they brought together many different sectors of society: clergy, craftsmen, nobles, rulers and ordinary people. Today, the cathedrals are still with us.

–Mariana Mazzucato, *Mission Economy: A Moonshot Guide to Changing Capitalism*

Die Zeit ist vorbei, wo die Kirche das Monopol des Nachdenkens besass, wo die *vita contemplativa* immer zuerst *vita religiosa* sein musste: und Alles, was die Kirche gebaut hat, drückt diesen Gedanken aus. Ich wüsste nicht, wie wir uns mit ihren Bauwerken, selbst wenn sie ihrer kirchlichen Bestimmung entkleidet würden, genügen lassen könnten; diese Bauwerke reden eine viel zu pathetische und befangene Sprache, als Häuser Gottes und Prunkstätten eines überweltlichen Verkehrs, als dass wir Gottlosen hier *unsere Gedanken* denken könnten. Wir wollen *uns* in Stein und Pflanze übersetzt haben, wir wollen *in uns* spazieren gehen, wenn wir in diesen Hallen und Gärten wandeln.

–Friedrich Nietzsche, *Die Fröhliche Wissenschaft*

This final chapter establishes a research agenda based on the third re-

search strand presented above and provides preliminary results thereof. It is the culmination of a multi-year research project studying the potential for incorporating ecological concepts and tools in economic and social policy research. In particular, the motivator is both [Mazzucato, 2021]’s notion of a *mission-oriented economy*, as well as [Brown, 2010]’s observation of the “common ancestry” of *economics* and *ecology*:

...both come from the Greek root word *oikos*, which means house or household. Ecology is the logic or the study (*logos*) of the household. Economics is the management (*nomos*) of the household. Although one would assume that we try to understand something (ecology) before managing it (economics), it seems that modern economics has ignored the logic or patterns of ecosystems. [Brown, 2010, p. 153]

The thesis that *understanding should precede management* underlies this research strand, and its *mission-orientation* (cf. [Mazzucato, 2021]) places it in a position to reflect first on the context of relevance before moving on to management of resources. This puts it in line with the vision of *commons governance* spelled out by [Ostrom, 1990]. But apart from Ostrom, as argued above, the correct solution is not always to organize first locally. The correct approach depends on the context in question, the level of knowledge of stakeholders, their ability and willingness to communicate and the effectiveness of efforts at lower levels to translate to higher-order organization. Immediately below, we outline the trajectory of this third research strand, which takes its epistemological root from the discussion in Chapter 8.

## 11.1 What is a Mission-Oriented Cooperative Ecology?

In a paper presented at the 15th annual Karl Polanyi conference at Concordia University<sup>1</sup>, I argued that an economic policy perspective requires multiple logics, including both normative and descriptive logics. In that paper, I argued for the benefit of a non-reductionist, ecological view embracing the self-reflection of complex systems and an aversion to reductionist modes of thought with regards to such complex systems. According to such a perspective, it is generally ill advised to locate the roots of emergent causes in complex systems in the system’s individual components. [Chvykov and Hoel, 2021].

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<sup>1</sup>A *Cooperative and Open Source Path to Achieving Post-Neoliberal Democracy*, presented at the 15th Karl Polanyi Conference; Concordia University; Montreal April, 2021.



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In the paper, I summarized three historical events or issues that embody such an ecological approach: the development of the rise of fire and property insurance in the late Medieval period, the development of the influenza vaccine in the aftermath of World War II and the push to institute international tax standards to avert tax evasion. We review each of these three briefly. The *ascendant* shift from *growth* to *development* can moreover be seen in all of these cases<sup>2</sup>. In the case of fire insurance, we see how in light of industrialization and urbanization, larger scale collective choice mechanisms could help order an increasingly large and interdependent system, regardless of the personalities and preferences of individuals.

Similarly, a shift to work/ordering activity from growth activity can be seen to be relevant in the case of the development of the influenza vaccine. As opposed to allowing a varying set of self-interested actors (like for-profit firms) to determine the R&D budget and itinerary of vaccine development supply and distribution, a mix of over 150 countries are actively involved in coordinating information and developing two seasonal influenza vaccines each year, since the founding of the Global System for Influenza Surveillance and Responsive System (GSISRS) in 1947 [Zhang and Wood, 2018]. Similarly, as opposed to allowing money flows to simply “find their bliss”, creating international standards to both order flows for the purpose of stabilization and at the same time mitigate individual nations’ motivations to opportunistically undercut their neighbors would appear to follow this rule.

Lastly, in the case of tax evasion, coordination among individual states essentially is conducive to opportunistic behavior and we again require coercion in the form of punishment for deviating from the norm [Meinzer, 2017]. In this case again, a shift to higher-order level, e.g., the OECD, G20, etc. was required to carry out meaningful reform. Whether the 15% global tax rate agreed upon is sufficient need not interest here. What concerns us more is the fact that problems of a global dimension require global solutions and it is often difficult to organize at lower levels in such environments<sup>3</sup>.

With those preliminary remarks out of the way, we can introduce the third research strand in our agenda.

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<sup>2</sup>Cf. 8.1.

<sup>3</sup>This does not mean that organic, local efforts should be abandoned in such matters, just that they must always be carried out with a focus on the relevant domain. *Negotiated coordination*, introduced in Chapter 8, is a relevant framing here.

## 11.2 Research Strand 3: An Ecosystem/Mission Approach to Cooperation

The third class of studies consists in ecological approaches to understanding firms as elements in networks of interdependence. While this interdependence is often implicitly assumed or taken as extending only to known relations (e.g., business partners [Granovetter, 1985]), we are interested in investigating the potential for employing the 7 Cooperative Principles and Values (but especially Principles 6 and 7) to explicitly embed a cooperative logic into enterprises, extending the relational perspective to stakeholders beyond an individual firm’s existing business partners. This analysis largely involves an “ecosystems analysis”, which combines on the one hand an assessment of individual enabling environments, considering both legal and institutional frameworks and rules. In particular, and returning to Brown’s point above, the perspective encourages first *understanding* the environment before moving on to *managing* it.

At the same time, this ecosystems analysis combines this approach with an analytical framework of the “Cooperative n-tuple Helix” (CnH), which takes as its point of departure the Dutch communications theorist Loet Leydesdorff’s concept of a Triple Helix [Leydesdorff, 2021] and applies an explicitly *cooperative* logic to this concept. Following the perspective of a CnH, we are interested in measuring the *redundancies* between different stakeholders as a result of the creation of an explicit framework for creating both overlaps and specializations among stakeholders connected by a CnH. This research is still at an early stage, but a recent breakthrough by Loet Leydesdorff and colleagues has derived a so-called *calculus of redundancy* that provides a basis for not only conceptualizing, but physically measuring such redundancies<sup>4</sup>.

Why do such things matter? One of the arguments Leydesdorff makes in his book is that since Max Weber introduced the concept of *Wertfreiheit* into social science discourse, a preference has developed for basing evaluations of policy on objective criteria. Thus, applying the calculus of redundancy to potential cooperative n-tuple Helixes provides an estimate of the respective stimulus such an endeavor can have, both in terms of historically generated institutions and structures, and in terms of the parameters by which such structures are evaluated, what Leydesdorff refers to as the “evolutionary dynamics” of (in this case, cooperative) knowledge. Thus, the approach promises to provide a strong criterion for translating policy proposals into a language that can be understood not just by scientists, but also by practitioners and –

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<sup>4</sup>See especially Chapter 4 of [Leydesdorff, 2021].

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importantly – by governments. It is the lack of a communicative focus that has arguably weighed down past scientific innovations and prevented them from proliferating.

Examples of such a CnH are presented below in the form of Italy’s ecosystem of community cooperatives, in the turn towards community shares in the UK and in Berlin’s startup platform scene. The case studies presented below should be interpreted as preliminary applications of the mission-oriented approach to cooperation advocated above.

## 11.3 “Leveraging Strong Regions for Development in the Mezzogiorno”: Italy’s Community Cooperatives

The following presents a general overview of Italy’s legal situation with respect to cooperatives, presents a compressed history of cooperative development and culminates in a case study of the recent phenomenon of *community cooperatives*.<sup>5</sup>

As is known by many, Italy is the Western country with the largest number of cooperatives and persons employed in cooperatives. At present, Italian cooperatives make up more than 8% of Italy’s gross domestic product and fully 20% of the population are members. One-third of Italians buy in consumer cooperatives and the Italian model has proved to be resilient to the Global Financial Crisis of 2008, which wracked Italy particularly hard. Employment at Italian cooperatives has doubled in the last ten years, and the sector was responsible for nearly a third of all jobs created in the decade between 2001 and 2011.[Ammirato, 2018, p. 1] All of this points to Italy as a startling example of cooperative economies, and one that deserves to be studied in detail, in order that lessons learned be applied elsewhere in the world.

The overview<sup>6</sup> is organized as follows: we begin with an overview of the origins of the Lega Cooperativa and early developments in the Italian cooperative movement. We continue to look at the unique legal situation in Italy viz. LMFs and the cooperative sector. Then, we trace historical developments within the Lega and trace its existence to the present day.

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<sup>5</sup>The source of the following report is a continuous dialogue with Italy’s largest cooperative federation, Legacoop, including several trips to Italy. Additional information derived from [Ammirato, 2018], as well as [Ammirato, 1996].

<sup>6</sup>The historical overview is adapted from Chapter 1 of my Master’s thesis, entitled *Labor-Managed Firms: Market Imperfections, Asymmetries, Replication. Theoretical, Practical and Historical Perspectives*.

Lastly, we draw some lessons for further discussion and debate.

## Origins

The first Italian coop was established Turin in 1854. It was a consumer cooperative based on the Rochdale principles<sup>7</sup>. The first LMF was founded in 1856 by glass blowers in Altare. [Dow, 2003, [p. 68]

The Federazione Nazionale della Cooperativa was founded in 1886, adopting its present name, Lega Nazionale delle Cooperative e Mutue, a few years later. Initially consisting of 248 cooperatives, “the central goal from the start was to lobby the government for tax concessions and access to public works contracts.” [Dow, 2003, p. 68] Italian cooperatives were granted concessions that allowed them to win public contracts without bidding. Throughout the pre-Fascist era, the cooperative sector held a privileged status, thanks to a “virtuous cycle” of support from a wide spectrum of social reformers, including liberal republicans like Giuseppe Mazzini<sup>8</sup> and Luigi Luzzatti, the Catholic church<sup>9</sup> and numerous communist and socialist groups and unions.

Indeed, these three tendencies each had their own affiliated federation of cooperatives, the successors of which make up the three largest cooperative federations today: AGCI for the liberal coops, Confcooperative for the Catholic coops and Legacoop for the leftist coops. Legacoop is the oldest and largest of these federations.

Coops under Italian law are governed by a general assembly, “whose powers included electing a board of directors, approving the firm’s budget, and deciding the distribution of profits.” [Dow, 2003, p. 69f.] Since the Italian legal structure is unique among economies today, we will study it at length in the next section.

## Legal Institutions

The Italian legal structure was greatly responsible for the promotion of cooperatives. As mentioned above, before the fascist period (1921-1943), coops were exempt from contract bidding on small contracts. After the Second World War, laws like the Basevi Law (1947) made the state directly

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<sup>7</sup>Source: Internal Legacoop presentations in Rome, 25 March, 2019 and in Bologna 4 March, 2019.

<sup>8</sup>Mazzini saw cooperatives as a way to create harmony between capital and labor, and attempted to rally them to achieve universal suffrage and a central state [Ammirato, 2018, p. 33]

<sup>9</sup>The Church supported cooperatives based on teachings stemming from Pope Leo 13th’s *Rerum Novarum* Encyclical, [Ammirato, 2018, p. 33] and [Patmore and Balnave, 2018, p. 94].

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responsible for the promotion of cooperatives. In fact, the existence of cooperatives is enshrined into law via Article 45 of the Italian Constitution, which establishes their socially beneficent role:

The Republic recognises the social function of co-operation of a mutually supportive, non-speculative nature. The law promotes and encourages co-operation through appropriate means and ensures its character and purposes through appropriate checks.

LMFs and cooperatives generally experience a number of advantages viz. taxation. For instance, “[w]orker cooperatives were exempted from taxes if labor costs exceeded 60 percent of total costs, and from competitive bidding on small public works contracts.” [Dow, 2003, p. 69] In addition to these advantages, strict regulations determined what could be done with profits and dictated membership growth policies:

coops had to operate on the principle of one person, one vote; maintain an “open door” policy for new members; ensure that members were at least 50 percent of the workforce; and obey limits on the capital stakes of members and the rate of interest paid on members’ capital contributions. Members’ shares were made non-transferable. At least 20 percent of firm profit had to be placed in a collective reserve fund, which could not be recouped by individuals leaving the firm; and the remainder had to be used either for reinvestment or social security purposes. (*ibid*)

There have been changes to coop legislation, including raising the “invisible reserve” requirement to 30% and taxing certain revenues differently over the years, but the basic point is that the Italian legal framework deals actively with the cooperative enterprise and has responded where needed to make changes that update the laws to reflect reality. Indeed, sometimes lawmakers are slow to respond, as Legacoop officials in Rome informed us<sup>10</sup>, but ultimately do respond to the Central Associations’ needs. Thus, we see a complex of laws determine what Italian coops can and cannot do with profits, what the ratio of members to wage workers may be and various other stipulations dealing with firm behavior and member shares. With these restrictions come a number of advantages with regard to tax structures and contract bidding.

A 1987 law called the Marcora Law also facilitated the spread of coops in Italy, by creating a fund to finance the takeover of failing firms by workers.

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<sup>10</sup>Visit to Legacoop in Rome on 25 February, 2019.

Employees in the troubled firm were required to invest personal wealth. Additionally, the state would provide certain grants in the place of unemployment compensation. Moreover, cooperatives choosing to contribute to the financing were assisted by matching contributions by the state. “From 1987 to 1991, 86 coops involving 3,254 employees were created in this way, mostly in furniture, clothing, textiles and footwear, and printing.” [Dow, 2003, p. 72] Since the European Commission’s 2001 decision to claim grants under the Marcora Law illegal state aid, a new system of equity investment and loans from Cooperazione Finanza Impresa (CFI) or one of the Central Associations’ financial agencies (like Coopfond, which we discuss below) has been introduced.

Naturally, the question arises, to what extent this institutional framework guided and nurtured the Italian cooperative movement in ways that did not occur elsewhere. What can be said is that the Italian system’s attention to detail when dealing with issues affecting the cooperative sector is unique and that it is a consequence of the relatively strong position of cooperatives prior to the Fascist era, which did not see their eradication. A number of individuals at Legacoop and Coopfond, as well as at various LMFs and a social cooperative visited remarked about the uniquely beneficent situation the Italian legal structure presents cooperatives with<sup>11</sup>. It is the author’s opinion that if other states or regions desire similar success stimulating the growth of a cooperative sector, the Italian legal system is an excellent starting point.

### Further Developments and the Present-Day

Because of the inherently political nature of the Italian cooperative movement, conflicts with the national government existed at various times, particularly between the years 1948 and 1962. Nevertheless, regional governments still gave coops like the Lega preferential treatment, particularly in the regions Emilia-Romagna, Tuscany and Umbria, which even today remain the heartland of the Italian cooperative movement.<sup>12</sup>

After the 1960s, the cooperative movement took on a less ideological tone, “creat[ing] sectoral associations (product line groups) at the national level along with territorial structures at the regional level” [Dow, 2003, p. 70]. One of these is CFI, which specializes in Worker Buyouts (WBOs) and is affiliated

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<sup>11</sup>Source: visits at Legacoop Rome on 25 February, 2019 as well as at Legacoop Emilia-Romagna in Bologna, 4 and 5 March, 209 and Open Group, 6 March, 2019.

<sup>12</sup>Cooperatives in Emilia-Romagna, for instance, provide almost as much to Coopfond’s coffers than all other regions combined. Source: Bilancio Sociale 206-2017, p. 52; Retrievable at <http://www.improntaetica.org/wp-content/uploads/2018/08/BS-COOPFOND-2017.pdf>.

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with all three main Central Associations. In 1963, the Lega acquired an insurance company (Unipol)<sup>13</sup>.

In 1969, a financial consortium (Fincooper) was created, “which finally provided a reliable mechanism for internal capital allocation” (*ibid*). Legacoop’s uniquely communal and redistributive structure, where stronger regions and firms subsidize weaker ones, facilitated a period of stable growth. “By the mid-1980s, the Lega as a whole had become the fourth-highest export earner in Italy, after Fiat, Montedison, and Olivetti.” [Dow, 2003, p. 71] Dow attributes part of this growth to legislative changes including a loosening of restrictions on member investment in firm shares, an increase in the ratio of white-collar workers (up to 20 percent) and via favorable treatment with regard to member loans (higher rates of return than normal loans, tax free status, etc.)”.

Other reforms that might have led to the rapid expansion included the introduction of worker buyout legislation in 1987 and of outside equity shares, “as long as the votes on these shares did not exceed 30 percent of the voting rights in the general assembly.” (*ibid*) Ultimately, it would appear that the cooperative sector and the Italian state are acting in a harmonious manner with one another, with the state promoting and nurturing the sector and especially social cooperatives filling voids in state action. Italian coops including Legacoop also have an excellent track record for retaining jobs, with firms like Telmec and Arbizzi being transformed into LMFs after problems with the original owners.<sup>14</sup>

In the most recent decades, especially during the Presidency of Giuliano Poletti (2002-2014), Legacoop has invested heavily in a strategy of connecting the strong industrial base in its heartland of Emilia-Romagna and Tuscany in order to engage in a national program of community development. Poletti has described this as a process of “leveraging stronger regions in order to build up or expand in weaker regions”. This includes both general development in regions like the “Mezzogiorno” – the South of Italy, which features its own problems, crises and difficulties and can be considered in many ways separately from the north of Italy<sup>15</sup> – and, specifically, the development of *cooperatives* in regions that have historically not had strong cooperative presence.

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<sup>13</sup>As of 2017, Unipol was the second largest insurer in Italy, measured by premiums. Since the mid-1980, it has been a publicly-listed company, with majority shareholders in the cooperative sector.[Ammirato, 2018, p. 58]

<sup>14</sup>Source: Discussions at Legacoop Emilia-Romagna in Bologna on 4 March, 2019 and with a legal professional specializing in WBO on 11 March, 2019.

<sup>15</sup>Cf. [Leydesdorff, 2021, Chapter 6]

## Lessons

Mauro Iengo, Legacoop’s legal representative, suggests the lessons to be learned from the Italian experience include the tremendous benefits the cooperatives have experienced thanks to a sympathetic system of laws, which since the end of the Second World War at least have placed emphasis on compensating for some of the weaknesses LMFs face in the market. He also stressed in discussions the distinction between the Italian and Spanish, and the Italian and Anglo-American cooperative model. Italian cooperatives are thoroughly multi-sector, and stretch across the expanse of Italy, whereas Spanish cooperatives are relatively restricted in one region (the Basque region in northern Spain) and American coops are relatively sector specific in labor-intensive occupations like lumber and plywood. Moreover, cooperatives in Italy have been relatively successful in leveraging the profits and saturation of particular regions like Emilia-Romagna and Tuscany in order to contribute to the development of underdeveloped regions. We return to this topic with respect to Puglia’s *community cooperatives* below.

Piero Ammirato comments that if one were to include all dependent sectors (like farmer that exclusively deal with the cooperative sector), the LMF sector accounts for “11 percent of the workforce and 10 percent of GDP.[Ammirato, 2018, p. 1]” This is clearly a dramatic divergence and one magnitude larger than in comparable economies. As a comparison, cooperatives make up “less than one percent of all firms employing more than one person” in France, 1% of all firms in Uruguay, less than 1% in the UK, Germany and the United States.[Dow, 2018, p. 88] Central Associations like Legacoop, which can provide associated firms with expertise, advice, capital and facilitate discussions with creditors and municipal governments certainly contribute a great deal, as well, as the case of Legacoop shows.

As mentioned in 7.4.5, conversions to democratic governance structures can occur in multiple contexts and for a number of reasons. As Marcelo Vieta points out in [Vieta, 2019, p. 150], “[m]ost Italian ERTs are of the ‘negotiated’ variety, with the vast majority consisting of WBO solutions emerging from collaborations between workers and their union representatives, the cooperative movement, and the Italian state.” Thus, over 300 firms had been converted to cooperatives between 1985 and 2015, with around half that number still in existence.<sup>16</sup>

We now move on to an ecological study of community cooperatives in Italy.

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<sup>16</sup>A more detailed report on the Marcora law and its implications for the Italian ecosystem, see the report being presently (2022) written by Marco Lomuscio for the CoopConvert project (coopconvert.ca). My own contribution to that project consists of 11.4.2.



### 11.3.1 Community Cooperatives

As outlined in preceding discussions, the character of the cooperative movement is changing as the economic and social environment globally changes, in the wake of globalization, ecological and climate change and the growing threats of inequality and austerity. *Community cooperatives* have arisen in Italy within this changing environment. There are today around 180 in the whole of the country<sup>17</sup>. Community cooperatives are a product of the financial crisis of 2007-8 and reflect, among other things, a realization of both the inadequacy of state- and market-led development in terms of combating issues like depopulation and demographic decline.

Especially rural regions in Italy have experienced dramatic declines in population in recent decades, and the despair and misery that followed the financial collapse revealed to many the need to find new models of collective agency and of local development. The first of these to arise was arguably the Valle dei Cavalieri in rural Emilia Romagna in northern Italy.

Valle dei Cavalieri originated as an attempt to revitalize a disconnected rural community. It began when residents attempted to stem the demographic decline by creating a legal form to carry out the revitalization effort. It was initiated as a social cooperative (Type B)<sup>18</sup>, but differed from most social cooperatives in that it basically involved a large part of the community of Succiso<sup>19</sup>. The example caught on, particularly through the agency of then President of Legacoop (2002-2014) and later Italian Minister of Labor (2014-2018), Giuliano Poletti, who was looking to promote cooperative solutions to community revitalization<sup>20</sup>. The takeup of “community cooperatives” was initially slow and picked up in particular with the passage, in 2014, of the first regional legislation for community cooperatives, in the southern region of Puglia. Moreover, while Puglia’s law is the first of its kind, the community cooperative phenomenon has arguably existed since the founding of Valle dei Cavalieri in 1991.

We return again to the history and practice of community cooperatives in the following sections. For the time being, we proceed to review a particular community cooperative law, that of Puglia, which represents both the first such law and a typical example that can be found elsewhere in Italy (e.g.,

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<sup>17</sup>Source Michele Bianchi, personal correspondence

<sup>18</sup>Following the Law 381/1991, there are two types of social cooperative: Type A concerns providing social services, while Type B focuses on carrying out a broad range of activities for underprivileged demographics like the handicapped, elderly, youth, migrants, etc. Type A restricts the *activity*, while Type restricts the *stakeholders* involved.

<sup>19</sup>Source: presentation by Isabella Ippolitto and <https://valledeicavalieri.it/wp/>.

<sup>20</sup>Source: Grazia Giovannetti.

Toscana, Liguria, etc.<sup>21</sup>). There is as yet no national legislation for community cooperatives, as the stakeholders were unable to reach consensus.<sup>22</sup> The passage of a national “Social Economy Law” in 2017 moreover makes passage of a national law for community cooperatives unlikely at this point.

### 11.3.2 Puglia’s Community Cooperatives: An Ecosystems View

Leggio Regionale 2014/23 (Puglia) claims to build on existing legal infrastructure on cooperatives, in particular, Articles 45 and 117 of the Italian constitution, which respectively protect the status of cooperatives, recognize their contribution to social stability and provide the State the prerogative to make laws to protect both the natural environment and cultural goods. In keeping with these stipulations, the law “aims to sustain economic development, cohesion and social solidarity”, as well as “reinforce the system of ‘integral’ production”, as well as “enhancing local resources and jobs.”<sup>23</sup> In keeping with these general goals, community cooperatives must “enhance the capabilities<sup>24</sup> of the local residents, enhance traditional culture [...] in accordance with the scope of satisfying the needs of the local community, improving the social and economic quality of life, and with respect to developing ecologically sustainable economic activity, directed towards the production of goods and services, the recuperation of “natural goods” (*beni ambientali*) like parks, natural reserves and monuments, the creation of jobs as well as generating local “social” capital.”<sup>25</sup>

Pugliese community cooperatives “can be organized as producer, support, social or ‘mixed’ cooperatives”, with multiple member classes. Possible member classes are “user, worker” as well as “financier”. These member classes should always “be related to roles within the local community in question”<sup>26</sup>. Moreover, “members can be natural or juridical persons or (non-profit) foundations with their seat in the locality in question”<sup>27</sup>. Different from Italian producer cooperatives, which must have 9 members, and micro-cooperatives, which only require 3 members, there is no specific membership

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<sup>21</sup>Of writing, the most recent law on community cooperatives was passed in Trentino-Alto Adige (Südtirol) in January, 2022.

<sup>22</sup>Source: discussion with Katia Da Luca of Legacoop Puglia.

<sup>23</sup>Cf. Art. 1.

<sup>24</sup>To use Amartya Sen’s terminology. The Italian original *competenze* gives this sense, however.

<sup>25</sup>Cf. Art. 2.

<sup>26</sup>Art. 3, §1

<sup>27</sup>Artl 3, §2

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requirement for Pugliese community cooperatives, besides their membership entailing a specific fraction of the local populace<sup>28</sup>. In communities smaller than 2,500 persons, “at least 10% of the populace” must be a member; in communities larger than this, but smaller than 5,000, “at least 7% of the populace” must be a member; if the community is larger than 5,000 persons, “at least 3% of the populace” must be a member<sup>29</sup>. In case the membership falls below this number, the cooperative has one year to reach the threshold, with the alternative outcome that “the cooperative is terminated and struck from the register.”<sup>30</sup> (*Id.*)

Lastly, the government can intervene in order to a) “offer financial discounts”, b) “contribute to capital accounts” and c) “contribute to employment accounts” of a community cooperative. It may also “participate in a public function”. Moreover, the Pugliese government “recognizes in community cooperatives a privileged subject for carrying out political activity aimed at creating new jobs” and for “bringing neglected resources into the domain of the social scope of the public administration’s prerogative.”<sup>31</sup>

As discussed above in 11.3.1, community cooperatives arose in Italy largely in response to the continual retreat of the state from regional development [Leydesdorff, 2021, Chapter 6], which gained impetus during the fallout of the 2008 financial crisis, which struck Italy particularly hard [Ammirato, 2018]. The crisis “marked the breakdown of a development model that has proved as inadequate as it is dangerous.” [Legacoop, 2011, p. 3] In search for new modes of development and provisioning basic needs, as well as meeting priorities like the development of human personalities and the maintenance of local cultures and traditions [Sen, 1999], community cooperatives arose after 2010, particularly in regions abandoned by both market and governments alike. In the following, we trace the path of development of a half dozen community cooperatives in Puglia, in Italy’s extreme South, and study what contributions these new institutions have had on the local community, both economically and socially.

The first registered community cooperative in Italy, *Cooperativa di Comunità di Melpignano*, was founded in 2011, and was highly influential in the drafting of Puglia’s law, which was the first of its kind in Italy. We begin our overview of the Pugliese ecosystem reviewing its genesis.

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<sup>28</sup>Other regions have different stipulations. Some, like TrentinoAlto Adige, require specific numbers of members (9), while others, like Liguria, have no specific membership requirement.

<sup>29</sup>Art. 4

<sup>30</sup>It should be noted that, of writing (2022), this register does not yet exist.

<sup>31</sup>Art. 7

### Cooperativa di Comunità Melpignano

As mentioned above, the community cooperative of Melpignano<sup>32</sup> was the first-ever formally recognized *community* cooperative in Italy. Started in response to an unpopular planned project by the regional government which foresaw an international firm installing a “farm” of photovoltaic (PV) panels near the village<sup>33</sup>, a collective of 70 engaged citizens in this village of 2,500 people organized a protest to inform the citizenry and the municipality of their opposition to the project. They received assistance from the regional office of Legacoop and drafted a plan, at the time, to create a service cooperative<sup>34</sup> in order to self-organize the installation of photovoltaic cells. As Grazia Giovannetti, the President of the cooperative, stated, the roofs in Melpignano are mostly flat, the panels could easily be placed on house roofs without obstructing the natural environment around the village.

### Creation of the Cooperative

Thus, in 2011, a service cooperative<sup>35</sup> was created with 70 members with support from Legacoop. In order to secure funding for the PV project, Legacoop also provided security for a loan. Members of the cooperative paid a fee of €25 and installed panels on their roofs. Electricity generation was mainly for self-use, but any excess was sold into the grid. This plan was highly successful and Legacoop used the successful example of community self-organization and its leverage and resources to help draft and pass the Puglian Regional Law 2014/23, the first law of its kind regulating community cooperatives.<sup>36</sup>

### Birth of the *Cooperativa di Comunità*

Cooperativa di Comunità Melpignano became Italy’s first community cooperative and the Regional Law 2014/23 a model for other provinces and regions of Italy. As mentioned in 11.3.2, numerous provinces, such as Liguria, Toscana and others, have adopted similar legislation. The role of Legacoop

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<sup>32</sup>The source of the information in this section is a conversation with the President of the Cooperative, Grazia Giovannetti.

<sup>33</sup>The plan was unpopular because it would have had an adverse effect on the local aesthetics, including the landscape surrounding the medieval village.

<sup>34</sup>Cf., e.g., <https://legacoop.produzione-servizi.coop/settore-pulizie-e-servizi-integrati-facility-management-ecologia/>.

<sup>35</sup>This legal form was chosen for pragmatic reasons, in order to access credit. Prior to the legal revision of 2014, community cooperatives were unknown and therefore assuming an alternate legal form would have rendered the fate of the cooperative more precarious.

<sup>36</sup>Source: Grazia Giovannetti and Katia da Luca of Legacoop Puglia.

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in the birth of the Melgipgnano cooperative and the subsequent law was integral “from the beginning”, helping to draft statutes and providing access to lawyers and national networks of expertise. Legacoop was also involved, via Coopfond, in financing the first project, which saw the installation of PV panels on members’ roofs. After this point, subsequent projects have been primarily self-financed.

For Legacoop, the benefit was mutual, as Poletti, then President of the national Legacoop federation, “had great ideas, but no examples to demonstrate these ideas.”<sup>37</sup> Thus, the benefit of creating the new legal form was mutual. For the cooperative, the role of being the first example also came with certain benefits, like being a template to the other examples described below and receiving international attention from places as far as Japan. According to Grazia Giovannetti, the absence of statutes hampered the ability of the 70 original members to self-organize their interests viz. the municipality. With the creation of the legal form of the community cooperative, these problems were either reduced or eliminated.

At this point it may be useful to ask at which point in the spectrum of *economy-society* community cooperatives see themselves or can be seen as occupying. Similar to the CPRs that Elinor Ostrom so famously studied [Ostrom, 1990], community cooperatives display some similarity to self-organizing village communities, fisheries or groundwater users in that some element of economic provision is central, and at least part of the community associates its livelihood with the cooperative. This entrepreneurial character appears the main distinction, for instance, to an association. Giovannetti sees the distinction between the cooperative and an association in the lack of entrepreneurial activity in the latter. Associations generally have no revenues, do not engage in “public” activity, members generally do not pay fees, and occasionally receive assistance from the state. Thus, associations are largely voluntary organizations. Community cooperatives, meanwhile, receive no assistance from the state<sup>38</sup> and members pay fees. Thus, a community cooperative is “a small enterprise”, while an association is strictly “non-profit”/charitable institution.

In addition to the cooperative principles, the cooperative determines all activity in accordance with two additional principles: 1) environmental sustainability and 2) benefits to local residents.<sup>39</sup>

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<sup>37</sup>Giovannetti

<sup>38</sup>Only from the local citizenry in the case of a loan application.

<sup>39</sup>Giovannetti

### Growth and Expansion

If a community cooperative has entrepreneurial activities and is considered “a small enterprise”, what is the financial basis of the cooperative? As stated, the members earned some revenue by selling excess electricity into the regional grid. Moreover, in 2014, a project was begun to refurbish small abandoned buildings and turn them into so-called *Case d’Acqua* (literally *water houses*). Here, natural filtration using roots and minerals are employed to treat groundwater, which has been partly polluted by agricultural run-off. The water is then sold at individual *Case d’Acqua* for a small fee. Water can be purchased in both still and sparkling variants. The system is automated and customers can pay either by cash or can purchase a pre-paid card. The dispenser even uses ozone to disinfect bottles placed in the filling port, encouraging citizens to re-use bottles to reduce plastic waste.

The municipality co-manages the *Case d’Acqua*. It gave approval to the project as it saw the environmental benefits firstly of reducing waste, as well as application in schools, where water from the program is provided to students and faculty. The municipality also took over the formalities and licensing issues, as it has closer connections with the respective ministries.<sup>40</sup> The total cost of the project was between €22-25,000. These costs were originally covered by a loan from a local bank, which was recently paid off in full via the project’s income stream.

Another early project was the restoration of the Parco del Pace, which was carried out starting in 2017. At the time, the park was quite dilapidated, had no working toilets and much of the infrastructure was unusable. The cooperative took out a loan of €2,000 from a local bank and was able to refurbish the park to its contemporary status, where it is actively used by a wide range of stakeholders and citizens.<sup>41</sup> The loan was repaid by income from the Cafe, in which some members work, occasionally voluntarily.

The cooperative grew steadily in membership. Additional projects were initiated. One of the most interesting and inspiring projects is *Scambio*, meaning “exchange”. This project was financed in part (25%) by the region of Puglia, via winning a public bid. The idea(s) for the project originated in a prior effort of the cooperative to assess the needs of the community, for which it collected suggestions on slips of paper in a box. As Grazia Giovannetti explained, the box “gathered dust” for some time, but was rediscovered after the region of Puglia approached with interest via the public tender. The idea

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<sup>40</sup>Generally, water in Italy is managed locally.

<sup>41</sup>The author of these words can attest to the veracity of this claim, as our meeting with Grazia Giovannetti took place largely in the Parco del Pace, as well as in one *Casa del’Acqua*.

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of Scambio, which is a mix of suggestions from various citizens of Melpignano and members of the cooperative, is to address the needs of and bring together otherwise isolated individuals: the elderly, handicapped, widows, orphans, etc., i.e., people without automatic integration into the social fabric.

The initiative was established via various smaller projects, including photography and crafts. The first projects included artisanal activities like clothesmaking and handicrafts like stone-cutting. The products were sold to market. In this interchange, an ability developed for the cooperative to help those unable to help themselves, in a clear manifestation of a human-centered notion of development [Ellerman, 2009]. Other recent examples of projects from Scambio include water deliveries to older citizens via e-bike and e-car, as well as the provision of simplified mobile phones for older citizens, with apps pre-installed to quickly and easily receive certain services (e.g., electrician, pharmacy, etc.).

#### **Contemporary Situation**

Today, the cooperative is flourishing, with over 240 members. Students are even able to perform a year of civil service in the cooperative<sup>42</sup>. The cooperative has successively adapted new projects, such as after-school care for children, where children are taught the principles of environmental sustainability, such as separating waste. They also engage in arts and crafts. The birdhouses in the Parco del Pace are made by children in the program.

#### **Cooperativa di Comunità Biccari**

Inspired by the example of Melpignano, in 2017, a group of young residents of the small village of Biccari<sup>43</sup>, in the north of Puglia near Foggia, organized themselves together and decided to create a community cooperative. The result was the Cooperativa di Comunità Biccari.

#### **Founding**

The idea of the cooperative was developed by its President, Gianfilippo Mignona, who was inspired by other examples, including Cerreto Alpi. Founding members Alessandro and Antonella suggested that it was “easy” to start the cooperative, based on the prior experiences they were able to study and learn from (such as Melpignano), and through the help of the municipality and

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<sup>42</sup>Two students currently performing a civil service year with the cooperative were present during the interview.

<sup>43</sup>Source for information in this section is a visit to Biccari and a conversation with founding members Alessandro and Antonella.

Legacoop. The municipality was pivotal in providing space for the cooperative to meet and engage in its activities at no cost. Moreover, it offered a number of “concessions” to the fledgling cooperative, including exclusive right to manage a local lake in exchange for upkeep and maintenance. As part of the deal, the cooperative manages a cafe whose building is owned by the municipality. The cooperative is able to keep any revenues from its management of the cafe.

### Structure, Activities and Current Situation

The cooperative currently manages a project in conjunction with a local attraction, the Parca Avventura, where it has built so-called *Bed & Trees*, hotel-like accommodations designed as treehouses. It also has built and manages the website *visitbiccari.com* and has helped establish an exchange for Italian emigrants to Argentina who are suffering as a result of that country’s chronic economic hardships to relocate their lives to Biccari. They have helped the city manage a successful “One Euro House” campaign, which has sold or is in the process of selling more than a dozen units to both Italian citizens and foreigners interested in living in Biccari at least part of the year, thus stemming the demographic decline Biccari and many other rural communities face.

The cooperative’s largest source of income is the so-called *Bubble Room*, an inflatable bubble that couples and individuals can rent for the night, which has proven quite popular<sup>44</sup>. Members of the cooperative also work as tour guides and operate the cafe near the lake the cooperative manages. They have also linked up local Bed & Breakfast providers to an online platform where they are able to connect to a larger potential client base.

Another project the cooperative is involved in is the *Piccola Scuola di Civilita Contadina*, which was initiated in part by Legacoop and is financed partly by the region of Puglia. In this “small school of civic agriculture”, citizens learn aspects of their local tradition, such as traditional methods of agriculture, have lessons in the local dialect and other aspects of “slow food” and cultural exchange.

### eLabora Galatone

The story of eLabora Galatone is a bit different than the two preceding examples. Firstly, Galatone, to the southwest of Lecce, near Gallipoli, is much larger than either of the communities mentioned above, with over 14,000 residents. Secondly, in this case, the founding of the cooperative was not

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<sup>44</sup>In fact, booking is currently (2021) for one year in advance due to the high level of requests.



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entirely attributable to local citizens self-organizing. Instead, in the mayoral election of 2017, the local candidate for the Partito Democratica (PD) ran on a platform of enhancing the local community by embracing the (then rather recent) phenomenon of community cooperatives. While the mayor is not a member of the cooperative<sup>45</sup>, he has traditionally supported the cooperative’s efforts<sup>46</sup>.

#### **Initial Phase**

As was stated above, the initial phase was promulgated by the campaign for mayor in 2017. This makes eLabora Galatone stick out from the other case studies. On January 18, 2018, a community meeting was held to explain the concept of the community cooperative, in order to communicate the special character. There was deliberation as to the potential functions the cooperative could serve, and questions were asked and answered. After this meeting, to which Legacoop sent representative experts including Katia Da Luca, a committee was organized in Galatone to promote the idea and eventually to draft a constitution. The city also donated 10 rooms for the cooperative to use.

In the initial phase, the prior example of Melpignano was very important, because, “as a result of their efforts, Puglia was the first [Italian] province to recognize community cooperatives.” There was little startup capital, besides the €25 fees each member paid<sup>47</sup>. Initially, there were 13 members, and the cooperative tried to develop five sectors in which its activities would occur. This was done together with the Community Cooperative of Melpignano and with Legacoop. These five sectors are green economy, welfare, integration, enhancing traditional culture and agriculture.

#### **Expansion and Subsequent History**

According to the cooperative’s president, Giancarlo Tuma, the cooperative was built “from the bottom up”, using participatory democracy. The cooperative has since grown to 400 people and includes 3 member classes, including 12 permanent worker members and occasional employment for up to 50 members. The rest are either user members or financing or supporting members. Each member has one vote. The idea of the cooperative is “to spend the first ten

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<sup>45</sup>This was avoided to prevent conflicts of interest. Source: Giancarlo Tuma, President of eLabora

<sup>46</sup>We will see in the next example of Legame that this is not always the case.

<sup>47</sup>In fact, noted that a benefit was that “the notary was sympathetic to the idea and didn’t charge a fee”.

years brainstorming” and discover the needs of the local community and its members. Within the five domains outlined in the cooperative’s mission, a number of initiatives have been developed and many are being implemented or are currently planned.

Among the active initiatives are after-school programming for children (including on Saturday mornings); an “English gym” where members are able to practice their English skills; e-commerce Galatone, a kind of online marketplace; the Carta Spesa, which was implemented in a number of Italian municipalities and allowed citizens to use their tax IDs as payment for goods.

Planned projects include GeneraWelfare, of which “Vita”, a registry for listing abandoned land, is a part. GeneraWelfare would attempt to connect unemployed or underserved citizens with opportunities to make a living, for instance by practicing traditional agriculture and planting crops that are associated with the region, but which have, often times due to dwindling market demand, lost out to monocultures. The *albicoca*, a local variety of peach, was described as such an example. Via programs like GeneraWelfare and NoStrana, which attempts to connect people who may be isolated and providing them meaningful occupation, are attempting to facilitate building up the local capabilities of local residents.

### **Challenges and Opportunities**

One of the problems the cooperative has faced regards the mindset of local citizens, which speaks to issues like hysteresis. Giancarlo Tuma mentioned that the facilitation of work in programs like GeneraWelfare must be a cultural project. However, in many ways, people aren’t ready for the idea of acting collectively toward a common end. He suggested that it would help if people understood the culture of cooperation more, which takes time and effort and involves an interactive process of raising people’s self-efficacy along tangible milestones. Moreover, many local citizens don’t understand that profits can be used to reinvest in communities. The cooperative “must explain [by practical outcomes], [so that] people [can] see.”

### **Legame Brindisi**

Legame Brindisi is a young community cooperative in a problematic part of Brindisi. The cooperative was founded in 2020 by a group of activists led by Paola Meo, who were dissatisfied with the conditions in the neighborhood. The cooperative is located in the Parco Buschicchio, a multi-function recreational complex in the extreme southeast of Brindisi. The neighborhood, Sant’Elia, is a troubled, low-income, working class neighborhood, whose citizens mostly

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work elsewhere and reside in the area “to sleep”. The complex was in a dilapidated state, with many of the amenities, which include sports facilities, in disrepair. “Nobody wanted to come here,” stated Maria Teresa Contaldo, a founding member of the cooperative. Because of the level of crime, the space remained largely unused. The facilities, which include a playground for children, tennis courts, a covered gymnastics arena, a soccer and rugby field, had been actively used in the 1990s, as Paola, the cooperative’s president remembered. In fact, Paola “was convinced of the need to recapture the spirit of the area when it was still a nice place to be.”

The troubled situation was worsened by the pandemic, during which vandalism increased and the gymnastics arena had even been sabotaged by the local mafia and used to store unstamped cigarettes. Moreover, lights were destroyed, so no sport activities could occur at night.

#### **Founding the Cooperative**

The cooperative’s members initially had many problems acquiring the rights to regenerate the space. A local church located inside the facility was hostile to the idea of children returning, perhaps due to the experience with crime. A council was established to raise awareness of the project in the neighborhood and promote the idea of restoring the park to its former state, and even to regenerate it beyond that level. The council consisted not only of individuals, but also several local organizations, including two churches and some sports associations. During the initial stage, it was realized that there could be some economic benefit to forming a cooperative. In the case of Legame, it was founder Michaeli Pinatelli who learned of the idea of community cooperatives during a conference in Rome on community organizing, and who brought the idea back to Sant’Elia.<sup>48</sup>

Legacoop advised the council members initially and advised starting a community cooperative<sup>49</sup>. The law on community cooperatives, which had existed since 2014, also helped ease the startup process. While the cooperative was only one year old during the interviews conducted in the Parco Buschicchio, preparatory work goes back several years. The municipality, which is in some ways a reluctant partner, had to be included in the deliberations. The council members soon realized that the cooperative form “did not have a romantic purpose, but rather [served as a vehicle] to bring the different stakeholders together to achieve their political aims”, e.g., pressuring the

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<sup>48</sup>Source: Maria Teresa Contaldo.

<sup>49</sup>Two members, Paola Mao and Maria Teresa Contaldo, commented that “Legacoop helped us learn how to continue the struggle.”

municipality to realize the rights of citizens to use public spaces.<sup>50</sup> Founding members therefore suggest that the actual establishing of the cooperative was relatively easy, yet the “struggle with the institutions”, including the municipal government, were more challenging.

One of the reasons for the challenge derives from the intersections which Legame Brindisi occupies: combining the maintenance and preservation of public spaces with (private) economic activity. This required overcoming of significant bureaucratic hurdles, but, as stated above, the Pugliese legislation on community cooperatives helped contribute a foundation by providing a legal form by which to organize the stakeholders. The document establishing the cooperative was signed by a notary publicly in the park during a public festival in which vendors came to sell wares and that was organized to draw attention to the cooperative within the neighborhood.

### Current Status

The cooperative currently offers sports courses and is in the process of establishing a “document center” where members receive help in filling out forms<sup>51</sup>; a “social library” with books on social, political, legal and other subjects, is under construction<sup>52</sup>. Other activities include boxing, music and theater, with many of the activities (such as boxing) facilitated by local associations. The cooperative has its own boxing ring. Moreover, “Santero Malletion” is partly available and partly under construction. This program “begins its service where the schools stop or fail”, and includes two psychologists with different fields of specialization, as well as three legal assistants helping members with various legal issues. Similar to both the community cooperatives in Melpignano and Madonella, a working-class neighborhood of Puglia’s capital, Bari (the latter of which we come to discuss in the next section), the cooperative places emphasis on helping older people with low mobility run errands.

The cooperative currently has 240 members in three classes (workers, users and supporters), with particularly the sports associations and churches acting as supporting members. As discussed above, the Puglian law on community cooperatives allows legal persons to become members. One constraint the cooperative faces is that even though the cooperative offers many services to underage youths, those under 18 are not allowed to become members, although this was not interpreted as a problem. The only issue this raises is “that

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<sup>50</sup>Source: Paola.

<sup>51</sup>Many in the South of Italy speak dialects and may have trouble understanding standard Italian.

<sup>52</sup>Maria Teresa’s father was a Latin teacher and inculcated a love of reading.

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older people join the cooperative with certain expectations, which sometimes leads to conflict.” Generally, members are “proud of not being hierarchically organized, but instead from the bottom-up by citizens organizing themselves”. The communal building, housing the library, boxing ring and numerous rooms for events, is owned jointly by the cooperative and a church.

The cooperative is “mainly self-financed” and earns its primary income at present from selling access to a tennis court on the premises, in addition to income from banner ads and other sport courses, such as boxing or rugby. Additionally, members pay a small fee (€25). The background to the cooperative’s management of the tennis court is worth noting: the court’s owner previously charged high rates for use of the courts, preventing many children from the neighborhood from accessing the courts. There is a current legal challenge to this pending, and in the meantime, children are allowed to use the court in the context of school extracurricular activities at no cost. The legal challenge has, moreover, raised the question of who is factually responsible for the clean-up and maintenance of the courts. Currently, the cooperative is *de facto* responsible, again reiterating the doctrine of *usufruct* described throughout previous chapters.

The clientele is mainly youths and children, many of whom come to the cooperative’s members with personal problems<sup>53</sup>. The municipality is not a member of the cooperative, but an unofficial partner that appears to have warmed to the activities of the cooperative as they have carried fruits<sup>54</sup>. The municipality helps finance aspects of the cooperative’s activities. However, most regeneration activities within the park are, in fact, carried out informally, without public procurement or similar bureaucratic activities. Katia de Luca of Legacoop informed that this “innovative form of (public-private) collaboration” is very rare, with “less than ten examples in all of Italy”, mostly in the South, mostly driven by “fear [on the part of] the public administration”, who see such activities mainly as a “liability”, were it to run via official channels.

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<sup>53</sup>Source: Paola Meo.

<sup>54</sup>As an example of this warming: our interview with Paola and Maria Teresa was interrupted by a city employee who had repaired some equipment in the park. He communicated to the two that he “had also fixed some other things” that he had not been sent to repair, “while [he] was there”. This again reveals the synergistic functioning of a cooperative n-tuple helix, where a logic of cooperation bleeds over into domains like the regulatory logic of governments.

### Opportunities and Challenges

The cooperative has contributed to the restoration of public infrastructure in an economically-depressed and otherwise marginalized community. In fact, the cooperative has encouraged a resurgence of other business activities in this primarily residential district, comprised mostly of commuters, who live in Sant’Elia “mainly to sleep”. Via its successes, the cooperative has achieved a reach that extends beyond Sant’Elia, which has drawn local and even international interest, helping to locate new donors and an increased sense of self-efficacy on the part of the stakeholders. Moreover, the coop “has demonstrated to the municipality that it is possible to (re)create new spaces.”<sup>55</sup>

The two founding members Paola Meo and Maria Teresa Contaldo were reticent to recommend to others the community cooperative form. They found it “hard to recommend, as each community is different and has different needs”. However, they admitted to learning much through the experience, particularly with respect to learning skills in self-organized community development.<sup>56</sup> Moreover, founder Paola suggested, while the experience had not changed her values, which, “as a pedagogue”, were rather merely “realized” in practice. What did change through the experience was “the ability to deal with institutions and to convince people to get on board;” this includes “explaining the advantages, making them perceptible.” The experience promoted an increased sense of self-efficacy.

One interesting aspect of the current status of Legame is the fact that the pizzeria that abuts the cooperative is not a part of the organization, and is furthermore “not convinced of the values” of cooperation. Thus, a conflict exists with respect to the (public) use of chairs and tables around the pizzeria, which are in within the park and thus subject to municipal jurisdiction. A pending legal process may ultimately resolve the conflict, but at present the general public is *de facto* allowed to use the chairs and tables, a decision the pizzeria owner has reticently accepted.

Paola, when asked what could help her achieve more, answered “more participation and more activism and understanding (of the values of cooperation); also courage on the part of the municipality, for instance with regards to putting pressure on the pizzeria owner in the Parco Buschicchio, who is not a member of the cooperative but who benefits from the increased use the park has seen through its efforts; and also in terms of helping [the cooperative] find a sports association interested in taking over the rugby field.” Moreover,

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<sup>55</sup>Source: Katia De Luca

<sup>56</sup>In this regard, the members we interviewed were also inspired by Guillermo Minervini, a Pugliese politician renowned for his advocacy of “generative politics”.

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she admitted that “self-management has its advantages [...], the informal character is wonderful for me, but not for everyone.” She, moreover, suggested one of the primary lessons of the experience lay in questions and innovative forms of “use and proprietorship”.

#### **MEST**

MEST is a new community cooperative in Madonella, a quarter in the Pugliese capital, Bari, with about 20,000 inhabitants. The quarter, being one of artists and artisans, the cooperative’s aims revolve around the needs and aspirations of this class of individuals. The cooperative, which as of the research trip is less than a year old, having been founded in 2020, was developed as a result of winning a prize by the province of Puglia. It seeks to offer a range of services, including for local residents living nearby, e.g., providing a space to receive packages, offering a library to members, and thus inculcates long-term relationships between members and the broader community. The idea is that the cooperative can help people in the neighborhood to lead better lives.

The idea of MEST was initiated via communication with associates at Legacoop. The cooperative is financed in part by an initial grant, awarded in a public tender by the province of Puglia, and also through €25 membership fees. There are in total 120 members as of September, 2021 (in March 2021 there were 55), including 14 supporting members, most of which are local businesses, as well as 12 worker members. The remaining members are user-members, mostly older retirees. An interesting fact which differentiated MEST from the other community cooperatives described here is that it is not a “general” community coop for the whole city, but just for a particular neighborhood, showing the diversity of contexts within which the community cooperative model can be applied.<sup>57</sup>

#### **Activities**

The cooperative sees its core mission as activating the citizenry and serving as a bridge between different communities, some of which are excluded from the market, and thereby largely cut off from many social relations. As the residents of Madonella are mainly older, the cooperative offers many services to this demographic, including shopping, repairs and handicrafts.

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<sup>57</sup>In this way, it is similar to Ce.Sto, short for “Centro Storico”, a community cooperative in Liguria located in a public park in the historical center of Liguria’s capital, Genoa. Ce.Sto, which also manages the archaeological ruins of old Genoa, is organized as a social cooperative, although Genoa does have its own community cooperative legislation, which we return to below.

The cooperative also mediates transactions with external service providers, if the required services go beyond that which the coop itself can provide. Marco Protano, the cooperative's president, feels that, in this way, long-term relationships and trust are established. Moreover, the cooperative's values are in line with seeing Madonella as a multi-cultural place, and so MEST offers services to migrants, such as Italian courses for foreign kitchen staff, e.g., cooks.

The cooperative also sees the activation of senior citizens as part of its mission. Some of the older supporter members, for instance, offer voluntary services like accompanying students to and from school, occasionally even driving them. Occasionally, older supporter members, mostly retirees, offer other voluntary services. The cooperative has "much cooperation with local associations, groups, Legacoop, even things that go beyond our basic activities" and listed examples like EthnicCook and Honde Mandello, which are both programs that cater to migrants in particular.

As part of its mission in connecting the community, the cooperative organizes traditional urban markets. Marco informed us that there is a long-standing tradition of these in southern Italy, which has been encroached upon recently by supermarkets, which he says often offer products of a "poorer quality" than local produce.<sup>58</sup> These markets have been particularly popular during the pandemic and have encouraged a revival of neighborhood feeling. The markets are organized like a "fair", for artisans and retailers, who can buy and sell local goods and services.

Another activity the cooperative has engaged in is *Fieri MEST*, which entails "mobile stages" for carrying out artistic services. This includes, e.g., theatrical performances at a barber's shop or displaying books in a butcher's shop, allowing local businesses to display artworks of local artists (e.g., photography) in, e.g., their restaurants. The idea behind Fieri MEST is that, often times, art doesn't reach a broad segment of the local populace, as "people don't generally go to galleries or exhibitions, whereas they go to the barber's or the butcher's". Thus, the idea entails "bringing art to the people".<sup>59</sup> The cooperative does offer people the opportunity for gainful employment who might otherwise have to relocate, although according to Katia Da Luca, this problem is not as significant in Bari as it is, for instance, in Biccari.

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<sup>58</sup>Marco commented that in Italy, it is standard fare to centralize marketplaces, charge high rents and this "prices out many small artisans and retailers" and "forces people to travel far" in order to go to the market.

<sup>59</sup>In fact, Marco used the term "reprendere la comunicazione" to describe Fieri MEST's activities, literally "reclaiming" or "retaking communication".



### **Recent Developments**

As the cooperative was established during the Covid-19 pandemic, it has included specialized services as a result of the special situation the pandemic presents. This includes pharmacy and grocery deliveries for at-risk or Covid-positive members, where items are placed before the door to avoid risky physical contact. Other similar services have included accompanying older people to visits to the civil service or to the hospital, dog-sitting and babysitting. The cooperative has recently attempted to create a platform for tourism. By certifying bed and breakfast lodgings, they hope to create a community of closely-knit and trusting service providers. As MEST president Marco Protano suggested, “tourists are often disappointed that the pictures on online platforms [like Expedia] do not match the reality, for instance a listing with ‘ocean view’ [“vista al mare”] ends up being in a dark basement”, and so MEST hopes to create a form of certification to provide security in the quality of short-term residences.

### **Challenges**

The challenges faced by MEST include the fact that cooperation is uncommon in the South of Italy, partly based on bad experiences with “fake cooperatives” using the legal form to engage in wage dumping practices, many of these run by the Mafia. A problem that Marco Protano described is the lack of active members and a general lack of an “entrepreneurial spirit”.

### **Co.Se**

Similar to MEST, Co.Se., which is short for “Cooperativa di Comunità di Serranova”, is atypical, in that it is the only community cooperative in Italy totally located in a rural (i.e., unincorporated) community. The center of Serranova is home to around 60 people, with another 1,000 to 2,000 residing near or around the center, in winter and summer, respectively (i.e., there are many seasonal residents). The history of Serranova is quite young, another distinguishing feature. The village exists on land that, prior to the second World War, was owned by a local noble. After the war, the government nationalized large tracts of the private holdings, including the land where Serranova arose. Infrastructure was planned and built, including a cinema, supermarket, schools and recreational facilities, and the government built 200 small houses for families. Thus, families moved to Serranova from all over Puglia around 70 years ago, an era one could call the community’s “golden years.”

However, in recent decades, a depopulation has taken place, partly caused by increasing levels of poverty. This means that the village is shrinking as more and more people move away. Most recently, there has been a renewal in interest in the region with growing tourism contributing the most to this change. However, this revival has come with its own challenges, as most new inhabitants are not permanent residents, but usually only reside in Serranova during the summer. This means that many of the residents are not concerned with local issues. This situation has led to a set of very “heterogeneous inhabitants”, including farmers, retirees and pensioners, as well as poverty-stricken residents receiving social assistance.

All of this means that Serranova is “a place in transition”, necessitating the search for a new identity. Such a search requires some level of “social experiment”, according to Roberto Lapenna, architect and founding member of Co.Se.

### **Starting Co.Se**

The members of the cooperative actually initially organized on the basis of resisting the municipality’s decision to close the local school. In addition, the regional government has shut down the local municipal government (Serranova is represented by Carovignio) due to mafia presence. This has however led to a number of problems with things like garbage collection. The process of resisting the school closure initially led to interest in forming the cooperative, which was given a further impetus by the *Torre Guacetto* project, a 22km<sup>2</sup> wetland on the Adriatic coast near Brindisi<sup>60</sup>, which connects ecological concerns with the maintenance of memories of a changing landscape.

The future members of the cooperative became aware of the community cooperative form via the campaign in the school. Local women, particularly mothers of students in the school, were interested in cooking in the school cafeteria and were interested in discovering ways to organize this activity legally. After searching online, one of the future members came across the case of Melpignano. A meeting with the president of Legacoop Puglia was arranged, during which the full extent of the potential of the community cooperative form was discussed. The members learned that it could be used to organize much more extensive activities.

The cooperative was started in 2020, and is one of the youngest community cooperatives in existence. The fact that it was started during the global Covid-19 pandemic “made it difficult” to firmly establish the cooperative in the local community. Most of the formalities of starting the cooperative

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<sup>60</sup><https://www.beautifulpuglia.com/torre-guaceto>.

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“were relatively easy”, though the cooperative did have to initially change its mission in the by-laws, which was time-consuming, but “Legacoop provided the cooperative with the necessary documents”, according to founding member and architect Rosita Vinella.

#### **Activities**

The cooperative currently has 50 members, most of whom live elsewhere for at least part of the year. It currently lacks an administrative structure. The members are as of writing (November, 2021) all user-members, although there are efforts to initiate activities facilitating worker-members. There are currently seven members on the board, most of whom have full-time jobs, some in tourism, some in agriculture.

The first project with which the cooperative hopes to launch involves a search for sustainable mobility. The idea is to offer 200 e-bikes in the summer and to have a form of public transit in the winter. Another initial project of the cooperative involves restoring a fountain, without which Serranova has no public water source offering potable water. Another area of interest of the cooperative is education, with the school closure being the initial impetus for founding the cooperative. During the pandemic, the cooperative has run a flea market, which was seen as an opportunity for connecting both new and old residents of Serranova.

While in the initial stages, the cooperative was financed mainly from member contributions, most of the cooperative’s revenue today comes from the Torre Guacetto project, a public venture to maintain the wetlands near the village. The project is publicly funded and managed by the cooperative. The cooperative plans to create a market for members’ products. As Serranova is an agricultural village, this project would allow local agricultural producers to connect to each other and to local residents. The cooperative switched recently to a member-financed system, which has led to a lull in activity. Potential projects range from converting abandoned houses into tourist residences to helping locals deal with a changing landscape. This open-endedness is why the abbreviation “Co.Se” was chosen (“cose” means ‘things’ and we want to do lots of things”, according to Rosita Vinella).

Another community cooperative, San Vito de Normanni, is just two to three kilometers away. There are not many interactions yet, but such connections are vital and will be pursued in the future, when issues like the pandemic are less of a hindrance.

## Challenges

Initially, it was difficult to find a space for the cooperative. Part of this was ideological. For instance, one local resident with unused space was unwilling to rent the space to the cooperative. Moreover, while Serranova is currently not losing population, it remains difficult to connect the rural inhabitants, many of whom choose to isolate themselves physically, living often times two to three kilometers from the nearest neighbor.

Roberto Lapenna suggests that it is “difficult to create a sense of community embracing local farmers”, as the latter’s lifestyle makes them quite independent-minded. And, while those new residents who have moved to Serranova from elsewhere are typically more receptive to the idea of joining the cooperative than older residents, many of the newer residents also have a more limited perspective on the value of local community, with many viewing life in Serranova similar to “having an apartment in the city.” In fact, connecting these two groups has proved to be “difficult”, with many residents working outside the community (making Serranova a “sleeping district”, similar to Sant’Elia in Brindisi).

Roberto and Rosita see a problem in member education, particularly education that reaches all members. A particular problem results from the “lack of connectedness”, and entails the difficulty in making community members aware of projects of the cooperative. In this vein, “our first project is building trust among community members (*fiduci entre noi*)”. This because “changing values happens step by step”.

Asked whether the fact that Serranova has such a young history makes organizing there especially difficult, Rosita and Roberto suggested that

It is never easy to build the identity of a community, especially when this community is “young”. We need to find stable points of reference but we live in a very complex and variable society, for example, in our case, the memory of the village’s birth is being lost because over time many other people, who sometimes also [are migrants], relocate to the Serranova area; in fact there are now few people who remember the birth of the hamlet of Serranova.

Surely the cooperative’s task will be to develop a network of relations between the residents also involving more and more visitors and newcomers and the sense of community must refer to the territory as an agricultural, tourist and cultural resource.

Thus, the benefit, arguably, in having such a young history is the ease with which members of the community can craft a new identity, bridging what history and memory exists locally with a new globalized world of

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cosmopolitanism, the service industry and transient residents (e.g., those with a summer home). In this sense, the experience of Serranova is not entirely different than that of Biccari, which has attempted to blend the existing traditional social fabric with a view to stemming demographic decline by facilitating new residents, even migrants from abroad. In many cases, such small rural towns have few other options. It could be argued that the benefit community cooperatives serve in such a setting is offering a means of congregating interests and creating tools for collective agency towards constructing such new, blended, identities.

Moreover, asked whether the fact that many citizens don't live in Serranova full-time presents a unique challenge to Co.Se, the two replied that

the advantage of having members who live most of the year in other cities is that they bring very different experiences and points of view from the residents; at times they can also be conflicting, but we believe that this is an advantage, together with the fact that these members also bring other people and almost become Serranova's "ambassadors". The criticality of this situation becomes evident in winter: it seems one witnesses a community in hibernation – waiting for spring – but, fortunately, this waiting period lasts less than three months, and we are ready to start again with old and new projects!

Roberto suggests that a startup fund would facilitate the creation of more community cooperatives, as, even in the initial phase, “€5,000-€6,000 have to be made each year” and that this may not be sustainable for less prosperous communities. Despite these challenges, both Rosita and Roberto would recommend the community cooperative form to others, “especially to small communities”, as it “can be very effective” for organizing a diversity of projects and for bringing together different stakeholders.

#### 11.3.3 Analysis and Discussion

We see in the above clear evidence of a mission-oriented cooperative economy (MOCE), focusing on a synthesis of *ecology* (understanding) and *economy* (management). In particular, each case showed the centrality of a multistakeholder logic, bringing in citizens both young and old, municipalities, local associations and often featuring the cooperative federation as a mediator in constructing a legal form – in the the form of a cooperative – to mediate different interests. Moreover, examples such as eLabora show a desire to engage first in a process of understanding the ecosystem before moving on to managing it.

In keeping with notions of ascendant macrocultures, social learning and self-efficacy presented throughout the present work, we saw that, in the case of the Pugliese *cooperativi di comunità* were inspired by the initial case of Melpignano, with this community bearing the “innovation costs” together with its partners in Legacoop and the local municipality, and with other communities and stakeholders learning about the example in a diversity of ways, seeking to apply its lessons to their own personal struggles to self-organize.

A recurring lesson was also the struggle – and necessity – of changing mindsets and mental models in order for the model to function in local contexts. This makes it all the more interesting that one of the most successful examples of an ecosystem of community cooperatives can be found in the rural, “neglected” (by central governments) region of Puglia, with its low incidence of trust in formal institutions and frequent incidences of Mafia control, such as in Serranova. Thus, the examples go to show how important social pioneers can be in creating examples for others to emulate, that breaking down problems into manageable units and connecting with networks of stakeholders like Legacoop can serve to build bridges of mutual benefit, building on existing connections and expertise, which can be applied to new local contexts and thereby raising both awareness of the new phenomenon and simultaneously building up local stakeholders’ sense of self-efficacy, which is far from a self-evident fact, as the above case studies demonstrate.

After Puglia, a number of other regions introduced community cooperative laws. These tend to fall into two camps: Puglia, discussed above, represents one camp of community cooperative legislation. Such environments are characterized by the attempt to clearly define the role and purpose of community cooperatives. This characteristic can be seen, e.g., in the desire to distinguish Pugliese community cooperatives from associations. To this distinction, Marco Protano of MEST stated that the “main difference is that community cooperatives provides a job, whereas association is mainly concerned with volunteer work and also supported by the state.” Rosita Vinella of Co.Se similarly stated that “community cooperatives include all people working together, while association is too abstract and “far away” from people. Also, work in a community cooperative has a connected and general character, not a parochial one. Roberto Lapenna, also of Co.Se suggested that community cooperatives “involve the general interest, associations have projects impractical to carry out, and also have to consider municipal legislation.”

This differentiation is a particular feature of the southern Italian community cooperatives. In addition to Puglia, Abruzzo and Basilicata also have detailed laws distinguishing the function and composition of community cooperatives. Most recently such a law was passed in January 2022 in

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Trentino-Alto Adige<sup>61</sup>. These laws all differ among themselves. For instance, while the most recent law from Trentino-Alto Adige specifies a specific minimum number of members (9), the Pugliese law records a percentage of the local population (ranging from 3 to 10% of the local populace).

A second type of community cooperative is represented by the law passed in Tuscany in 2019<sup>62</sup> that specifies the location, composition and purpose of any community cooperative, without necessarily distinguishing it strongly from other types of cooperatives in form.<sup>63</sup> Also in Piedmonte, a similar law to Tuscany’s was passed recently in 2021<sup>64</sup>.

The third type of community cooperative legislation, representing regions like Liguria<sup>65</sup> and Sardegna<sup>66</sup> leave the specification of the composition very open, specifying only their function in terms of revitalization of neglected regions.

A fourth type incorporates community cooperatives directly into social cooperative legislation. Emilia-Romagna<sup>67</sup> is an example of this, as is Lombardy<sup>68</sup>. These two provinces formulate legislation on community cooperatives, “[i]n fact, therefore, without introducing particular distinctions between social cooperatives and community cooperatives.” [Sforzi and Borzaga, 2019, p. 20]

With the most recent region being Trentino-Alto Adige in January 2022, well more than a dozen Italian regions “have approved specific regulations in this regard, albeit in different ways, with the risk [...] of fragmenting the reference framework and to create a multiplicity of types of community businesses” (Id., p. 21) Thus, the result is such that “on the one hand, none of the regulations propose specificities that should characterize community businesses, and, on the other, on the contrary, some of these impose constraints that risk limiting their operations.” Thus, there is still some need of a “Goldilocks” iterative process of finding suitable, effective, yet not delimiting constraints. The author’s sense is that the stakeholder dialogue of the next years will bring increasing clarity in this regard.

One sees the disparities across regions in the inability of the national government to create a unified framework for community cooperatives. While there are certain advantages to this, like giving individual regions more leverage

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<sup>61</sup>Regional Law No. 1, 31 January, 2022

<sup>62</sup>LEGGE REGIONALE SULLE COOPERATIVE DI COMUNITA’ (LR 67/19 modifying Law 73/2005.

<sup>63</sup>Cf. <https://coopdicomunita.toscana.it/nuova-legge-regionale-67/2019>.

<sup>64</sup>Cf. legge 100 “Disposizioni in materia di cooperative di comunità”

<sup>65</sup>Legge Regionale 7 aprile 2015 n. 14

<sup>66</sup>LEGGE REGIONALE 2 AGOSTO 2018, N. 35

<sup>67</sup>legge delle Regioni Emilia-Romagna (L.R. 12/2014)

<sup>68</sup>L.R. 36/2015

in attenuating legislation to local needs<sup>69</sup>, it also creates a legal patchwork and renders things like legal and professional services more difficult. Therefore, the different stakeholders should focus, in their discussions and debates, on counterbalancing the benefits and costs of a more consistent framework for regulating community cooperatives.

### 11.3.4 Conclusion

Italy has a very strong and developed legal architecture for recognizing cooperatives and specifying their combined social and economic logics, and in particular, a legal architecture from which many other polities can learn and benefit. [Ammirato, 2018] The recent experience with community cooperatives demonstrates those benefits, with strong national cooperative legislation providing a context in which a legal and social innovation can flourish and develop organically. From the Valle di Cavallotti's adoption of the "community cooperative" idea within the guise of a social cooperative in 1991 to Trentino-Alto Adige's adoption of a law on community cooperatives in January 2022, we see a non-linear development, where experiments and dialectical processes of trial-and-error enable local practitioners and regional lawmakers, together with advocacy groups like Legacoop, to develop policies and structures that meet critical local needs: namely, addressing demographic decline and the decimation of rural communities in the face of de-industrialization and market-driven globalization.

It would appear that the next step is to draw up general lessons from the experiences of the various regions which have spearheaded the move, as well as those that have come more recently, with the purpose of promulgating a national law on community cooperatives. Because Italy does not rely on a common law system, which we will see in the next section in the guise of the UK, specifying legal forms does enable actors more recognition by public authorities and by the general public<sup>70</sup>.

A compelling future research agenda involves bringing together stakeholders in order to hear arguments pro and contra various legal regimes governing rural renewal, emphasizing the potential contribution community cooperatives can provide. In a second stage, one would aim to find common ground among the initial positions. Based on that assessment, an outline of a basic national

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<sup>69</sup>Robert "Pucci" La Marca of Legacoop Liguria has said that there is "no need" for a national legislation, as cooperatives generally are recognized under Italian law. (Personal communication)

<sup>70</sup>One has only to recall Gierke's contrast of common and civic law. Gierke of course in the end supported civic law, which he felt allowed less arbitrary use of the legislative prerogative [von Gierke, 1873].



legislation could be drafted.

In keeping with the ecological perspective we are promoting in this research agenda, it should be recalled that the ecosystem view has two faces: both growth and development. While the initial growth stage of community cooperatives surely should proceed “by any means possible”, the durability and resilience of the networks they entail will over time increasingly rely on established mechanisms and processes. This means, the need for developing standards grows over time. If the community cooperatives of Italy do not wish to limit their growth and avoid becoming a marginal phenomenon, then a more clear national set of rules would be advisable at some point.

## 11.4 Cooperative Conversions & Community Development in the UK: An Ecological Perspective

As stated in the preceding chapters and elsewhere, if cooperatives are to move from the margins of the economy to having a greater presence, then not only must there be more new cooperative startups, but many more firms need to be converted from investor-owned to worker- and/or user-owned<sup>71</sup>.

As we learned in the above that relational transactions involve both individual, organizational, as well as formal and informal institutional components, we now turn this lens to an ecological analysis of the ecosystem for cooperative conversions in the UK.<sup>72</sup> The section is organized as follows. Immediately below, we provide a general background on cooperative conversions in the UK. This is followed by a closer investigation of the enabling environment for BCCs. Following this, we look more closely at some of the forms in which BCCs transpire and zoom in on some case studies to underline both best and worst practices.

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<sup>71</sup>Cf. [Dow, 2018, p. 98], who states that “Bartlett et al. (1992) provided evidence on this topic using a sample of 49 worker cooperatives and 35 conventional firms in north-central Italy in 1985–1986. The firms were matched by size and sector, all were in light manufacturing, and the average number of workers was about 100. About 65% of the coops had been created *de novo*, with most of the others formed through conversion of failed conventional firms.”

<sup>72</sup>This section is part of a research project with the province of Ontario on “cooperative conversion”, managed by Prof. Marcelo Vieta of the University of Toronto. A version of this section will appear as a report on the project’s site: [coopconvert.ca](http://coopconvert.ca).

### 11.4.1 Background

The UK is considered by many to be the birthplace of modern cooperation, with the consumer cooperative on Toad Lane being considered the first modern cooperative [Patmore and Balnave, 2018]. Nevertheless, the UK remains a country rather “unfriendly” towards cooperation as cooperative lawyer Cliff Mills has suggested<sup>73</sup>. This circumstance is best represented by the Labour Party striking “common ownership” of enterprises from its Constitution in 1995, under the aegis of Tony Blair<sup>74</sup>.

Despite this fact, and perhaps attributable to the storied tradition of cooperation in the UK and the draw that cooperative principles have despite poor legal contexts, interesting and transformative cooperative phenomena have continued to appear in the UK over the decades, with Tony Benn writing in 1970 that “the demands by workers for a greater say in the running of firms in which they work...has been growing rapidly..whether you call it participation, industrial democracy or workers control, it is inevitable”. Prominent conversions include the famed legacy example of the John Lewis Partnership and more recent high-profile entries with VME Coop.

While there are hundreds of conversions occurring in the UK every year and there is a marked trend upward, there is some ambivalence as to the actual governance of the converted enterprises, which are frequently managed by trustees. Nevertheless, an active and growing ecosystem of organizations is guiding a growing number of conversions to a multitude of legal forms spread evenly across the UK. With only 16% of UK private sector firms unionized<sup>75</sup>, this appears to be a promising path to increasing worker involvement over the parameters of the economy.

The following is taken from [Vieta, 2019]:

The UK has also had historical experiences with workplace occupations and worker-recuperated firms. As worker-led responses to the business restructuring, deindustrialisation, and rising unemployment of the late 1960s and early 1970s, Glasgow’s Upper Clyde Shipyards work-ins in 1971 inspired a wave of occupations of over 260 firms throughout the 1970s. Many of these became worker cooperatives or firms run under workers’ control or workers’ councils and were supported by their unions and, for a time, by the Labour and Conservative governments of the decade. In

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<sup>73</sup>Presentation at the Cooperative Law Forum in Seoul, South Korea, 2021.

<sup>74</sup>Bob Cannell, “Trades Unions and Worker Cooperatives in the UK and Europe to the present day”, p. 4.

<sup>75</sup>[Cannell, 2010, p. 11].

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addition, in 1976 the British Parliament passed legislation in support of the creation of worker cooperatives that became the Industrial Common Ownership Movement (ICOM); by 2001, the ICOM movement had created over 2,000 cooperatives. Today, transfers of businesses to cooperatives in the UK are also present but less common than in other European jurisdictions. Instead, in the UK the ESOP model is more widespread, with employees' ownership shares held in trusts (as with the John Lewis model) or in a combination of direct and trust-held share ownership. While the former Conservative-led coalition government of David Cameron (2010–16) passed additional legislation to favour employee-shareholder provisions, this legislation had mixed results in promoting new ESOPs and labour-managed firms. Most recently, former Labour Party leader Ed Miliband had been explicitly advocating for the UK government's increased support of worker buyout solutions, while, under Jeremy Corbyn's leadership, the Labour Party in early 2016 and again in their 2017 election manifesto announced a policy platform that included the facilitation of WBOs and workers' shares in company ownership.

One of the interesting aspects of the recent cooperative history of the UK is its shift from single-stakeholder model and frame of mind to a multi-stakeholder frame of mind. [Bull and Ridley-Duff, 2016] This shift is occurring at levels: firstly within the institutional structures associated with Cooperatives UK, with notions like Community Shares, which we discuss in detail below, cropping up, where such phenomena were more seldom in Britain before recently<sup>76</sup>. At the same time, this trend reflects a general shift away from Webbian cooperatives. This shift, which we described in 7.7 with reference to Italy in 1960s with the rise of the New Left, As opposed to Italy with figures like Franco Basaglia, this process was more slow to find institutional efficacy in the UK, where “over time the [Webbian] concept of a common bond has become dominant.” [Bull and Ridley-Duff, 2016, p. 4]. In keeping with the recent shift, a trend towards more community investment in business is visible across the UK. A report by Cooperatives UK found that “People are investing in a diverse range of organisations – from tackling climate change to providing innovative social care and housing models – all taking a community-led, inclusive and democratic approach. This democratic ownership is a significant motivator, with 46% investing because they would become co-owners of the business.” [McCulloch and Wharton, 2020, p. 13]

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<sup>76</sup>Source: personal communication with Isla McCulloch

However, one major result of the research is to discover that the “human institutional” structures in the UK, especially professional services like accountants and lawyers, are quite unaware and generally unsupportive of cooperative forms of organization. This is slowly changing with the acceptance of the EOT format.<sup>77</sup>

### 11.4.2 Ecosystem

The ecosystem of cooperative law in the UK is very diffuse. “There is no single basis in cooperative law”<sup>78</sup>. That means cooperatives are not a legal form in and of themselves, but usually a derivation of “society” (and on occasion “company”)<sup>79</sup>. It is therefore possible to make use of flexible company laws to select options best-suited to particular needs, including both individual and collective ownership structures (e.g., trusts). The reverse side of the coin is, however, a complex system of legal principles that can be confusing to stakeholders.<sup>80</sup>

One of the main problems in facilitating conversions to cooperatives in any form is the lack of resources for professional development and education (PDE) for financial advisors and accountants.<sup>81</sup> The greater cooperative ecosystem, which includes Cooperatives UK and the Employee Ownership Association (EOA), introduced below, have recently invested resources in expanding PDE opportunities. Also each of the devolved governments has certain institutions at its disposal, including the Wales Co-operative Center, Cooperative Development Scotland and Scottish Land Trust. Additionally, a number of cooperative “hubs” exist, including Sheffield and Leeds. Cooperative conversion is relatively dispersed throughout the UK, with roughly 17% occurring in the Southeast.

Additionally, localized cooperative Development Societies exist, such as Coop Culture. Moreover, programs like *Power to Change*, set up by the National Lottery in the UK, have contributed to increased awareness of and investment in cooperative conversions of legacy businesses. Encouraged by the Conservative government, which “came in after the 2008 crash, where

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<sup>77</sup>Bob Cannell commented that “business owners usually do as their accountants say” and that “tr[ying] to cosy up to ICAEW and the other national accountants association periodically over 15 years [...] had been relatively unsuccessful. (Source: personal communication).

<sup>78</sup>According to Isla McCulloch, “they’ve got very distinct legal structures for coops. And whereas in the UK, you can be a company, you can be a society, like, you can kind of be a corp, I have many different legal forms.”

<sup>79</sup>Mark Simmonds

<sup>80</sup>Personal communication with Graeme Nuttall .

<sup>81</sup>Aaron Stewart

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they were promoting this idea of what they called the Big Society, which was basically [...] their program of austerity, [...] basically defunding civil society [...] supposedly to save money, [...] to encourage the voluntary community charities, Co-op sector, social enterprise sector, to [...] fill that vacuum. And in order to try and drive that they sequestered £600 million from dormant bank accounts.”<sup>82</sup>

Smaller programs of this nature exist as well, including one called “The Hive”, which “funds advisors working with employee buy outs as well.”<sup>83</sup>

One of the more interesting recent developments fueling the interest in such models is the “glut of business for sale” as the so-called “Baby boomer” generation approaches retirement. This glut, and a general concern for 1) retaining local jobs and 2) for general social welfare of workers, has led to a renewed interest in what Nathan Schneider and others have called “Exit to Community” [Schneider and Mannan, 2020], with phenomena like Community shares serving “almost like an evolutionary pressure in our ecosystem.”<sup>84</sup> In addition to the community shares model, various trust forms have gained popularity in recent years, including Employee Benefit Trusts (EBTs) and Employee Ownership Trusts (EOTs). The actual conversion of business to cooperatives is dominated by EOT organizations in the UK.<sup>85</sup> Cooperatives and their representative organizations like Cooperatives UK have only lately entered the discussion, with projects like the Ownership Hub designed to increase awareness of worker ownership in addition to the employee trust option.

Below, we proceed to outline some of the primary UK institutions working on cooperative conversions, before turning to existing learning opportunities. After this, we look in detail at community shares and EOT phenomena, followed by reviewing owner, then worker perspectives. Then we proceed to a discussion and finally draw some conclusions.

#### 11.4.3 Cooperatives UK

Cooperatives UK (CUK) resulted in the 2001 merger of two previous cooperative development organizations, ICOM (mentioned above in 11.4) and the prior Co-operative Union. The two legacy organizations represented worker and consumer cooperatives respectively and were separated as a result of

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<sup>82</sup>Mark Simmonds

<sup>83</sup>E.g., in West Yorkshire, a whole foods shop had a worker buyout using debt via this scheme. (Mark Simmonds)

<sup>84</sup>Mark Simmonds

<sup>85</sup>Mark Simmonds

the influence of Beatrice and Sidney Webb, discussed elsewhere<sup>86</sup>. As such, CUK is “the central membership organisation for co-operative enterprise throughout the UK.” Today, CUK focuses on “promot[ing] co-ops by lobbying policy makers and raising awareness through [...] campaigning activities [...] develop[ing] co-ops through [...] initiatives and specialist advice [...] and on] unit[ing] co-ops” with various initiatives. Moreover, CUK’s role extends to promoting BCCs. This involves, e.g., “advocat[ing...] different national, local governments to [...] creat[e] more enabling frameworks for cooperatives, existing competition, new starts and also conversions.”<sup>87</sup>

As part of this advocacy, CUK recognizes the diverse and divergent landscape of BCCs in the UK, with phenomena like traditional “worker buyouts” being accompanied by various trust and community ownership approaches. Much of the current efforts of CUK are therefore dedicated to studying international best practices in countries like Spain and Italy. Its resources are limited, however, and in many ways CUK is only coming to the table lately.<sup>88</sup>

### Community Shares Unit

Started in 2012 as a collaborative effort between CUK, *Power to Change* and Community Shares Scotland, aimed at making the “Community Shares” brand<sup>89</sup>, introduced below, more visible. It manages the Community Shares marker and has published numerous reports, including the 2015 “Inside the Market” report and a more recent report in 2020, entitled *Understanding a maturing community shares market*. We discuss the findings of the report below.

#### 11.4.4 Employee Ownership Association

Undoubtedly the most popular form of BCC in the UK is the so-called *Employee Ownership Trust*. (EOT) It accounts for roughly 90% of all conversions annually<sup>90</sup>. Prior to new legislation, however, there were few tax incentives for selling to employees and such conversions were relatively rare. Exceptions include the John Lewis Partnership, a chain of department and retail stores that were converted into a worker cooperative shortly after the death of the founder, John Lewis, in the 19th century.

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<sup>86</sup>Cf. Chapter 7 of *The Cooperative Economy*,

<sup>87</sup>James Wright

<sup>88</sup>John Atherton, James Wright

<sup>89</sup><https://www.uk.coop/start-new-co-op/support/community-shares/standards>

<sup>90</sup>Source: Mark Simmonds and Graeme Nuttall.

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The predecessor to the Employee Ownership Association (EOA), which is the main body advocating for EOTs, was founded as Job Ownership Ltd (JOL). “Founded in 1979 by journalist Robert Oakeshott, [...] it was established with the help of companies such as the John Lewis Partnership and international polymers manufacturer Scott Bader.”<sup>91</sup> Oakeshott was active in advocating for employee ownership and wrote a book on the topic entitled *Jobs and Fairness*.

In 2012, Graeme Nuttall was commissioned by the Department for Business, Innovation and Skills to independently review the situation of employee ownership (EO)<sup>92</sup> in the UK. The report’s key findings were “a lack of awareness of the concept of employee ownership”, “a lack of resources available to support employee ownership” and “the actual (or perceived) legal, tax and other regulatory complexities of employee ownership.” [Nuttall, 2012] Meanwhile, the benefits to EO were summarized elegantly: “It means a significant and meaningful stake in a business for all employees.” (*Id.*, p. 5) According to the trust structure, the stake is held collectively by a trustee. We discuss the details of EOTs further below.

By 2013, legislation was enacted to promote collective ownership of shares by employees:

Following the findings of the Nuttall review and in order to support this sector, the Government has decided to introduce two tax reliefs to encourage, promote and support indirect employee ownership structures.<sup>93</sup>

Since the passage of this legislation, EOTs have become the dominant form of BCC in the UK, and EOA is the main body responsible for lobbying and informing governments and the general public, providing resources for studying and analyzing EOTs and producing reports, including Annual Reviews, National Strategy papers and developing joint projects such as the Ownership Hub, discussed below.

##### 11.4.5 Learning Opportunities

Multiple stakeholders agree that there could be more learning opportunities on BCCs, for owners as well as for workers and the wider community. Recent

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<sup>91</sup><https://employeeownership.co.uk/about-the-employee-ownership-association/>

<sup>92</sup>EO is generally distinguished from worker ownership (WO), an isomorphism of worker cooperative, in which the nature of ownership is held by workers individually.

<sup>93</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210661/supporting-employee-ownership-sector.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/210661/supporting-employee-ownership-sector.pdf).

efforts like the Community Shares Unit of CUK and the Ownership Hub have attempted to fill that gap. However, at present much of the advocacy is carried out at the level of “community learning, exchanging networks and stuff like that.”<sup>94</sup>

Local ecosystems and their actors have acted fill the gap. For example, Radical Routes in Leeds have spent significant effort in producing literature on startup worker and housing cooperatives and BCCs.<sup>95</sup>

Below we introduce the Ownership Hub.

### Ownership Hub

A co-production of CUK and EOA, the Ownership Hub aims to “support economic regions, offering them expertise and resources to grow employee and worker ownership as part of their economic strategy.” As part of this effort it attempts to “reach and train business advisors, accountants, lawyers and banks, who advise entrepreneurs and business owners how to start, scale up or convert a business to employee and worker ownership.”<sup>96</sup> Its first regional partner is Sheffield, whose mayor has said of the Hub, “It is an integral part of a greater effort to not just create a more dynamic, productive and resilient economy, but to reform its structure – to change the system in a way which makes it fairer, more inclusive, and better able to serve the aspirations and needs of the people of South Yorkshire.”<sup>97</sup>

The Hub is the first practical project from the joint project entitled *1 Million Owners*. This project has made its task “advocating a five-fold expansion in employee and worker ownership over the next decade, leading to one million employee and worker owners in the UK by 2030.”<sup>98</sup> It aims to do this by requesting the government “allocat[e] up to £6 million in the 2021 Spending Review to support up to 12 Combined Authorities or Local Enterprise Partnerships to participate in our Ownership Hub programme.”<sup>99</sup>

The Ownership Hub distinguishes between “employee ownership” and “worker ownership”<sup>100</sup>, although one of the challenges CUK currently confronts

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<sup>94</sup>Source: Isla McCulloch, who went on to state “I was thinking about this just the other day. How much of a role do we play in accelerating [conversions]? Or raising profile, or because I feel very responsible, because [...] we’re inundated with inquiries for this stuff. And we’re only a small team. So there [...] isn’t enough capacity to help everyone that needs help already.”

<sup>95</sup>Source: Cath Muller

<sup>96</sup><https://www.ownershiphub.uk/ownership-hub>

<sup>97</sup>(Id.)

<sup>98</sup><https://www.uk.coop/1millionowners>

<sup>99</sup>(Id.)

<sup>100</sup><https://www.ownershiphub.uk/ownership-hub>.



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is the lack of “a menu of options in front of” stakeholders, which has led to a situation where the EOT becomes the most attractive option by default. In case “the political leadership there might have more appetite for for doing more democratic or potentially more radical things on the conversion side” a more granular approach with options like a “democratic EOT” would increase the available options<sup>101</sup>.

#### 11.4.6 Community Shares

One of the more recent developments in the UK BCC landscape is the “Community Shares” (CS) approach. Amusingly, the approach itself isn’t actually new: “community shares is [...] a branding for withdrawable share capital. Societies have been using withdrawable share capital for [...] 100 years. It’s actually not a new innovation.”<sup>102</sup> In practice, CS refers to a situation “where communities are using the Registered Society (formerly Industrial and Provident Society) legal form to issue withdrawable shares to their communities to fund the purchase of community assets, such as pubs, shops, farms, and even piers.”<sup>103</sup> Community shares enterprises are “mostly run by volunteers”: “205,560 volunteers in the sector compared to only 33,900 employees – or five in six of those ‘working’ within community businesses.”<sup>104</sup>

CS was part of the Big Society reforms of Conservative government after 2010, designed “to bootstrap the former ‘Third Sector’ to fill the vacuum left by a rapid withdrawal of the state from civil society.” (Id.) Its genesis was associated with a particular brand of austerity politics. Mark Simmonds argues, in fact, that “The supportive legislation and tax efficiencies were incidental – the policy was not created to specifically benefit the community shares market.” (Id.) As part of the policy, “[l]arge amounts of money were sequestered from dormant bank accounts and social investment finance intermediaries were created to lend this money to what was now being called the Voluntary, Community and Social Enterprise (VCSE) sector as part of this process.” (Id.)

As mentioned, CS was more a social than a technical innovation, involving the rebranding of existing legal concepts. As Isla McCulloch argues, “coops have always had this little mechanism for being able to issue equity in the form of the storable shares. And it’s just only in 2012, that it was [...] jumped on and [re]branded as community shares. And that’s when it kind of

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<sup>101</sup>Source: James Wright. Individuals like Juliette Summers at St. Andrew’s University are working on such topics.

<sup>102</sup>Isla McCulloch

<sup>103</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>104</sup>Id.

took off. But this has been happening for like 20, or even 100 years”. It was the connection of the existing legal infrastructure that was innovative, or, as McCulloch states, “the link with the cooperative movement, I think, is a bit of a game changer”.

The market in which such shares are distributed is largely unregulated. [McCulloch and Wharton, 2020, p. 9] However, there is a mark for ensuring standards. 78% of members find the standard helpful. (Id.) Ultimately, “at this point [. . .] very few of these organisational ‘brands’ are defined in law and so pretty much anyone can still present themselves as a social or community enterprise.” (Id.)

## Background

One of the main motivators of the CS model is due to legal idiosyncrasies in the UK. In particular, the Financial Conduct Authority (FCA) is particular about ownership and control in cooperative businesses. “In the UK to set up through cooperatives as cooperative societies which you registered with the FCA, they insist that only the members who have a trading relationship with a co-op hold the bulk of the power there.” The CS model is flexible in this regard, enabling the business “to reduce the voting power of the those investor members, although they [might be] numerically greater than the other members, their voting power is restricted [e.g.] to 10%.”<sup>105</sup>

As mentioned, the phenomenon of CS has a longer history than the recent rebranding. However, it has been harnessed as a tool in a process of greater social reform, including the reform of land ownership in the UK. As Isla McCulloch has argued,

“... we never had a revolution in the UK, we never overthrew our feudal landlords. So there still is a feudal system, this country of landownership. So, and I think some of that [is] mitigated day to day because we have the right to roam. So you can in Scotland walk on any bit of ground, you can go anywhere. We have that kind of freedom, but it masks a really consolidated land ownership. In Scotland, [around] 400 people own the majority of land in this country. It’s really bananas. And so community ownership of land has been a response to that.”

In Scotland, such combined efforts at land reform and community development have been significantly supported by the government, with “the Scottish government actually provid[ing] a fund [the Scottish Land Trust] to

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<sup>105</sup>Source: Mark Simmonds

enable communities to buy back land.”<sup>106</sup> As a result of such efforts, “there’s been a lot more legislation in Scotland since devolution and the Scottish Parliament around landform community in Parliament. It’s still quite mired in bureaucracy. And it’s not always straightforward. But there is political will.” Nevertheless, much of the legislation remains untapped, however, “its very existence has said that communities have a right.” Therefore, across the UK, “the overarching paradigm has for hundreds of years has been that the people who live on this land don’t have a right to it. Changing the paradigm politically,[...] makes a difference.”<sup>107</sup>

### Why Do People Invest in CS?

The uses of CS are normally motivated by cases like “buying a bit of land to save it for the community: [e.g.] the local pub or a local shop. [From] book shops and farms and woodland [all the way to the local post office], the landscape favors the community taking it, and then running it as a business.”<sup>108</sup> In fact, the 2020 report, *Understanding a maturing community shares market*, “80% of people invest because of the wider social or environmental benefits of the project or organisation. 53% felt the share offer would create a stronger community.” [McCulloch and Wharton, 2020, p. 11]

Even looking beyond the BCC phenomenon: particularly startup periods of any business can be challenging. CS have increased longevity of business, even beyond the level of cooperatives. The above-cited report found that while 42% of normal businesses “make it through to the end of year five” in the UK, this compares with 76% for cooperatives generally and 92% for CS firms. (Id., p 5) Therefore, it is a proven model for BCCs and for generally extending the lifecycle of firms, even in the startup phase.

To reiterate a point made above: in some ways CS is a response to a particular form of politics. In particular, “we’ve seen a massive retreat of the State with austerity. The more the state’s retreated, the more communities have stepped into that void, to deliver services.”<sup>109</sup> While there are questionable implications regarding issues like state retreat and what is termed “super exploitation”, the CS model clearly offers a pragmatic solution to communities interested in supporting acutely suffering businesses and anchor enterprises.

Moreover, many see it as “an alternative to traditional entrepreneurialism, [i.e], founder [or] entrepreneur-led businesses,” in the form of “collective action.” As such, CS bridges notions of entrepreneurialism with community

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<sup>106</sup>Isla McCulloch

<sup>107</sup>McCulloch

<sup>108</sup>Mark Simmonds

<sup>109</sup>Isla McCulloch

development, as well as serving as a political project to correct for market failures.<sup>110</sup>

## Outcomes

Since 2012, “[m]ore than £155 million has been raised through community shares by 104,203 people”.<sup>111</sup> *Understanding a maturing community shares market* observes some of the main findings of CS’s legacy. The report made some startling revelations. In particular, it found that “[w]hile 80% of [so-called] “angel investors” are based in London and the South East, community shares investors are more widely distributed. Only 18% are in London and the South East.” [McCulloch and Wharton, 2020, p. 8] Moreover, CS investors are far more female, and quite a bit more evenly distributed across the income ladder than angel investors. (Id.)

Moreover, “[t]he key role of community shares equity in non-asset based businesses, such as in the health and social care sector, is notable.” [McCulloch and Wharton, 2020, p. 14] The average interest rate paid on CSs is 4.8%<sup>112</sup> and has seen less than 2% of assets lost or written off. “Investments in community share offers can be from as little as £10, with an average investment of £395.” (*Id.*, p. 8) Shares are also withdrawable in most cases (granted the business is able to provide the liquidity). Therefore, CS can be described as both “patient” and “flexible” capital. (*Id.*, p. 7)

Through the flexible notion of membership in a CS-enterprise, stakeholders generally “try and get away with all the silos of membership. And they say we’re all one community. So whether you’re a supplier or a customer, or worker, doesn’t matter, we’re all one big happy community, which in some ways has been great and has enabled communities to raise investment as well, because you’re not having to differentiate between, you’re

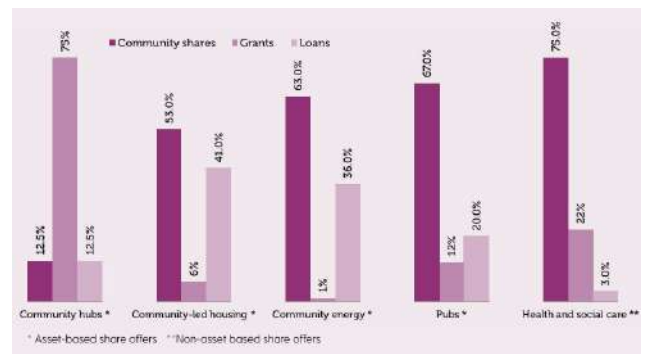


Figure 11.1: A graphic representing the mix of financial contributions in community shares projects, from [McCulloch and Wharton, 2020, p. 14].

<sup>110</sup>McCulloch

<sup>111</sup><https://www.uk.coop/start-new-co-op/support/community-shares>.

<sup>112</sup>[McCulloch and Wharton, 2020, p. 7]

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an investor member, you're a supplier member, you're a worker member. We're all just community members, and therefore the providers of capital are on an equal ranking as every other one."<sup>113</sup>

The CS form has been "mainly used for the community business" of the sort outlined above.<sup>114</sup> However, "We have seen some examples of worker cooperatives using the community shares model, but they've been startups". Equal Care Cooperative is an example of such a model. Moreover, there have been cases of worker cooperatives converting into a CS-enterprise, usually in the form of a multi-stakeholder cooperative (MSC). In these cases, it has been mostly in cases of needing capital. Examples of such conversions are October Books in Southampton, Manchester Media and Scripps. They are also starting to be used for housing initiatives, such as in Leeds.

The question of worker power in CS-firms is relevant. The CS model does allow weighted voting according to class, without it being a requirement. So individual communities can specify "that the collective weight of [investors'] vote is less than that of [...] the workers" or that in "housing cooperatives that tenants would have more of a weighting than the investors, for example, because they're more vulnerable."<sup>115</sup> However, no statutory regulations on this front exist.

#### Best Practices Community Shares: Examples

Due to the specific nature of many CS projects and the high degree of regional variation within the UK, it is hard to speak of a single category of "best practices". In this sense, it is similar to the burgeoning field of community cooperatives in Italy, which has a high degree of internal variation<sup>116</sup>. However, prominent examples include Pub Coop, a project funded in part by the Plunkett Foundation, which aims to save ailing pubs throughout the UK by converting them into community enterprises; similarly, Cheshire Pubs Co, "which basically manages several pubs [and] can go to any pub owner and say, we'll be your tenant."<sup>117</sup> The *New Internationalist* is an independent magazine from Oxford that had a Community Share Offer in 2017, converting into a MSC and raising more than £700,000 in the process.

Some groups are quite creative in their share offers. For instance, Hand-made Bakery "issued 'bread bonds' to their customers and Unicorn Grocery in Manchester bought their premises and growing land with two loanstock

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<sup>113</sup>Isla McCulloch

<sup>114</sup>Mark Simmonds

<sup>115</sup>Isla McCulloch

<sup>116</sup>See the prior case study, 11.3.

<sup>117</sup>Mark Simmonds

issues, which allowed their customers to invest in an important community resource without the need for them to engage in the governance.”<sup>118</sup>

**Scottish Land Trust** As described above, much is happening on this front in Scotland. The Scottish government has established the Scottish Land Fund (SLF), “which offers grants of up to £1 million to truly embed community ownership and control, has worked particularly well alongside community share offers. They provide a much needed capital injection to kick start community businesses which might otherwise never get off the ground - particularly in less populated and less affluent communities.” [McCulloch and Wharton, 2020, p. 14]

The Fund “provide[s up to] 95% of the valuation of any asset, so it’s much easier [for] the community to raise the remaining capital locally.” As a sign of the fund’s success, “the demand for that fund has well exceeded what they’ve been able to hand out.”<sup>119</sup>

### **Worst Practices Community Shares**

In general, the CS model is very flexible and can be fine-tuned to suit a diversity of needs. Therefore, and due to the high level of trust of involved stakeholders, “there’s only been two community cooperatives out of hundreds that have failed [i.e., closed].”<sup>120</sup> Nevertheless, according to Isla McCulloch, “[w]here [the model] hasn’t worked is where [...] coops are trying to deliver public services, really challenging. So social care, health and social care is a really challenging environment to be in. And we are not seeing [many successes] yet. And there’s lots of groups trying. But replacing public services [...] is a really challenging area.” Moreover, even if such efforts succeed, the question raised above should be restated: “are you at risk of creating an environment where the government [and the State, in general] just retreats even further, and something [that] should be funded publicly and delivered publicly” is provided in reduced form by local stakeholders.<sup>121</sup>

In essence, this is a question that revolves around the nature and provision of services whose provision exists between both market and state failure, i.e., where the market mechanism does not operate to meet demand and where the state, for whatever reason, is unable or unwilling to provide the service. In such situations, “there’s not really a market there and you’re delivering what should be subsidized service.” This situation obtains, for instance, with respect

<sup>118</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>119</sup>Isla McCulloch

<sup>120</sup>Isla McCulloch

<sup>121</sup>Id.

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to “leisure facilities or [...] sports facilities, [which] have really struggled to raise capital.”<sup>122</sup> Such circumstances can lead to increased neglect, if there isn’t a concurrent effort at higher stages (perhaps regional or national government). The end result may be one “[with] consolidat[ion] in wealthier communities. But by doing that, then other local authorities can justify withdrawing their services from the more deprived communities that could never raise the capital themselves.”<sup>123</sup>

Therefore, CS should never be seen as a “silver bullet”, but part of a larger national strategy to save critical social infrastructure and promote self-management.

#### 11.4.7 Employee Ownership Trust

As mentioned above, the EOT is by far the most popular form of BCC in the UK at present. The legal form was established in the Finance Act of 2014. “The purpose of an EOT is to provide permanent or long-term employee ownership of a company (or group) through holding a significant proportion of a company’s shares for all employees”<sup>124</sup> In particular, the shares are held *collectively* in the form of a trust. Furthermore, the trust structure has a *discretionary* governance structure, with trustees empowered to hold shares for the benefit of all employees. The trustee is entrusted with the task of ensuring good working conditions, both individual and collective voice and a financial stake in the firm’s success.<sup>125</sup>

Below we introduce the structure of EOTs, before comparing them with ESOPS. Afterward, we move on to discussing best and worst practices.

#### Structure of an EOT

The main distinguishing feature of an EOT is the creation of a separate legal entity from the firm in the form of a trust, which holds a significant share of equity in the focal organization *on behalf of employees*. As such, the structure intends to promote both the active engagement on the part of employees,

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<sup>122</sup>An exception is Greenwich Leisure Ltd., an employee managed, not-for-profit enterprise with 58 million visitors to its 270 recreational centers (including two of the aquatic centers from the 2012 Summer Olympics) every year, and which supports over 3,000 athletes with sports scholarships a year. Source: <https://www.gll.org/b2b/facts>. Bob Cannell writes of GLL, that it “competes with private health clubs for their customers and uses those profits to subsidise services for less well off users who otherwise would have no access to sports and leisure facilities.” [Cannell, 2010, p. 11]

<sup>123</sup>Isla McCulloch

<sup>124</sup>Graeme Nuttall

<sup>125</sup>Id.

but also contribute to profit-sharing. It therefore addresses both issues of expressive rationality and instrumental rationality. [Ferrerias, 2017] A trust deed sets out terms between the trust’s stakeholders. This document is not necessarily publicly available. The trust is administered by legal trustee. The trustee has a constitution referred to as the *trustee articles of association*. Governance decisions are made by the trustee board, whose composition is not prescribed by law. However, it is generally agreed that good practice for EOTs is parity, where equal representation on the board is made viz. employee and management representatives, plus one independent board member.<sup>126</sup> EOTs generally also have both employee committees (works councils) as well as employee representation on the trustee board.<sup>127</sup> In short, therefore, an EOT consists generally of three structures: the employee trust, the trustee company and the limited trading company.<sup>128</sup>

The trustee company acquires a controlling stake in the focal organization and receives “a complete exemption from capital gains tax for individuals selling to the trustee in the tax year in which the trustee acquires that controlling interest.”<sup>129</sup> Benefits include up to £3,600 of tax exemption per employee per year. Thus, there are several tax benefits to owners choosing to sell their companies to an EOT-led worker buyout. As the Treasury has stated, “The mechanism by which employees are given a voice will depend on the terms of the trust deed establishing the EOT, the company and culture in question.”<sup>130</sup>

### Comparing EOT to ESOP

Social Capital Partners’ 2020 Discussion paper *Building an employee ownership economy* compares the UK EOT experience with that of the US Employee Stock Ownership Plan, the latter of which was devised in the US in the 1970s by Louis Kelso. [Ashford and Shakespeare, 1999]

The paper states that “The US and UK models have some differences in features and design, but what they have in common is public policy, designed to make them viable and promote their use, by providing a clear legal structure and targeted incentives.” [Partners, 2020, p. 1] Moreover, “The fundamental difference between the UK-EOT and US-ESOP is how employees receive value for their shares. In the US model, employees typically receive shares or cash in a lump sum when they leave or retire. Employee owners of a UK-EOT are

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<sup>126</sup>Nuttall

<sup>127</sup>Presentation by Graeme Nuttall .

<sup>128</sup>Id.

<sup>129</sup>Id.

<sup>130</sup>Personal communication with Graeme Nuttall .



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Key Features	US-ESOPs	UK-EOTs
How employee-owners are paid	Annual allocation of shares	Annual allocation of profits
Minimum threshold of employee ownership	None – tax incentives vary depending on level of employee ownership	51%
Tax incentives	<ul style="list-style-type: none"> <li>• Corporate tax (company)</li> <li>• Capital gains tax (owner)</li> <li>• Personal income (employees)</li> </ul>	<ul style="list-style-type: none"> <li>• Capital gains tax (owner)</li> <li>• Personal income (employees)</li> </ul>

Figure 11.2: Taken from [Partners, 2020, p. 14].

paid annual bonuses out of the company’s profits, some of which they can receive tax-free.” [Partners, 2020, p. 11] Thus, the ESOP model, which was anchored into law by 1974’s The Employee Retirement Income Security Act (ERISA), facilitates the gradual purchase of shares by a trust. “Being able to borrow to buy shares is a key feature of US-ESOPs. It allows owners to “exit” at fair market value, which is very hard to accomplish with other forms of employee ownership.” (Id.)

Moreover, while “US-ESOPs also allow for the gradual accumulation of shares by the ESOP trust, often occurring over many years” (Id.), “[i]n the case of a UK-EOT, agreements must be for at least 51 percent of the company’s shares, making it less conducive to a gradual transition than a US-ESOP.” (Id., p. 14) “Both [being able to buy shares and at the same time doing so gradually] have made US-ESOPs an attractive succession plan for private company owners and a mechanism for large public companies to provide employees with minority stakes.” (Id., 11) At the same time, the fact that ESOPs can remain a minority in a firm (there is no requirement of majority ownership on behalf of the ESOP) is seen in a negative light. EOTs must always be progressively own more shares of the underlying business in order to receive the tax advantage.

Another distinction is in regards to the timing of benefits. In the ESOP case, “[b]ecause US-ESOPs are part of the US retirement income system [...], employees typically receive the cash value of their shares when they leave the company for another job or to retire.” (Id., p. 13) Meanwhile, in the case of

EOT's, “[e]mployees do not get allocated individual shares, instead they get profits distributed among them as bonuses.” (Id., p. 14) A summary of the main distinctions between the two models can be found in Figure 11.2.

### **Best Practices EOT: Examples**

As of June, 2021, there were 576 EOTs in the UK, 139 of which were started in 2020. In Q1 of 2021 alone, 72 EOTs were created. They “represent 1 in 20 of all private company sales” in the UK.<sup>131</sup> “The 2021 UK Employee Ownership Top 50 companies had sales of £21bn (up 6.4% from previous year) and 180,405 employees (up 2.8%).” Examples include AHMM, an architectural firm converted to EOT in 2017, whose founders have claimed that “[b]ecoming employee-owned has formalised our long-held belief that the success of the company and its work comes from having a positively engaged team, where each person is invested in where they work and what they do.”<sup>132</sup> A second example is VME, the largest IT firm in the world to convert to cooperative status, to which we return later.

### **Worst Practices: Examples**

The delay in benefits from selling to an EOT may be unattractive to elderly retiring owners<sup>133</sup>. Moreover, management may not support such efforts, creating internal frictions. Moreover, an EOT structure, with its trustee and tripartite ownership system, is hard to change once in place.

Moreover, CUK has been critical of the wide range of practices in various EOTs, where worker participation in governance is far from the norm. Developing a wider menu of options for stakeholders interested in deepening democratic accountability is therefore desirable. Moreover, connecting research on EOTs with that on democratic governance in general appears an enlightening endeavor and one that can reveal more about both advantages and pitfalls of the current models. Carrying out case studies and comparing the results with those of, e.g., ESOPs in the U.S. appears similarly informative in drawing out distinguishing characteristics, strengths and weaknesses.

## **11.4.8 Wales Cooperative Center**

The Wales Cooperative Center arose in 1982, after “the new Thatcher government of 1979 told British Steel to become profitable in 12 months or face

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<sup>131</sup>Graeme Nuttall

<sup>132</sup><https://www.ahmm.co.uk/practice/employee-ownership/>.

<sup>133</sup>Graeme Nuttall

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mass closures. This was clearly impossible.” Thus, according to Bob Cannell, Welsh trade unionists organized and, eventually, “[t]he Wales [Trade Union Congress] negotiated directly with Thatcher and proposed that [the national government] fund economic development work to create replacement jobs. To their astonishment, Thatcher agreed, giving them £150,000 a year. This was match funded with European grants and further enhanced by local authority funds to create an economic development fund for Wales.” [Cannell, 2010, p. 9] By 1988, WCC had “helped establish the first credit union in Wales in Rhydyfelin. It also started providing advice to trade unions and their members about employee ownership.”<sup>134</sup>

Cannell argues that “the WCC is still creating co-ops today in 2009, some 1000 new start coops and employee buy outs later.” (Id.) In 2016, it helped set up Community Shares Wales and in 2020, WCC, together with the government of Wales, published “Transforming Wales Through Social Enterprise”, which “outlines an ambitious vision which will see social enterprise become the business model of choice in Wales by 2030 for people and communities delivering solutions to social, economic and environmental challenges”<sup>135</sup> and offered services like tablet-lending to geriatric and care homes during the pandemic<sup>136</sup>.

According to Cannell, “The WCC’s priority is job creation and protection, preferably by cooperative means but essentially by any means possible.” It furthermore “has been particularly effective in engineering Employee Buy Outs in small businesses facing closure because their private owners wish to leave the business [...] benefit[ting] both retiring owners and employees.” (Id.)

#### 11.4.9 Different UK Stakeholders’ Perspectives on BCCs

In this section, we describe the perspectives of different stakeholders on cooperative conversion, including that of owners, employees and the wider community.

##### The Owners’ Perspective

In many cases, owners are interested in including workers in the ownership and management of companies. Rory Ridley-Duff has suggested that “around thirty percent of UK entrepreneurs start companies with social goals strictly

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<sup>134</sup>Source: <https://wales.coop/who-we-are/our-history/>.

<sup>135</sup>Source: <https://wales.coop/building-back-better-requires-social-enterprise-to-be-at-the-heart-of-the-post-covid-19-economy/>.

<sup>136</sup>Cf. <https://gov.wales/care-homes-benefiting-digital-devices-rollout>.

in mind.” Graeme Nuttall has suggested that one of the greatest bottlenecks in the UK environment to such owner-motivated conversions is the lack of experience on the part of financial advisors. Due to lack of exposure to the idea on the part of the latter cohort, many conversions never occur. Providing more resources to PDE, as has been suggested above, would provide owners with a greater set of resources and a broader range of advice from financial advisors and accountants.

The “social goals” can vary in their intensity, with certain owners preferring to benefit the community than themselves: “some [owners] have often been [...] quite benevolent and philanthropic, almost running a shop as an act of, I’ve got money, I don’t need to make money doing this if I break even, or even make a bit of a loss on it. I’m happy to be this [...] shopkeeper.”<sup>137</sup> Finding avenues to promote community stewardship of such enterprises appears a beneficial policy for the future. This becomes particularly relevant in the face of the frequent conflict between different forms of rationality, which can put owners in the uncomfortable position of pitting their interests in the local community against their pecuniary self-interest, as the following quote showcases:

“There have been some owners who have been really reticent, but I think most of that’s due to market forces where they go, if we sell to the community to keep it as a pub, then we’re only going to get pub market value for this asset, we could sell it to a housing developer and get three times as much. So even if I love the community, money wins, I’m going to go for the highest bidder. And that’s where the owner-community relationship has been really dodgy because of the property markets, and perceived value or market value of these assets or businesses. And that’s where communities feel very threatened because not only are they not actually that fussed about running it, but they know if that gets converted to a [high end boutique, the community will lose a further place of congregation].”<sup>138</sup>

This suggests that providing owners with both more education as well as incentives towards alternative succession plans appears generally desirable.

### **The Workers’ Perspective**

The UK is facing many problems in its labor market. As Mark Simmonds of Coop Culture puts it, “we’re rapidly moving into a complete gig economy”.

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<sup>137</sup>Isla McCulloch

<sup>138</sup>Isla McCulloch

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This is in part due to the long-standing weakening of the British working class, including the union movement, which began in the 1970s and culminated in the Thatcher years. In keeping with this dissipative trend, workers' perspectives on conversions vary widely. One of the main issues preventing more BCCs is the information asymmetry in a regular workplace, which “[have] a quite insular management, and then a [...] disempowered workforce”, who may not know that a BCC is an option. This can be compounded when the workforce is led to believe that management practices are esoteric, difficult and require almost magical understanding. Just as an example, whereas in Argentina there are roughly 400 worker-run enterprises that emerged in a struggle against management [Vieta, 2019], only around 10 of these exist in the UK, including Calverts and Enabled Works<sup>139</sup>.

This creates in many workplaces a static situation where inertial forces prevent a new culture from taking root. The near total lack of worker buyouts with regards to management buyouts can also be attributed to this asymmetry, “because [management] understand[s] what it takes to run the business”, as opposed to many workers. In many ways, the *One Million Owners* scheme is an attempt to address these disconnects. It involves dealing with workers, owners and local stakeholders including governments to push voluntary inclusion of the workforce in issues of strategic management, including direct ownership stakes in their firms.

Another issue is the identification of cooperatives with certain negative attributes. For example, Mark Simmonds reported the following anecdote:

I've done successions, where I've taken [...] loose associations of people and turn them into formal co-ops. And often they will say[...] “we don't want to be a co op”. But we do need to create something to carry on doing the thing. So I work with them. And then in the end, they set up a co-op, because when we [...] look at what they want to do, and say, ‘Oh, and by the way, you've actually set a co-op’.

One of the important aspects of social learning is vicarious learning, i.e., learning via the experiences of others. This is critically important for workers, who often lack direct experiences managing their enterprises. Therefore, “it's getting that critical mass of examples out there” that counts. The idea of community pubs, discussed above, serves to illustrate the point:

the first community pub was about 15 years ago. And for several years, it was a weird thing. But now, it's rare that you can't work

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<sup>139</sup>Source: Sion Whellans of Calverts, a graphic design company that was converted into a worker cooperative adversely, as the result of the struggle of its workforce. For more information on Enabled Works, cf. <https://enabledworks.co.uk/about-us/>.

with a community pub and say [...] there's one 20 miles away from you, you could go and visit them."<sup>140</sup>

Phenomena like the Ownership Hub are designed to spread more information. In Leeds, Radical Routes has dedicated significant resources to preparing manuals for workers to create cooperatives. However, in many ways, the movement to raise awareness of BCCs on the part of the workforce is at a very rudimentary stage in the UK:

I'm having to start from scratch[...] there's an idea we call the "mouth of the funnel", when people have a [basic] knowledge where you can then take them to the next stage that. [For the most part, the workers today] are not even in the mouth of the funnel.<sup>141</sup>

Similarly, Bob Cannell has observed that "Simon Jenkins, former general secretary of the Wales TUC [Trade Union Congress] and chair of the WCC, said they had assumed people would be queuing up for assistance but in practice the WCC had to do a full programme of community education before workers came forward to explore the possibility of Employee Buy Outs as a succession solution for their employers."<sup>142</sup>

Moreover, one of the problems is the image of cooperation in the UK, which has been described as "cooperation as a hobby". The shift, of viewing cooperation as a livelihood has not occurred in many places. More projects like the Ownership Hub are planned, including a joint effort of the Union Cooperative Group and the Cooperative College of promoting further worker education on BCCs.

### Community Members' Perspective

Community members often become interested in cooperative conversions when an essential link in the community chain, for instance a community pub or local grocer's in an isolated community, runs into financial difficulties or is forced to close. In such cases, it is often members of the community, rather than the prior owners, who initiate efforts to convert the business into, e.g., a community enterprise via CS. Moreover, many legacy businesses are keystones in their local community and both community members and legacy owners are Members of the community are then interested in maintaining them: "where you've got family businesses, where it's been [...] someone's life work to get to the point that it is, [...] they don't want to lose that.

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<sup>140</sup>Mark Simmonds

<sup>141</sup>Mark Simmonds

<sup>142</sup>[Cannell, 2010, p. 9].

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And I imagine there's quite a bit of empathy and positive feeling towards the workers as well around preserving their job.”<sup>143</sup>

As to the reason community members get involved in such projects, the Community Shares survey is very revealing:

“we did [...] a really big survey of community shares investors [...] about 540 investors. And it's quite diverse is the truth of it [...] all of them, for the most part, feel some personal connection to the project. They were majority earning the average UK salary or less, they were not high net worth individuals, there was a pretty balanced gender split, it was [...] 46% female. And in terms of investment, most people who are involved in it is because they feel some sort of personal benefit of the project or of the business. Or there's quite a lot of people who've invested in community energy, who are really passionate about climate change and stuff. And so whether that's food or energy – food and farming [have] been really successful offers – [the idea is that] I'm not going to benefit directly, but I know that this needs to happen.”<sup>144</sup>

There are clearly potential conflicts in community managed enterprises between various stakeholders, for instance between investing community members and worker members. In fact, one of the weaknesses of the CS model is the fact that “there may still be workers there [who] often are in exactly the same relationship as they were beforehand.”<sup>145</sup> Isla McCulloch similarly commented that “there is a tension between workers and the wider community. But for the most part, I think, if the workers are given a bit of autonomy for what they're doing, but can also delegate responsibility to others, it can work really well. I think it has the dynamics of a family business a lot.”<sup>146</sup>

Beyond this, the question of community stewardship is a relevant one. In many cases BCCs are carried out in a critical period for the focal organization and questions about governance, control and delegation are neglected at the beginning. “Because these communities really struggle to [...] manage these things, [...] they get all excited and save the thing. But then there's a few people [who] have to do a huge amount of work to then keep it going. [Therefore,] much better, I think is to create things that can just steward the assets, so they're not lost, but then let the people who are generating the

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<sup>143</sup>Mark Simmonds

<sup>144</sup>Isla McCulloch, see also [McCulloch and Wharton, 2020].

<sup>145</sup>Mark Simmonds

<sup>146</sup>Isla McCulloch

value within them [...] basically run the business within them. But [...] that's something that's very early stages at the moment.”<sup>147</sup>

**Youth** One issue of note is the age of stakeholders, which in the CS report skews towards the older end of the spectrum. States Isla McCulloch, “I am slightly worried the age profile is over a third over 65. [...] 4% of our respondents are under 35. We're not seeing so much a younger demographic involved in this.”<sup>148</sup> However, “where I'm seeing innovation, a lot of it is with young people who are going into housing, [where the situation in the UK is] terrible. So [they ask] how can we do better? A lot of the food[-based projects] has been led by younger generation, who don't want to leave that rural lifestyle, but it's really hard [to maintain that culture]. So [they feel they] have to enter into cooperative and collective models to make it work.”<sup>149</sup>

It would appear that more explicit messaging directed at young people regarding BCCs would be beneficial, while at the same time being in line with the spirit of the fifth cooperative principle, which emphasizes education to youths.

#### 11.4.10 Case Study: VME

VME<sup>150</sup> is the largest IT firm converted to a cooperative. Its business is providing IT services to consumer cooperatives and it provides IT services to “nine of the 13 independent retail co-ops” in the UK<sup>151</sup>. It began its life as a family business in 1988. In 2004, a management buyout led by current CEO Stephen Gill was promulgated. Gill had a very clear vision of converting the firm into a democratic enterprise, although his ambition wasn't initially to choose a cooperative model. Stephen, along with Aaron Stewart, General Counsel of VME, assessed various options for conversion, based on three main criteria: 1) the long-term viability of the firm; 2) a fair return for the shares to be transferred to the successor firm and 3) staff security (i.e., there was little interest in developing a “solution” that ended in a shrunken and battered firm coming out on the other end).

The conversion was a complicated affair. Although workers were “open” to the idea, there was a lack of awareness on the part of financial advisors and generally a difficult ecosystem. This resulted in four attempts until the

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<sup>147</sup>Mark Simmonds

<sup>148</sup>Isla McCulloch

<sup>149</sup>Id.

<sup>150</sup>The sources for this case study include private conversations with CEO Stephen Gill and General Counsel Aaron Stewart

<sup>151</sup>EDUCATION FOR ALL Learning for a co-operative life, p. 25



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plan was successful. These attempts involved, among others, an attempt at conversion to a cooperative society, as well as a reincorporation in Malta, though none of these attempts were successful. In particular, a problem was giving a fair share to the beneficial owners while at the same time respecting the democratic vision cooperation entails.<sup>152</sup> Finally, in June 2020, a conversion via the EOT method was successfully promulgated. Stephen Gill has suggested that one of the primary motivators in choosing this model was the tax incentives the EOT model receives. The fact that owners were compensated early (management had less than 50% of shares) was ultimately a deciding factor, one among several.

#### Structure

VME is structured as an EOT, with a multi-stakeholder structure featuring three classes: an “EOT Class”, a “Labor class” and an “Investor class” (non-voting). For general outlines of the structure of EOTs, see 11.4.7. All workers have labor shares. These are designed “to dilute power and to distribute inclusive governance”. These were in fact a compromise with statutory requirements for EOTs, in which the trustee is required to have a majority stake in the trustee company. In the case of VME, the policy, as recorded in the trustee deed, was to emphasize the fiduciary duty entailed by the trustee relationship. This duty is interpreted as being “not only symbolic”, in that workers can sue the trustee if policies are implemented that are not in keeping with their interests. As such, labor shares act to provide transparency. While the outstanding debts of the conversion are paid off, the prior owners, in this case Stephen Gill and Richard Coyle, have a veto in board decisions.

The company employs sociocracy as a governance framework. This has the advantage of formal mechanisms for developing democratic and management skills. This structure “helps develop a skill basis of future owners”. There are three tiers, divided into 28 circles, plus co-optation, where members of each circle comprise another circle [Pfeffer and Salancik, 2003]. In the eyes of CEO Stephen Gill, this “has the advantage of a formal mechanism for developing democratic and management skills”.

The observation was shared that the EOT model is “in conflict with increased employee participation”<sup>153</sup>, due to the conflicting needs of increasing the latter on the one hand and legislative requirements on the other. There is therefore more need for balancing the interests of employee shares within the trust with statutory stipulations. Customer feedback has been positive.

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<sup>152</sup>Source: Stephen Gill

<sup>153</sup>Aaron Stewart

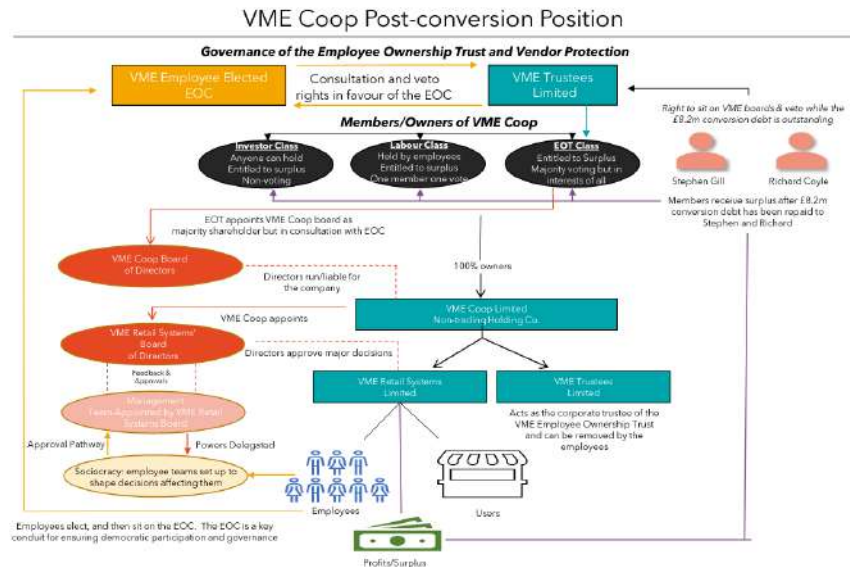


Figure 11.3: A diagram of the VME business structure post-conversion. From a company internal presentation.

Due to its amalgamated form, there has been some controversy as to where to place VME, which describes itself as a cooperative, but which some in the cooperative sector have critiqued<sup>154</sup>. It should be noted that ICA, the official steward of the cooperative identity, has recognized VME as a cooperative<sup>155</sup>. Meanwhile, its unusual structure makes it a bit of a misnomer in the EOT scene, as well. Therefore, in response to the question “Is VME a cooperative?”, its CEO Stephen Gill commented that it depends on how one defines a cooperative. As mentioned above in 11.4.2, there is no single legal form of a cooperative in the UK. Thus, Gill remarked that the company uses the 1995 ICA Statement on Identity as guidance. Does that make it a cooperative? In terms of following a cooperative logic, adhering to the principles and engaging in a process of converting from a translatable to an inalienable hierarchy, it appears one could answer this question in the affirmative.<sup>156</sup>

<sup>154</sup>Bob Cannell from Suma, for instance, has argued that “VME is not a worker cooperative according to ICA definition of a worker cooperative, a business owned and controlled by its worker members. The employing VME business is owned by the coop VME of which the members have the majority of votes but the VME corporate trustee has a golden share in VME coop and can outvote all of the members.” Source: personal communication

<sup>155</sup>Source: Aaron Stewart

<sup>156</sup>We may also cite Immanuel Kant’s observation in *Perpetual Peace* about “governing

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At the same time, with respect to the question “Is VME an EOT?”, Aaron Stewart remarked that VME considers itself to be a “cooperative EOT”. Moreover, the EOT form “was essential”, as the tax bill for alternative forms of conversion would have made the process “impossible”. Moreover, in a comment critical of the generality of the EOT form, Stewart commented that “vanilla” EOT shares “don’t actually give control to workers”, meaning that such a “vanilla” EOT is “like a Parliamentary delegation.” In a recent article in *Stir to Action*, Stewart comments that “While conversion to employee ownership would release funding and give employees a stake in the business on the back of ‘friendly funding’, the rules needed to secure this particular tax treatment would challenge our desire to achieve co-operative status and full employee participation.”<sup>157</sup> In the end, the case of VME appears to demonstrate, above all, that UK tax law disincentivizes conversion to a worker cooperative model, even when the beneficial owners of a business desire the latter model. The complex ownership structure appears to represent a pragmatic work-around within the existing legal architecture.

#### Changing a Culture?

One of the problems with changing the culture of a firm is the problem of hysteresis: the path-dependency of environments, personalities and behaviors. Therefore, the change involves changing the role of workers “from decision-takers to decision-makers”, as General Counsel Aaron Stewart remarked. He continued that the act of making decisions together “changes everyone”, not sparing himself in the observation. The company has taken the fifth cooperative principle – education and training – to heart and has invested in sending members to ICCM at St. Mary’s University in Halifax, Canada to learn cooperative management techniques.

The first general meeting was attended by 100% of employees. The general ethos of managing VME since conversion has been based on attempts to simplify governance, so not only management is involved in firm governance. The result has been described as a process marked with some success, while both Gill and Stewart admitted there are challenges in adapting to the new environment for all stakeholders.

The prior owners (VME was originally a family business) were “open” to the idea. Carrying out the conversion required, for current CEO Stephen

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in a republican fashion despite a despotic constitution”. Kant’s observation underlines the dynamic quality inherent in organizational transformation, which generally does not occur at once, but in stages, and involves milestones in self-efficacy on the part of stakeholders, who may not always be interested in self-management.

<sup>157</sup> “VME: A Co-op Conversion Story”, *Stir to Action*, Spring 2021.

Gill, the realization that “Small and medium businesses (SMBs) are not ‘evil corporations’”, but that many owners “are interested in a fair return”. In particular, many SMBs are rooted in local communities. The experience has shown the need for owners to compromise, complementing the instrumental rationality of prior owners, which often tends to focus on quick solutions in the short-term, with the expressive rationality that workers bring. [Ferrerias, 2017]

In many ways, the experience has revealed to current stakeholders the dearth of expertise on the part of advisors. Their perspective is often that cooperatives are small and “charity-like”, as Aaron Stewart commented. In many ways, cooperatives share in this bias, according to Stewart, feeling that “coops don’t need [things like] Corporate Social Responsibility (CSR)”. Thus, the conversion involved a shift from the standpoint multiple logics and it appears that the result is an entirely new culture.

### Lessons

The main lessons for stakeholders of VME was that the EOT model “tends to favor a management buyout”, due to the complexities of the process. These complexities mean that workers are often left in the dark as to their legal rights, leading CEO Stephen Gill to conclude that there is a need to simplify such processes. One of the goals VME has set is to “systematize” aspects like the delegation of authority, via structures like sociocracy. In general, the customer feedback after conversion has been “positive”.

Both CEO and General Counsel support “creating tax relief for ‘straight coop conversions’.” Due to the lack of funding for such conversions, Gill, Stewart and colleagues have initiated “Coop Exchange”, a project to create seed funding for UK cooperatives or cooperatives worldwide, which has met with approval by the International Cooperative Alliance. Coop Exchange is registered as a PLC (Private Limited Company) and seeks to apply cooperative principles within the legal framework of “venture capital” funding directed towards cooperative enterprises globally<sup>158</sup>. This follows the argument, “Why should the devil have all the good tunes?”<sup>159</sup>

#### 11.4.11 Discussion

The patchwork of BCC frameworks has both been praised and criticized by various stakeholders. It has been praised for giving owners, workers

<sup>158</sup>Source: <https://coop.exchange/blog/19e4e556-da4b-11ea-b711-06ceb0bf34bd/2020-saw-the-first-worker-coop-acquisition-and-venture-capital-investment-into-a-coop-in-the-us>.

<sup>159</sup>Aaron Stewart

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and community members a menu of options and not “nailing to a cross” the cooperative identity. At the same time, the diffusive quality has been criticized as being complex and unwieldy. Moreover, the lack of PDE has meant that many tax and financial advisors are not aware of the landscape of BCC options in the UK. Aaron Stewart, Lead Counsel of VME has observed critically that “even law firms specializing in cooperative law usually only have one division” dedicated to the topic. Programs like *1 Million Owners* and the Ownership Hub have sought to bridge that gap; it is too early to ascertain their success, yet their efforts are critical, as Stewart has described the opportunity of retiring “Baby boomer” entrepreneurs as a “short window”.

The EOT phenomenon appears to have “broken through the sound barrier”, to borrow Amy Goodman’s phrase. By providing a relatively intelligible, moderately simple legal structure for conversions, while at the same time enjoying certain material (i.e., tax) incentives and being embraced by Conservative governments as part of the Big Society reforms, the EOT appears to have achieved a modicum of legitimacy and recognition, both in the eyes of the general public as well as in critical circles of tax and financial advisors. As such, it appears to be succeeding in pushing the issue of more inclusive and accountable business cultures and providing a basis for a model of succession beyond a trade sale to a generation of retiring business owners.

At the same time, EOT has been criticized as being ambivalent to democracy. While EOT provides a framework for inclusion, accountability and equity, the precise balance of power in each EOT is dependent on the particular trust arrangement. Therefore, a more granular approach to developing more explicitly *democratic* EOT structures, connecting these with the principle of mutualism and worker control, is desirable. Regarding the need to improve upon the EOT model, Stephen Gill, CEO of VME Coop argued that “cooperation is not just about ownership” and that his company is interested in developing a cooperative *identity*. VME Senior Counsel Aaron Stewart additionally remarked that “the EOT form does not create cooperatives”.

Cooperatives UK has admitted that it has been late in joining the discourse around the EOT and is now retroactively investing resources into such a qualitatively more granular approach to the phenomenon. With a focus on “democratic Employee Ownership Trusts”, they have initiated research into best practices for activating participation on the part of workers in EOT firms. Such projects should be welcomed, both by EOA and the greater business community, as a pluralistic economy requires various models to suit diverse needs [Gibson-Graham, 2006].

Moreover, it would appear that more effort in the UK needs to be expended on complementary policies that make the best use of existing resources, without unnecessarily displacing extant networks and communities. Therefore,

one criticism of the Conservative government's "Big Society" policies is that they have worked to emphasize certain types of enterprise while displacing others: "the various [Big Society] schemes favoured making the charitable end of the sector more business-like and investment ready, whilst disfavouring the already business-like co-operative end of the spectrum."<sup>160</sup> Bridging these approaches would appear to benefit all parties. Multiple stakeholders interviewed for this report recommended providing similar tax relief for BCC to worker ownership as is provided, e.g., to the EOT form.

Moreover, BCC processes, and more specifically, the CS model begs certain fundamental societal questions. In particular, questions of the role and place of the state in providing certain services. As Isla McCulloch commented in an interview, "there's a lot of Conservative MPs who love the community empowerment train, who are jumping all over it, because actually, for them, it's a retreat of the state. It's less state intervention. And it's about self-responsibility."<sup>161</sup> Therefore, it appears vital for societies like the UK to ask themselves to what degree such processes of community ownership are complementary to more traditional forms of welfare and state intervention, and to what extent they may provide arguments for austerity politics, or may perhaps serve as motivation to fundamentally rethink the way in which such services are organized, as has been the case, for instance, in Italy.

An ecological approach to the institutional environment may provide a productive perspective to the contribution elements like community ownership can provide. In addition to giving an impetus to a transformative culture, something we return to immediately below, they may provide parallel value-generating venues in communities struggling with demographic decline. As Mark Simmonds remarked, "it's around creating 'lifeboats' within local economies. For when things do start to fall apart, you've not only got some organizations that are more robust because of their productive structure, and are more likely to survive, you're also created a culture of self-reliance, and the community is not waiting for another big business to come in and give them jobs."

As mentioned, one of the lingering problems is that of culture. When comparing the business landscape in the UK in general, and in particular the landscape of collective and community ownership, with that of, e.g., southern Europe, the UK is a much more individualistic society. One has only to think about Margaret Thatcher's adage that "there is no society". As Isla McCulloch remarked, "there's a cultural [aspect] in the UK, and in Scotland.

<sup>160</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>161</sup>McCulloch went on to comment, "And that's where the cooperative movement is really interesting because its core principle of self-responsibility conflicts with a lot of the might be considered leftist" ideas.

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I don't think it's just about capital, I think it's about culture, as well. And that's hard to change in terms of what people perceive as normal. And what [they perceive as] viable.”<sup>162</sup>

It would appear, then, that phenomena like CS have a proven track-record of engaging in such transformative praxis. The 2020 report found “strong evidence that people investing in community shares outside their own locality are motivated by the wider social/environmental benefits.” [McCulloch and Wharton, 2020, p. 12]

**Best Practices** There are numerous exciting cases all over the UK of BCCs, from Suma, the “biggest worker coop in the UK and probably biggest equal pay cooperative in the world”<sup>163</sup>, to VME becoming the world's largest IT firm to convert to cooperative format all the way to “Stirchley Co-operative development seeking to create a new co-operative economy in Birmingham.”<sup>164</sup> The Ownership Hub and the 1 Million Owners program also appear to offer opportunities both towards creating mutually reinforcing discursive strategies that facilitate dialogue between stakeholders like CUK and EOA. It will be interesting to analyze the outcomes of these projects in a few years.

Moreover, the CS approach appears poised to provide many communities with innovative strategies for maintaining businesses locally. The idea of a relatively unregulated, local market for withdrawable shares for specific investment projects may seem quite unusual in some jurisdictions. They may wish to adopt similar policies to promote such forms of self-managed local development. As Mark Simmonds, commented, “my thesis is that communities want to save these things, because they are important [...], even if they're just an employer in the community, but often they're a part of the community. But they're not that bothered about getting involved in running them, so that [the] community is investor.” In particular, the phenomenon exists in the UK “because of the specific experience of exclusion of registered societies from a lot of the restrictive legislation around offering public investment.”<sup>165</sup>

As mentioned above, the Community Shares concept is in itself merely a reimagining and rebranding of previously existing aspects of society law. It is thus a tribute to the fact that new forms of ownership do not always need

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<sup>162</sup>Isla McCulloch

<sup>163</sup>Mark Simmonds; also cf. <https://www.theguardian.com/business-to-business/2018/feb/23/worker-owned-businesses-we-get-paid-the-same-regardless-of-role>.

<sup>164</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>165</sup>Mark Simmonds

new legislative frameworks and can flourish merely as a result of innovation within existing legal frameworks, especially as regards communication.

**Worst Practices** Historically, the UK has had some rather unsuccessful attempts at promoting BCCs. One cogent example is the so-called “Benn Coops” in the 1970s, mentioned in the introduction. Of these, Mark Simmonds had the following to say:

“So Tony Benn at the time was big into spinning industries out into [...] coops, [...] but it was sort of like: “Congratulations, you’re now a co-op!” So it happened with triumph, but basically what happened – and there’s a danger of this happening with around this sort of Big Society thing – is [that] they lack the capacity to then run the business and the business falls over, and then the assets get hoovered up by the private sector. So it’s almost [...] a sneaky shortcut to basically getting the assets into [investors’] hands. So the thing that really needs to happen with anything like that is you need to build the capacity of whoever is taking over the business to ensure that when they do take it over, it doesn’t then fall over.”

Another criticism frequently encountered in stakeholder interviews was the relatively lopsided legislative environment regarding BCCs. While the EOT form enjoys considerable tax advantages discussed above, the same cannot be said for conversions to worker ownership. Therefore, Mark Simmonds argued that what’s necessary in the UK is to “get similar tax breaks for business owners selling out to worker coops rather than trusts.” As the institutional structure currently stands, the preferred option of an EOT can be described as a “no brainer”. Evening the playing field would improve the situation here considerably and offer legacy owners a broader menu of options. For instance, Ellie Perrin has compared the French Law on the Social and Solidarity Economy favorably with existing UK law, which, among others, “obliges employers to inform their employees of the sale of their business at least two months before the sale”.<sup>166</sup>

Other “worst practices” include regulations which asymmetrically negatively impact cooperative business. For instance, the UK Financial regulator, “the FCA, abhors a Co-operative Society with any significant membership

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<sup>166</sup>Similar laws exist in Italy, as well as “in Quebec and Spain”. Source: “Cooperatives and Worker Buyouts in France – The Benevolent Gaze of the Law?”, Ellie Perrin (pp. 3-4). Similar sentiments have been expressed in, e.g., Voinea, A., “The path to worker buyouts: Does the UK need its own ‘Marcora Law’?”, in *Coop News*, 7 September 2015.



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who do not have a transactional relationship with the co-operative.” Many cooperatives respond by “either creat[ing] more complex governing documents to ease their square peg into the FCA’s round hole or simply just run as a multi-stakeholder without defining that in the governing document.”<sup>167</sup>

In this vein, the discussions at CUK around a “democratic EOT” appear similarly promising. The integration of a formal analysis of *democratic choice mechanisms* (DCMs) as well as a more explicit analysis of *elective hierarchies* in the manner of Chapter 7 would appear beneficial. Moreover, consideration of the three parameters introduced there, including the *ratio of inclusion*, the *equity indicator* and the *O-value* would provide suitable analytical ground for evaluating models in accordance with their ability to facilitate accountability, inclusion and equity. Another avenue discussed by stakeholders addressed the question of creating solutions for transforming an EOT into a worker cooperative instead of developing models like a “democratic EOT”.

Regarding the CS model, the above-mentioned tensions between workers and community members present very real challenges. Therefore, “trying to extend that model so that it increases worker agency”<sup>168</sup> appears sensible. Moreover, certain bureaucratic hurdles still remain in this respect. For instance, in a MSC with both investor and worker members “depending on which trade it’s in, [investor members] can get tax relief on their investment. However, if the workers invest, they can’t get the tax relief. They’re excluded as workers and getting the tax relief.”<sup>169</sup> Thus, leveling the playing field in CS enterprises to allow tax relief to workers investing in enterprises is desirable. In a similar vein, “[t]he stipulation that businesses supported had to be owned by or accountable to a geographical community had the effect of excluding both community businesses that operated on a larger scale but also those that used a worker co-operative model.”<sup>170</sup>

The Big Society program’s focus on “social impact” is also a double-edged sword. In particular, “the definition of social impact outlined by these programmes has been heavily influenced by traditional philanthropic culture of nice people doing nice stuff for others[. It therefore] excludes many other valuable impacts, such as increase in biodiversity, carbon reduction, and so on. [...] This has also led to communities that just wanted to save their local pub having to reinvent themselves as community hubs by bolting on things that they wouldn’t necessarily have done – being a community running your pub is not enough – you have to be more ‘More than a Pub’.”<sup>171</sup>

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<sup>167</sup>Id.

<sup>168</sup>Mark Simmonds

<sup>169</sup>Mark Simmonds

<sup>170</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>171</sup>Id.

One of the issues that arose in interviews with stakeholders was a reference to lack of funding. CUK and other stakeholders appear to be overwhelmed with many critical needs from the cooperative business sector and unable to meet the demand in many domains, despite their importance. Bob Cannell has written that, due to this circumstance, “[w]orker cooperatives and employee ownerships are [...] dependent upon the very scarce resources of the few surviving cooperative development bodies and the national coverage of Business Links for business advice.” [Cannell, 2010, p. 13] Creating a more sustainable financing structure for second-tier cooperatives and apex associations like CUK appears a desirable reform. UK cooperatives should consider reserving a certain share of profits towards financing CUK and similar structures. If such a financing scheme exists, the sector should consider increasing the share to a more suitable level, in order to fund projects like the Ownership Hub and to invest in capacity-building generally.

Moreover, solutions like Coop Exchange could provide key funding from national and international stakeholders, providing a tool for redirecting surpluses from more profitable cooperatives to invest in BCCs and similar efforts.

#### 11.4.12 Conclusion

In closing, while the UK may be considered “unfriendly” towards cooperation, innovative projects are cropping up innovative across the country in response to demographic and larger social shifts. The EOT and CS phenomena present two viable methods for business succession towards BCC. Each displays certain strengths and weaknesses. In the case of the EOT, a frequent criticism was the ambivalent stance towards democratic governance, which arguably leaves too much to individual trust deeds, which are themselves frequently not in the public domain. Moreover, from a tax benefit advantage, a frequent refrain was that EOT “is the only game in town”. Creating a more diverse legal framework for promoting BCCs would appear to serve the interests of owners, workers and the wider communities they serve. The EOT model can be improved upon and it provides a solid backbone to increasing employee ownership (EO), but it should be part of a more diverse landscape of democratic governance.

Regarding the CS model, community ownership shouldn’t be seen as “efficient philanthropy”<sup>172</sup>, but as part of a rising phenomenon of “public organizations” consisting of heterogeneous members, finding innovative structures for governing a multitude of resources, from post offices to newspapers and housing facilities. Rendering worker empowerment more explicit can contribute to resolving the (latent) friction between workers and community

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<sup>172</sup>Mark Simmonds, *Stir to Action*

members in the CS landscape. Moreover, ensuring the CS is not seen as a replacement of traditional social welfare, but a parallel means of making communities more self-reliant, appears to be a desire expressed by CS stakeholders. The phenomenon appears poised to facilitate transformative approaches to merging substantive economic activity with the larger goal of community development and local empowerment.

A general conclusion of this report is that tax relief and benefits should be equally realized among different BCC forms. Currently the situation in the UK “is a bit of a mess and worker co-operatives get the rough end of the deal.”<sup>173</sup> The loose definition of cooperatives can both be a detriment, in that it makes it more difficult to develop a stable set of PED tools for tax advisers. On the other hand, it creates a flexible legal architecture, where phenomena ranging from local community-run bakeries to large industrial plants and even venture capital PLCs like Coop Exchange can call themselves cooperatives and work in different ways to promote self-organization in the economy.

## 11.5 Berlin’s (Cooperative) Startup Scene: An Ecosystems View

Berlin has been dubbed a startup hotspot, with companies like Zalando having their roots there. There are numerous fascinating examples of innovative forms of cooperation that continue to build up a local ecosystem, making the sector a worthy candidate for a case study to close out this dissertation and present some perspectives for the future. In particular, Berlin’s startup scene has been increasingly influenced by the debate around *platform cooperativism* we introduced in the last chapter. In fact, the most recent conference of the Platform Cooperatives Consortium (PCC) took place in Berlin in 2021<sup>174</sup>.

As such, we carry out an overview of the history, development and trends in the Berlin platform cooperative startup scene. We begin the analysis with Platform Cooperatives Germany. Following this, we move on to Smart Germany, an extension of the European wide “new cooperative”, Smart. Finally, we discuss Circles, a cooperative aiming to link an alternative cryptocurrency to networks of sustainably-oriented local businesses. We then engage in a concluding discussion that attempts to synthesize the lessons of the preceding discussions.

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<sup>173</sup><https://www.stirtoaction.com/articles/what-next-for-community-business>

<sup>174</sup><https://platform.coop/events/conference2021/>

### 11.5.1 Platform Cooperatives Germany

Platform Cooperatives Germany (PCG) is an umbrella organization that advises and consults with the burgeoning platform cooperative scene in Berlin specifically, and Germany generally. It was started by Ela Kagel, Andreas Arnold and Claudia Henke in 2018. It started from Supermarkt Berlin, an open space for events and consulting within the domain of open source and collective paths to digitalization and which also was originally a supermarket<sup>175</sup>.

In fact, Supermarkt Berlin “didn’t start with the purpose of consulting with platform cooperatives”, as Ela Kagel, who has been working as a strategist in the digital arena for over twenty years, commented. Kagel herself was at the time more involved in the artistic and creative scene in Berlin, being involved in the Ars Electronica Festival and similar projects. Ela stated that she “found out about platform cooperatives via Trebor Scholz”, who hosted the first PCC conference in 2015 in New York. Ela and other Berlin stakeholders were invited. Kagel commented that she immediately “understood that it was an important, central issue, the question of organization and coordination of people worldwide, co-determination [*Mitbestimmung*] and property questions, questions I had been asking for years.”

Ela and colleagues like Andreas Arnold and Claudia Henke “started putting the platform cooperative issue on our agenda in Berlin”, hosting an event in 2017 entitled *Platform coops: start your own*. Many stakeholders attended, including the founders of FairBnb, Damiano Avellino, Smart Germany, Magdalena Ziomek, as well as various taxi collectives, etc. Kagel described the crowd as “the first wave” of platform cooperatives. During the event, Ela and others had the impression that it was an important topic. The group began advising many digital platforms and also traditional cooperatives interested in digitalization. Examples include DNA Merge, which was interested in a democratization of fan T-shirt logistics. During this process, Ela, Andreas and others “noticed this wasn’t just a theoretical alternative, but it was a real model.”

The final impetus to start Platform Cooperatives Germany (PCG) occurred in 2018, with the exit of Deliveroo from the German market, which involved the firing of drivers, many on short notice. This promulgated an initiative in Berlin to found an alternative cooperative, and this meant that “people came to us”, including the group that would later be founded as Kora, a Berlin-based delivery collective organized on cooperative principles. The group “invited Jonas Pentzien, Dominik Pietron and other experts to discuss issues and develop strategies.” The realization dawned that a multi-stakeholder dis-

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<sup>175</sup>It has since relocated to a storefront at Hallesches Tor, where it mainly serves as an event space.

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course was necessary, including the municipality. At the time, “thee question was how to develop an interest on the part of different stakeholders.”

In the end, Smart Germany became the project basis for Kora, much as the result of the personal agency of Magdalena Ziomek. This led Ela Kagel to conclude that it is generally “the people, not the institutions, that matter.” Ela describes Magdalena as “a doer”, who hacks and creates things, isn’t afraid to rattle the cage.”

At this stage, there was a need to devise a legal personality, to divide the activities on platform cooperative issues from Supermarkt, which has a broader range of activities. Thus, in 2018, Ela Kagel, Andreas Arnold and Claudia Henke founded PCG, along with Thomas Dönnebrink, Zsolt Szentirmai, Magdalena Ziomek<sup>176</sup>. The new cooperative needed capital, and the group applied for a grant for pioneer solutions in the digital sector<sup>177</sup>. The project submitted “was designed to start an innovation network for platform cooperatives.” It brought together partners, who each paid a fee. In return, the Economic Ministry (BMWI), who accepted the project in the first round, paid the first part of the development. For one year, the project received financing, including 3 half-time positions.

After the first year, the BMWI’s jury found the project “too experimental and too speculative” and wasn’t prepared to further finance it. The members of PCG “have continued to finance our work via consulting.” By doing such consulting work, working for cooperatives like OOSE (an IT cooperative in Hamburg that resulted from a workers’ buyout) and Mondragon, PCG has been able to continue its activities. PCG also earns money with “Social Economy Berlin (SCB), which itself receives money from Economic Committee of the Senate of Berlin. As Ela Kagel states, “they [SCB] were missing experts in the cooperative sector.” Thus, PCG has a contract with SEB with a certain fixed quota of consultations. Thus, while PCG is able to finance its activities, “we are not at the point where we have a real structure.” Thus, it has remained at its original amount of members, as “resources are not yet sufficient.”

### Current Situation

When asked about the current situation and interest among those that PCG consults with, Kagel responded that a main interest that stakeholders bring revolves around the questions of “How can I construct these different forms of organization via ‘hacking’?”. In other words, the existing legal architecture,

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<sup>176</sup>The cooperative was officially registered in 2020.

<sup>177</sup>The official name of the program applied to was IGP Förderwerk, from the German Ministry of the Economy. Source: <https://www.bmwi.de/Redaktion/DE/Artikel/Innovation/IGP/igp-einstieg.html>.

based frequently in Master-Slave logics of employment relations based on translative hierarchies and CCMs, is unsuitable to cooperative and collective organization. Thus, claims Ela Kagel, “there is a large demand, and the demand will continue to grow” for alternative structures. To her, this is evidence that “the economic paradigm that was taught in the past [should be] question[ed] with reference to how useful it is in practice”.

One of the most important issues that continually comes up in PCG’s work relates to “questions of *ad hoc* organization.” Other topics of continual interest revolve around “questions of scale.” These “do not just revolve around the question of ‘scaling up’”. In fact, many are interested in “leaving ‘scale up’ and learning to ‘scale deep’”. Knowledge on these and related subjects is, according to Kagel, in demand by platforms and also by traditional enterprises. So much so that “we are not able to meet the demand ourselves.”<sup>178</sup>

One of the problems PCG has its (present) inability to “convince [in accordance with] the traditional ‘economic’ logic,” but Kagel is nevertheless “confident that we are doing something useful, as the demand continues to grow. As long as we can finance our work, I am okay with that.” However, the truth that Kagel admits is that “if we didn’t work for private enterprise, where we receive large fees, we would never have been able to build up PCG.” Asked how this makes her feel, she responded that she has “seen it as a privilege, [to be able to] ‘cross-finance’ my platform activities. I always have to balance these interests”. In this respect, the original one year financing by BMWI was “a miracle for us”, but unfortunately, by the second phase, “they weren’t willing to finance further.”

### “Hacking”

Asked about the requests for “hacking” the existing legal architecture by startup entrepreneurs, Kagel responded that “it is good when entrepreneurs are naive or ignorant, because it helps them retain a positive view.” In terms of the services PCG offers in this respect, Kagel stated that “we can help [startups] plan and strategize, help plan a finance model, and look at questions of legal form regarding cooperatives.” Regarding the legal form, Kagel stated that “we often have the case where people want to start a cooperative and we discourage them, and encourage a ‘UG’<sup>179</sup> or ‘GmbH’ (limited liability company), with by-laws recognizing the cooperative character of the firm”. Moreover, Kagel states that she herself “has wound down cooperatives that

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<sup>178</sup>Source: Ela Kagel

<sup>179</sup>A form of limited liability company with lower equity bar, frequently referred to as a “One Euro GmbH”.

have stopped having a purpose, and that is the sense we want to give to clients and those we advise.”

In Ela's view, there are many corrupt cooperatives, thus she views the legal form “as a vehicle, we don't invest anything in the legal form, we also consult with GmbHs, associations, etc.” The more important question, to Kagel, is “where are we headed?” Thus, she believes that many societies, including Germany, “will have a need to reform firm legal structures”. This is a process in which she “would like to be involved with, developing a toolkit for [different taxonomies and typologies of firms] depending on what's appropriate for different needs”, for example for international solidarity movements and campaigns. Each of these have financing questions, and often “there isn't a legal form for that.” Thus, she concludes, “I'm not an evangelist for coops, [which are] only as good as the people who are in it.” In fact, one “can do everything wrong with a cooperative.”

### Relations with Traditional Coop Sector

With respect to traditional cooperatives, Kagel believes that there is a very slow transformation: “The traditional [cooperative] world looks at us with incredulity, amusement, sometimes with a feeling of threat, because we rattle their foundations.” Furthermore, Kagel argues that “we need to honestly speak about the fact that not all coops in Germany behave cooperatively”, with, e.g., no member democracy. For her, the supermarket chain Rewe a good example. “also cooperative banks.” Speaking more generally, Kagel says that “we have contacts now and again, and when we do, the contact is good. There is a need.”

What Kagel suggests is more interesting is “traditional enterprises interested in succession plans, worker buyouts, etc.” Two examples are Iteratec and OOSE, two IT firms which wanted to convert from traditional to cooperative ownership. For example Iteratec founded “Nur dem Team” (“Only for the Team”) a cooperative owned by all employees, which is buying out shares of Iteratec and will fully own the company by 2026-7<sup>180</sup>. OOSE, a consulting and IT firm “socialized” itself after years of crises in the firm. Andrea Grass, a member of OOSE has said of the transformation, “I still do the same job but enjoy my work about twice as much.”<sup>181</sup> Kagel says of such cooperative conversions, they are a “A delicate flower” which will grow in the coming years.

Ultimately, Kagel and her team are convinced that the transformation of the economy in the light of examples such as OOSE and Iteratec is “a

<sup>180</sup><https://iteratec-nurdemteam.org/>

<sup>181</sup>Source <https://www.oose.de/ueber-oose/>.

complex topic that requires a transformational process, and doesn't happen overnight. There is a constant need for reform and an increasing recognition of the importance of what we're doing." One of the current projects PCG is working on is helping to connect Smart, which we profile immediately below, with Circles, which is the concluding case study we review, so that Smart can accept Circles (a currency). Of this project, Kagel says there is "much left to do." Kagel describes such projects as "not issues of strategic plans, but [...] the result of shared values and experiences." In the end, the stakeholders of Berlin's platform startup scene "see each other as assets, and each of these contributions is necessary, that these topics advance in the collective understanding."

### 11.5.2 Smart Coop

"Smart" refers to a set of networked firms that, as of writing (2022), exist in 10 European countries. Each of the firms is an autonomous, independent company. Smart began very strongly in the performing arts. In France and Belgium, there is a special unemployment insurance. In particular, artists and performers are never considered self-employed. Instead, they are always considered employees, even if they work for one project<sup>182</sup>. In order to qualify for coverage under the Belgian model, artists must accumulate a certain number of hours of employment every year. If they achieve this, they receive a certain lifelong pension, called *Statut d'artiste* in Belgium and called *Intermittance* in France. This means they receive unemployment insurance from the government. This scheme does not merely apply to performance artists, but also to, e.g., sound technicians, make-up artists, etc.<sup>183</sup>

#### The Start: Smart Belgium

At the beginning of the 1990s in Belgium in the independent or alternative performance scene, many individuals experienced an extremely precarious employment situation. Smart, which was founded in Belgium in 1994, adopting the name "Société Mutuelle pour Artistes" (SMart) and registering as a non-profit in 1998, was able to fill a void by offering employment to a range of stakeholders. The idea is that freelancers register as employees (and members) of Smart and have their sporadic commissioned income paid out

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<sup>182</sup>Sebastian Hoffmann of Smart German suggested that, in this way, the Belgian system is similar to the *Künstler Sozialkasse* (KSK) in Germany, which insures artists and performers, but that the system is differently organized.

<sup>183</sup>Apparently there has always been a controversy of who is allowed to enjoy this status. Source: Sebastian Hoffmann



in a monthly salary, with Smart financing itself by taking a commission on each contract. Many were first able to reach the unemployment insurance through employment at Smart. In 2009, Smart expanded to France and Sweden. These foundations were accompanied by the foundation of a Spanish (and later in Portugal, which share the same enterprise) in 2013. In the same year, Smart Italia was started. A Dutch Smart was also created.

Smart Belgium reincorporated as a cooperative in 2017. Profits in most Smart coops are re-invested, not distributed. In Belgium, with its 70,000 members, the profits were partly diverted to support the buildup of new Smart branches. Another use of profits was the signing of a 27 year lease on a building complex called La valee in Brussels, which serves as co-working space<sup>184</sup>. Members and non-members alike can use the space, non-members are required to rent space. The idea behind La Valee Idea is to move beyond mono-cultures, which has resulted in putting architects next to furniture designers and artists<sup>185</sup>. The project has furthermore increased the visibility and status of Smart, with events, parties, DJ sets, exhibitions, etc. hosted on site. The Belgian king visited the site with Emmanuel Macron on a state visit by the latter.

### Challenges and Further Spread

The ability for more artists to enter the state pension scheme caused an increase in the unemployment roles in Belgium and in France, which shares a similar scheme as Belgium. In autumn of 2019, a court ruled that Smart France “are not organizing performances, but was merely mediating”<sup>186</sup>. Many thousands of artists were eliminated from the unemployment roles as a result and could no longer work with Smart. The ruling in fact threatens Smart France’s business model, which is largely based on the creative and artistic scene<sup>187</sup>. The situation is similar in Belgium, with the Belgian insurance system viewing critically the introduction of more persons in unemployment insurance. Nevertheless, Smart was not founded as a “social fraud cooperative”.

As stated, Smart Belgium’s model proved a success and the retained profits were put into starting new Smart branches. In 2017, Smart Germany

<sup>184</sup><https://lavallee.brussels/le-projet/>

<sup>185</sup>Source: Sebastian Hoffmann

<sup>186</sup>Source: Sebastian Hoffmann

<sup>187</sup>Source: *Rapport d'activité Smart Belgique/France 2018*, p. 28. The report shows that, for instance, Smart Belgium derives around  $\frac{1}{3}$  of its contracted revenue from domains strictly outside of the domain of “Arts” (though this excludes non-artistic workers within the domain, such as technical workers). The situation for France is similar.

was founded in Berlin. We now turn to its story.

### **Smart Germany: Traversing the Particularities**

In many ways, the German Smart is quite different than most others in that its member pool is far more diversified. This means “less creative economy people there, more gig work, collectives.”<sup>188</sup>. Its main stakeholders are “IT people, educators and consultants”. This makes Smart Germany “the most open Smart”, compared to Italy and Sweden, which are “just theater, dance, etc.” and France and Belgium, which are “in the middle”, but heavily invested in the artistic scene.

Smart Germany was initiated by Magdalena Ziomek, an art historian who began *Agit Polski* in 2005, particularly for Polish artists with problems adjusting to the German art market. According to “Magda”, as she is known, these problems result from the fact that there are “no freelancers in Poland”, indeed one “would have to establish a firm”. For many immigrants, it is particularly “difficult to make and fill invoices”. *Agit Polski* has thus focuses mainly on “money issues”. Smart Belgium became aware of *Agit Polski* and contacted Magdalena and Gabrielle Koch. It was decided that Smart Germany should be founded in Berlin, part of the reason being that Smart Belgium had reached its natural limits, with 70,000 members, and wanted to reinvest retained profits in building up international projects.

### **Building up Smart Germany**

One of the first initiatives preceding the formal creation of Smart Germany was the construction of the Smart Beratungswerk, whose main services are consultations for people in cultural scene. The Beratungswerk still exists and is one of “three pillars” of Smart Germany, the others being the cooperative itself and Smart Bildungswerk, another singularity of German law, which privileges pedagogical workers, who are not required to pay VAT on their contracts. Thus the Bildungswerk exists as a separate legal entity reserved for independent teachers, coaches and trainers. It was founded and is run by Gabriele Koch.

Initially, according to Sebastian Hoffmann, Magda and other stakeholders “identified the wrong problem” and pitched primarily to “theater people” (“Theater Leute”) as Magda described the demographic, for instance, at festivals and events. However, it was soon discovered that the German legal environment was not similar to the Belgian one. In fact, The *Künstler Sozialkasse* (KSK) filled the role that Smart Belgium did in Germany for

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<sup>188</sup>Source: Magdalena Ziomek

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artists. Thus, with the realization that an emulation of Smart Belgium was impossible given the legal landscape, Smart Germany “engaged in two years of experimenting” and attempted to directly reach marginalized workers, particularly those whose needs were not addressed by the KSK. This included focus groups. The result is a cooperative of a far more diverse range of freelance occupations than other Smarts. This had certain benefits which we discuss later.

At the beginning, the composition of members was primarily immigrants (70%), but the ratio is now nearly at parity. According to Magda, this fact appears to serve the argument that coops best represent the interests of marginalized communities. The cooperative felt “an imperative to grow[, as] people need this to survive”. At Smart Germany’s founding in 2017, the average member’s monthly income was €800, as of writing (February, 2021) it’s €1,200. The scheme of paying forward “provides security”. The German Smart uses employment contracts of six months, instead of daily employment. This is again due to the particularities of German labor law and most other Smarts only offer daily labor contracts. There is even consideration at present to introduce an indefinite labor contracts. This could be useful, e.g., for individuals looking to sign new leases or those applying for a loan.<sup>189</sup>

The cooperative covers losses if clients don’t pay, it thus provides insurance that mutualizes risk. In many ways, the cooperative “legalizes people” within the German system, where much of social legislation – such as health insurance is designed around the traditional employer-employee relationship, whose fundamental structure has remained largely unchanged since the Bismarckian laws were introduced in the 19th century. In fact, according to Magda, the German employer-employee relationship has a bit of an aura of “holiness” or can be seen as “a salve” (*ein heilendes Mittel*).

The coop is trying to expand, but there are limits to heterogeneity. For instance, Smart is not able to include licensed professions, for instance. When asked about the possibility of sex workers joining, Sebastian Hoffmann responded that “if sex workers were to join, they would need to have separate firm, or else everyone would need to be tested for STDs regularly.” At present the main stakeholders Smart is interested in targeting are bike delivery collectives like Kora, care workers and residential cleaners, with one new cleaner joining every two months or so. The percentage of female members is 55%.

During a recent liquidity squeeze caused by Covid, Smart Italy provided liquidity to Smart Germany, so solidarity exists between the cooperatives, despite their nominal autonomy. During the pandemic, 50% of Smart’s

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<sup>189</sup>Source: Magdalena Ziomek

freelancers made use of the German system of *Kurzarbeit*. As Magdalena suggested about such periods, "a coop isn't a charity, but you don't have to have a profit." (Magda)

### Current Situation

Similar to PCG, Smart Germany also applied for BMWI funding. The cooperative applied twice, being rejected the first time. The second application was accepted, and the grant specifies three areas: providing *Kurzarbeit* for freelancers; increasing the efficiency of work advisors and workers (i.e., digitalisation); and developing instruments for communication and participation. Part of this involves creating an internal marketplace for new commissions. The project is directed at the "peripheral cultural and and creative economy", i.e., at everyone not covered by KSK. The project has a duration of three years and is led by PCG's Andreas Arnold.

Moreover, as mentioned, collectives are becoming increasingly involved in Smart Germany. The idea is that they have more latitude ("*Spielraum*") and more security within a larger collective like Smart. This is beneficial for the collectives as well, as the German cooperative law (*Genossenschaftsgesetz*) is not designed to reflect the interests of small and unestablished cooperatives, making the founding of an independent cooperative "difficult" and "expensive", according to Magdalena. Moreover, Magdalena, Smart Germany's president, suggested that especially for young freelancers, navigating VAT is a challenge ("VAT is not an opinion"), thus freelance work can be "daunting" ("*abschreckend*") for many young entrepreneurs. Smart is in a position help facilitate this aspect of work.

Especially since offering information sessions online, more people from the rest of Germany (outside Berlin) have started joining Smart and the rate of people without a migrant background has increased.<sup>190</sup>

In terms of tracing out community, ecology or synergy effects between Smart's activities and the general startup scene in Berlin, Sebastian Hoffmann "does not see such effects", save for in limited cases. The first of these is Kora, the bike delivery collective which received much attention in the Berlin press, some of which also mentioned Smart. A second example is MusicPoolBerlin, which is a project currently sponsored 50% by the Berlin government and 50% by the EU, which offers free consulting and affordable workshops to musicians and people in the music scene. The collective is interested in continuing their work after the current subsidies expire. Via contacts at Smart, the collective was interested in starting a cooperative or affiliating with Smart. In

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<sup>190</sup>Source: Magdalena Ziomek

the end, it was decided that this wouldn't be the right model and currently, MusicPoolBerlin is pursuing a subscription service based on Patreon as an alternative. However, the cooperative model is in the stakeholder's minds and Smart could have helped transition to that model.

Other activities in which Smart is involved include the *Haus der Selbstständigen* in Leipzig, in which it is a stakeholder along with, e.g., the German union Ver.Di. Smart is still recognized and in demand in the cultural worker scene.

Smart Germany is partly financed by Smart Belgium, a financing scheme that will end in 2023. Until that date, Smart Germany must become financially independent. This includes financing all administrative costs. Thus, a recent decision was made to increase the membership fee from 7% to 9% of all invoices. The decision was made by the leadership team and the amount of increase was determined by members. Smart sees its role more as "affirmative", in the sense of Nancy Fraser, rather than "transformative"<sup>191</sup>. As of January, 2020-2021, Smart sees around three new members a week, compared to 2 in prior the prior calendar year. Around 12 participate in weekly info sessions. of these, around five go on to a consulting session, and between two and three of these join every week.

## Challenges

One of the general challenges in Germany is that the legal environment makes it difficult to start a coop, although this has presented benefits to Smart, with collectives like Kora choosing affiliation with Smart rather than pursuing the high costs of a new cooperative foundation. Other challenges include the creation of an internal marketplace to present freelancers to clients. at the same time, many clients are afraid to work with freelancers, due to a history of "false self-employment" Moreover, a recent law to protect freelancers, which increased the cap on tax writeoffs to €1000 has actually reduced the incentives to join Smart. We return to this below.

As mentioned above, Smart Germany faces an inverse situation from many other Smarts: while in most countries where Smart operates, there are strong social programs that aid people (regardless of their status, in Germany the *Künstler Sozialkasse* stands in direct opposition to Smart's ambitions with respect to cultural workers. This also stands somewhat in opposition to the sectors where Smart Germany's founders and leadership team operate in, which is largely the culture, music and art scene. This means that it is currently struggling to reach workers in sectors like IT and the general startup

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<sup>191</sup>Source: Sebastian Hoffmann

scene. Where this approach has been successful has been bicycle delivery collectives, with the example of Kora drawing others like Fahrwerk and Crow. Within the pedagogical scene, Smart is moderately successful, although the representation “could be better”, according to Sebastian Hoffmann. This particularly due to the fact that teachers are responsible for paying into a pension plan, and as employees of Smart would have half of these payments covered by the cooperative.

One of the problems with freelance pedagogues is that their clients are not familiar with Smart’s business model, or with cooperatives generally. Thus, many are surprised when they receive an invoice from a cooperative. This has led to some pedagogues in Smart having to resort to a “hybrid” model, where some of their invoices are handled by Smart and others are done individually, which contradicts Smart’s business model.

Moreover, Sebastian Hoffmann “does not see” a trend towards more freelance work. In the wake of the Covid-19 pandemic, many experienced the fact that “assistance for employees (*Kurzarbeitergeld*) was better than assistance for freelancers (*Soforthilfe*).” Thus, “many are reducing their independent or freelance activities to the level of a hobby and are rather looking for stable employment.” As mentioned, Smart does offer its freelancers *Kurzarbeitergeld*, but this is not a phenomenon with which Smart is able to attract new freelancers (particularly as they would have to have been employed by Smart for three months in order to receive any benefits in the program).

Another problem Smart encounters is the occasionally negative connotation of the word “cooperative” (*Genossenschaft*) in the German language. Sebastian Hoffmann suggests the word “is associated with the SPD, labor unions, etc.” However, this skepticism affects mainly older generations. Among the younger business community, even those, for instance, expressing more business-friendly values or in line with the market-liberal FDP, there appears to be less ambivalence and “more interest” in the Smart model. In a similar vein, Sebastian remarked also that Smart Austria refers to itself not as “Genossenschaft” but as “Kooperative”, perhaps due to the latter word being a bit “hipper”.

The cooperative has withstood a number of “tests” including audits by the tax authorities and others, meaning the model has been sanctioned by all levels of the German government. In fact, as mentioned above, Smart Germany’s business model has been shown to be more resilient than, e.g., Smart France’s. When there was a problem with France’s system of “umbrella employment”, many freelancer workers were disqualified from receiving unemployment insurance”. Smart Germany does not appear to face a similar risk, due its diversified membership.

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The increasing number of collectives joining Smart Germany presents its own challenges. Because many of the collectives are not yet firmly established, they don't yet have a formal "culture" and it is therefore often difficult to coordinate as there are frequently "no clear liaison". Moreover, the differential rate of pay in such collectives or microcooperatives is often unclear. For instance, instead of presenting invoices as a collective, invoices are often presented individually. Another problem is that collectives are not legally recognized within Smart, so individual members of microcooperatives must individually register with Smart. Moreover, conditions of cooperation with Smart must be clearly stipulated, including with the fictitious entity of the microcollective. However, despite these challenges, the success of *Kora*, a delivery collective based in Berlin, demonstrates the potential of this arrangements. Nevertheless, experience has shown that many collectives are poorly organized.

Sebastian Hoffmann is certain that Smart's business model "must change". "We can no longer merely rely on 'passive advertisement'", instead, as the cooperative transitions to being financially independent, it "needs active marketing" which explains the benefits of membership to people. In fact, Smart's staff often approached "the wrong people" (artists covered by KSK, migrants without a work visa, etc.). Thus, the cooperative needs to focus on addressing the right audience.

There is also the matter of a conflict of interest: one could say that "we are happy when the legal situation for freelancers worsens", suggested Sebastian, as this means more interest in a model like Smart's. Thus, a recent change in the law for determining the income threshold for withholdings was halved from €2,500 per month means that the situation for many self-employed or freelancers has objectively improved, but at the same time one of the main reasons for joining Smart has been eroded.

Moreover, the "fringe benefits" or "soft factors" are irrelevant for most members. There does not seem to be much awakening of the "cooperative spirit" among members. Smart's *Kurzarbeitergeld* expires in January 2022 and thus the 30 or so members still receiving it will need to find contracts again, or apply for unemployment insurance.

One of the problems the BMWI projects seeks to deal with is the fact that Smart Germany is still working with Excel, and is, as such, "still in the 20th century". This means too many work components and a slow process that hinders responding to the need for growth.

In the end, many members working with Smart are "privileged", meaning many are doing jobs because they want to, not because they have to. The cooperative has problems reaching people in the gig economy. "We are usually found by people who are established as freelancers, who choose us for

pragmatic reasons” like easier invoices, or for ideological reasons, such as being pro-coop, or even for social-pragmatic reasons. On the other hand, “people forced to be independent by hyper-capitalism don’t find Smart and don’t know Smart exists.” Other Smarts don’t do advertisement, Smart Germany adopted that strategy, which is perhaps not sustainable, given its unique, dispersed membership. Smart staff attend events like trade fairs to market to new members. At the same time, “if we actively advertise in precarious sectors, we couldn’t handle the influx of applications.” In the end, “[w]e are always limited by personnel capacities to fulfill the service promised to members.”<sup>192</sup>

### 11.5.3 Circles

Circles considers itself to be “a new way to think about money.”<sup>193</sup> Its handbook claims that people are generally “used to perceiving money as money takers, not as money makers or money issuers.” In contrast, “Circles gives you the power to issue credit and become a real money maker” (p. 1). Thus, “[t]he Circles currency that you create is your own personal currency. These can grow into a basic income within a network of people who are exchanging with each other the things they need.” (Id.) Thus, “In order to become an unconditional basic income, to claim enough wealth and be free of wage labor, covering one’s basic needs, political and economic organization is needed. People therefore take the responsibility of issuing promises to one another, without the need to repay it back to a bank or a state.” (Id.)

The handbook states that Circles “is ideally meant for local municipal constituencies which can be federated following the principles of direct democracy.” (p. 4) The system follows four main principles, including self-sustainability (the notion of reciprocal, local “interdependence”); decentralization; democratic cofederalism (similar to the fourth cooperative principle); and localism (“a call for autonomy and local democracy or democratic autonomy”) (Id.). These four principles are implemented in order “to provide social and technical infrastructures to build alternatives to today’s neoliberalism and corporate feudalism.” Thus, the confederal structure resembles Devine’s *negotiated coordination* with its reference to subsidiaric, autonomous organization. The Handbook claims that “[t]he fundamental unit of these structures is the circles of trust people organise within.” It thereby aims to build alternative economic structures based on local relations of trust and reciprocity. Circles uses “trust”, which flows in opposite direction of the Circles currency. Each

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<sup>192</sup>Source: Sebastian Hoffmann

<sup>193</sup>Source: Circles Handbook, <https://handbook.joincircles.net/files/circles-handbook.pdf>.



person's Circles are unique. Collective accounts exist, as well. The Handbook claims that “[t]rusting somebody in Circles means that you are willing to accept their claims to get resources from you.” (p. 6) Therefore, by such self-organized, autonomous, local and interconnected networks of various stakeholders, from primary producers, logistics enterprises, service providers and civil society, Circles aims “to create circuits of local exchange so that obligations between different trusted peers can be cleared in cyclical and non-linear ways.” (Id.)

## History

The idea for Circles was initiated in 2013 as a Universal Basic Income (UBI) pilot project. The cooperative was finally initiated in 2020. The central idea is “to democratize money”, according to founder Julio Linares. In the meantime, 20-30 businesses (March, 2022) are accepting Circles as payment. Promotion of Circles is led by the Circles Activation Team (“CAT”), who promote Circles via “meow, meow”, another term for direct proselytizing. Assemblies are held once a month with markets, where associated vendors display products, interact, etc.

The philosophy behind Circles is that the money form determines markets. The goal of Circles is therefore to make a basic income guarantee a reality. Moreover, the idea is furthermore that labor and value-creation must also be transformed. Longer term goals include changing the structure of money. It is conceived as a “new monetary token, by means of which people can imagine ways to give viz. their activities.” Around 100,000 accounts exist, and Circles is considered the biggest alternative currency community in Berlin. As of October 2021, around 200 people are using it actively. The core group consists of 10-12 members.

60% of funding for circles comes from Martin Koppelman, an entrepreneur who got wealthy via cryptocurrency. Koppelman actually “got into crypto because of an abiding interest in UBI”, according to Linares. Secondary funding comes from a small donor campaign. Thus, Circles is trying to position itself between crypto and UBI worlds, meaning it attempts to critique the hegemonic position in both communities, asking foundational questions like “where does money come from?”.

Thus, on the one hand, the project is the result of the fact that “many crypto people are concerned with the concentration of wealth and power in supposedly “decentralized” systems.” Such concentration occurs because, generally, there is no thinking about political economy in the domain of cryptocurrency. Crypto is thus “colonized by the accumulation of money”, leading to a sort of “crypto-feudalism”, according to Linares. However, the

system of the economy depends on *reproduction*, but the system with its incentives benefits “vampires” who are basically sucking up debt. On the other hand, many in the “UBI scene” “are not engaging with disciplines like Modern Monetary theory (MMT)” and, thus, most notions of UBI somehow derive from the state.”

In building up an alternative system, Circles “is trying to use politically ‘dormant’ infrastructure, establishing new circuits of production, distribution and consumption. One example is the supply of farm products using delivery couriers like Kora to member grocers’. Such relational networks “are able to lower costs for the farmer and prices for the consumer”, making it a “win-win”, and furthermore making BGE a reality. The larger point is in building up trust, by connecting business and civic interests.

### Current Situation and Challenges

One of the main challenges is that many people are generally skeptical about the idea, since they don’t understand it. Circles helps many to reimagine the nature of money, but such a process “takes time” and involves “a process of education” and “learning by doing.” Thus, the primary challenge faced by Circles is the mental hurdle of re-envisioning the role of money in people’s lives, in imagining “not creating money by debt, but by providing the things people need and moving from economy of things to economy of people”, according to Carolin Goethel.

As mentioned, there is a desire to integrate Circles into Smart for purchasing services in an internal market between members. Smart already has such a credit-debit system. Using such a system, it is possible to create “a meaningful logistics alternative”, a “non-exploitative B2B” system, for instance with farms delivering food to Reinickendorf’s Supercoop and Kora delivering items to members. The idea could help alleviate the urban-rural divide, according to Linares. Other current prospective alliances include an attempt to connect Circles with the Mietshäusersyndikat, an association of autonomous self-governing and self-owning houses, begun in accordance with the “Freiburger Modell”. The point of such connections is to continually expand a “people-centered economy”, according to Linares, and to “provide people with new forms of agency”, according to to Circles member Carolin Goethel

To return to the “relational accounting” model introduced in Chapter 7, we remind the reader of the relational T-accounts introduced above in Chapter 7:

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Firm		Creditor	
Relations	Credits	Credits	Relations

Moreover, we may interpret the Circles-Smart plan as an n-tuple helix, with the components profit-maximization, cooperation and novelty-production. To the extent that the economic logic of profit-maximization allows system throughput, the cooperative logic and the logic of novelty-production mutually determine one another.

Obviously these two logics can again mutually determine the profit-maximizing logic. It is moreover easy to see how the cooperation between Smart and Circles can extend the triple helix to incorporate more elements, such as *education*. As Smart is home to the Smart Bildungswerk, it is possible to imagine a system where, e.g., a German teacher at Smart Bildungswerk can exchange his or her services for produce (e.g., vegetables) from a farm in rural Brandenburg. This relationship can be modeled in the following way:

Farmer		German Teacher	
German lessons	Produce	Produce	German lessons

Circles can be implemented to increase the “matches” in this universe, i.e., to reduce the need for a pure barter economy. Thus, for instance, the farmer in our example may not require German lessons, but has a job in the city on the weekends and long commutes. Thus, the relational transaction can be extended by including more relationships. For example, perhaps. Meanwhile, a life coach at Smart requires German lessons and a member of the *Mietshäusersyndikat* may be able to use the services of a life coach, due to a prolonged depression depression. Thus, the new *relational T-tables* resemble the following:

Farmer		German Teacher		Life coach	
Time-share	Produce	Produce	German lessons	German lessons	Coaching
Syndikat member					
Coaching					
Time-share					

Referring again to our iterative representation of n-tuples above, we can represent the above interactions and interdependencies with the Triple Helix in Figure 11.4. Here, we again see a logic of profit-maximization interacting with both logics of cooperation and novelty-production.

The possibilities for expanding such a cooperative n-tuple helix are truly limitless, as we have seen in Chapter 8. The point of the above is to show that Circles can serve to simplify such transactions. The fact that it employs a system of Trust, where each person’s Circles are unique and determined by their existing network lends such transactions an additional relational dimension. Since transactions are bilateral, there is no cause for alarm regarding exchange rates and prices, which can – theoretically – be determined in a transaction-specific manner. This allows the final exchange rate to incorporate contextual data like social and distributive justice.

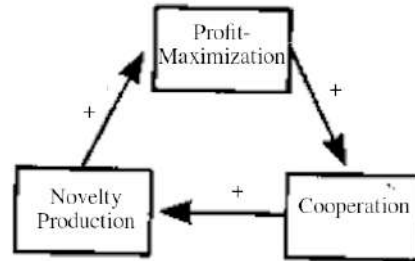


Figure 11.4: A *Triple Helix* showing the interactions (flows) between stakeholders at Smart and Circles.

#### 11.5.4 Discussion

In the three case studies of Berlin’s startup cooperative scene, we again see the MOCE perspective at work. We see it, for instance, in the need for first *understanding* the environment before *managing* it, e.g., the initial attempt by Smart Germany to appeal to artists, whereas the German legal and institutional ecosystem preempted the same strategy that worked in Belgium from succeeding in the German case. Moreover, Ela Kagel’s observation on “hacking” the legal regime can be compared with Kant’s notion of “governing as a republic, even a formally *despotic* regime”. Indeed, it reveals that a cooperative logic must continually reconstitute itself in different contexts, that a suitable legal architecture, as is the case in Italy, is a necessary, but not sufficient, condition for democratic practice to succeed.

The fact that collectives like Kora and Crow have joined Smart demonstrates that “new cooperativism” is a tool to incrementally transform both the platform economy by offering small startups a haven to manage certain aspects of the members’ livelihoods. At the same time, it also offers a unique opportunity to circumvent Germany’s particularly expensive cooperative startup costs, which average around €10,000<sup>194</sup>. In the past, many cooperative sympathizers who lacked the funds to start a cooperative had a

<sup>194</sup>For a general overview of the institutional and legal environment of German cooperatives, cf. Münkner’s chapter in [Fici et al., 2013].

limited palette of options, including variations of the GmbH (limited liability company).

The desire to combine efforts by PCG, Smart and Circles also reveals that the regime described by the Cooperative n-tuple helix takes on a trajectory that is relatively autonomous of particular plans, operating in routines, or as Ela Kagel described, as a result of “shared values and experiences”. Cases like the Circles-Smart internal market can be scaled and extended infinitely, depending on the stakeholders and organizations willing and able to participate. The integration of the *Mietshäusersyndikat* appears a promising development with potentially transformative implications.

### 11.5.5 Conclusion

The preceding discussion of Berlin's platform cooperative startup scene has attempted to show that a logic of cooperation is an essential element of a transformative approach to entrepreneurship, that such approaches often require a communal effort involving both social learning and social innovation, issues frequently associated with indeterminate outcomes. Such a fact impels the involvement of multiple stakeholders, applying a lens of shared value-creation and a motor of relational contracts.

Furthermore, we have attempted to show how the ecological, mission-oriented perspective advocated in the present work can facilitate a deeper understanding of the qualitative shifts involved in such projects. In the cases above, as with the cases of fire insurance and the influenza vaccine with which we introduced this chapter, it appears that the actual practices employed in such processes have arisen organically in a constrained (with regards to a long-term orientation) process to meet acute needs, such as the need for strategies for both cooperative and traditional enterprises in and around Berlin to dealing with the cause of digitalization.

For the author, a promising observation is the increasing occurrence of traditional enterprises, mostly SMEs, seeking alternative paths with respect to succession, governance and membership in autonomous local networks like Circles. Despite there being at present no formal strategic vision between the above case studies, the future development and evolution of new practices via coordination of synergies and specializations, such as the attempt, via PCG, to connect Circles with Smart Germany and other local structures like the *Mietshäusersyndikat*, in order to provide an internal market for services, appears a promising step towards what Jens Martignoni has referred to as a *Vollgenossenschaft*, an encompassing “total cooperative”, in the sense of Israeli kibbutzim. [Schulz-Nieswandt, 2021] Such developments will likely require more growth, before the work ordering process takes over as the

primary motor and a set of concrete routines develop that act as *propensities* to constrain individual and organizational actors.

In the next section, we conclude this chapter.

## 11.6 Mission-Oriented Cooperative Ecology

The preceding chapter has attempted to outline a research agenda based on a mission oriented view towards cooperation. We refer to the perspective adopted here MOCE, for Mission-Oriented Cooperative Ecology. As we have demonstrated, the perspective consists of an approach that first contextualizes the problem or issue at hand (e.g., tax evasion, rural regeneration, prophylactically preventing a deadly influenza pandemic, fostering an inclusive local platform economy, developing best practices for converting legacy businesses into more socially sustainable enterprises, etc.) and then moving up or down to the appropriate level (rural regeneration begins locally, whereas the drive to develop influenza vaccines is a global effort).

The fascinating thing about this approach is that it is infinitely scalable and applicable in nearly any environment. Thus, a cooperative n-tuple can function in Emilia-Romagna, where local governments have historically been very supportive of cooperative enterprise and have crafted amiable laws. But, the above case studies demonstrate that a CnH can also succeed in environments not as amiable to cooperative enterprise. Thus, the UK example shows that, given then right mix of resources and initiatives, an ascendant CnH can nevertheless arise. Mondragon in Spain is such an example, developed in the midst of a hostile fascist dictatorship<sup>195</sup>.

Another example is Cooperation Jackson, a fledgling cooperative federation in Jackson, Mississippi, inspired by the Mondragon model. Despite a hostile political and legislative environment that frequently “preempts” any successful attempts by the residents of West Jackson – mostly poor and black – to self-organize, the group has been successful in boosting local knowledge-building efforts, focusing on sustainable local food production, recycling efforts and affordable housing. The project has drawn some international attention, with some literature available<sup>196</sup>. Moreover, during recent climate-change induced crises like the sub-zero temperatures experience in the U.S. South in February 2021, Cooperation Jackson was pivotal in distributing essential resources like water and food. Such efforts are essential elements of a CnH and can be self-reinforcing over the long-term.

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<sup>195</sup>Cf. [Gutierrez-Johnson, 1982] and [Whyte and Whyte, 2014].

<sup>196</sup>Cf. [Akuno et al., 2017].

Following this, one develops a Cooperative *n-tuple* Helix, bringing together as many stakeholders as are critical for devising and implementing an appropriate strategy. As we saw, in the case of the Community Cooperative of Melpignano, it was the 70 citizens of Melpignano, Legacoop Puglia and the Pugliese regional government, as well as the local government of Melpignano. Similarly, in the case of Platform Cooperatives Germany, it was former workers from the food courier sector, along with local stakeholders from the open source software scene, as well as academics and members of the municipal government. By communicating needs and desires, this multi-stakeholder approach facilitates the development of both shared agencies and individualized specializations: both a shared set of basic values, goals and a lexicon emerge (e.g., the desire to find an amicable solution to generate renewable electricity without harming the local aesthetic), as does a division of labor (legislators write laws, local citizens install solar panels, trade groups advise and mediate between stakeholders).

It is clear that MOCE is an extension of Ostrom's approach to *commons management*. While Ostrom addressed mainly the issue of governing common resource pools, the approach we develop in Chapter 8 and which we apply in the preceding chapter is flexible and can be applied to any resource or setting, whether rural communities or platform cooperative startups in a dense urban environment. It is thus polycontextual. The approach focuses on relationalizing the governance of the resource in question and facilitating shared agency between each stakeholder group. It is moreover able to balance both the economic logic of cost-earnings, as well as multiple other logics like conservation-destruction, voice-exit, etc. It is thus polylingual in outlook.

Lastly, each of the prior case studies exemplified the effect of social learning and social innovation on the ability for ascendant macrocultures to arise. In the case of the UK, for example, the Community Shares model, as we learned, was primarily a "repackaging" of existing law (on withdrawable shares) in a new form. Similarly Platform Cooperatives Germany serves both as the result of a process of social learning and simultaneously seems to consist of processes of connecting and relationalizing ideas, stakeholders and missions. Smart's approach to "legitimizing" freelancers similarly presents a "qualitative transformation" in providing a social innovation that begets a process of collective learning. Lastly, Circles has offered a new take on numerous existing ideas, presenting a synthesis of the worlds of cryptocurrency and universal basic income.

It is hoped that the approach outlined above can be formalized using the *calculus of redundancy* developed by [Leydesdorff, 2021].

## Epilogue



# Chapter 12

## Conclusion(s)

The preceding dissertation has tried to make clear both the need and the utility of a *general theory of cooperation*. At the same time, it has tried to sketch the outlines of such a theory within the domain of economics. Using the epistemic logic of a relational approach, we attempted to show not just *how* democracy arises, but also to address the reason of *why* it does. As we saw, a shift in the perspective of analysis reveals the centrality of cooperation in providing the environment within which competition can occur. Without cooperation, there can be no competition!

Through a genealogical approach to the concept “democracy”, we tried in Chapter 3 to discover both an ideal type, in the Weberian sense, for democracy and to develop an archive of experiences from various stages in human history and prehistory. In this endeavor, we retraced lines begun by past scholars, such as Darwin, Kropotkin, Gierke and Rucker. In Chapter 4, we next attempted to find an appropriate normative lens for these experiences and refine the ideal type. Instead of deciding on a “democratic type”, we chose to define democracy as a *process* and *event*, what we later define as a *relation*, which is variously described as *civic imaginary*, *Genossenschaft* and *autonomy*.

As we discovered, democracy and cooperation are not isomorphic. In fact, much of the history of the study of cooperation has been set in a static view of human nature, very much defined by a master-slave logic. We traced out the major development of this logic until a rupture in Hegel. After Hegel, we looked at Marx, Schumpeter and Polanyi as major milestones in the economic analysis of cooperation. Marx emphasized rather ambivalently the role cooperation plays in achieving wealth; Schumpeter emphasized the disruptive nature of innovations in the productive process and Polanyi focused on the counterbalance to this turbulence achieved by organization via a social logic.

Viewing the relation as the foundational unit of analysis, we translated our prior analysis into the terms of *relational economics*, which forms a central lens for the analysis. In Chapter 5, we showed how neoclassical notions like marginal productivity are insufficient to capture such a relational view. As we saw in our review of the ergodicity viewpoint's analysis as to the cause of cooperation, we can easily discover *why* cooperation occurs in human groups, organizations and societies. Thus, the principal question of this dissertation concerns *how* cooperation comes about dynamically.

We ended that chapter showing three particular domains where such a view necessarily deviates from the ontologically individualist view. We review these three points and summarize our main findings below.

## 12.1 Democratic Choice

One of the main lessons of the preceding work was the need for an explicitly *democratic* choice theory to account for the manner in which reciprocal cooperation arises. In particular, we learned that such a thing can never be divorced from the fact of polylingualism, i.e., the need to balance multiple logics in arriving at such a choice. This was grounded in the fact that the asymmetry between labor and capital means that labor can best be exploited when the person providing it is treated with dignity and respect.

Moreover, the perspective we advocate for recognizes and lends attention to the process of preference development. We introduced two main models as to how preference development can occur collectively (whistleblower, vanguard).

We introduced the domain of *constraint theory*, which outlines the ways in which constraints improve welfare. In particular, we learned that this happens due to the fact that human beings do not discount geometrically, but “quasi-hyperbolically”. This means that social norms like saving and caring for others are heuristics by means of which a social logic is “embedded” in each individual member of a community. We learned that constraints generally consist of a two-step process, first choosing constraints and then choosing under consideration of those constraints. We furthermore compared constraints to Kantian deontology, revealing similarities in Kant's notion of aesthetic judgments as *intersubjective logics*.

We next teased the relationship between constraint theory and Aumann's concept of *correlated equilibrium*, pointing out some of the weaknesses in that general approach, despite its advantage over traditional game theoretical concepts. We advocated instead for the application of causal inference, which has the benefit of being more general.

Next, we moved down a level of generality, we returned to the issue of

democracy and outlined necessary conditions for a causal model of democratic choice, including communication and cooperation. This was followed by an overview of sufficient conditions for a causal model of democratic choice, including transparency, mutual monitoring, and, mostly importantly, moral competence. We summarized necessary and sufficient conditions in three *democratic values* and associated each of these with a numeric indicator, the inclusion indicator, the equity ratio and the O-value. Each of these in turn gives important information about an organization's democratic development.

## 12.2 Hierarchy

In Chapter 7, we unpacked the notion of hierarchy and established that there are qualitative distinctions among hierarchies. We grouped these on the logic of translative-inalienable. We next interpreted firms as anticipatory systems, and recommended a dynamic perspective to deal with this approach. We next deepened the discussion of relational governance by shifting from a principal-agent view, which we saw in Chapter 4 is couched in master-slave logic, to a view of relationalized or *shared* agency. We then reviewed a number of *democratic choice mechanisms*, pointing out past literature's disregard for alternatives to the Method of Majority Decision, or voting. These DCMs included consensus, sortition and rotation, among others. We then related these notions to a broad discussion of investment, innovation and sustainability.

The core of Chapter 7 dealt with discovering how the cooperative principles and values contribute to relational governance. We learned that cooperatives are inherently *mission-oriented* enterprises and that their principles and values act as causal systems to constrain individual agency. They do this, we discovered, by relationalizing multiple logics simultaneously. Whereas traditional enterprises follow largely the logic of profit-maximization, cooperatives explicitly embed the community in the individual enterprise via a logic of community interest and engagement. This distinguishes them from the *personal* governance of traditional firms, as described by Schumpeter.

We closed Chapter 7 with an attempt to re-examine the legacy of economics' Utilitarian bent, represented, for example, by J.S. Mill's insistence that economics consider only "pecuniary interests". This framing of economics as monolinguistic carried over into Beatrice and Sidney Webb's work in shaping the nascent global cooperative movement. We argued that their influence had a lasting negative impact, by unnecessarily constraining and compartmentalizing cooperation's ability to innovate and connect disparate elements in new ways. We argued there that the first cracks in the Webbian

dam appeared as part of the “New Left” movements of the 1960s, which combined anti-imperialist and ecological concerns with anti-racism, anti-sexism and were accompanied by interdisciplinary pushes in psychiatry and many other disciplines to develop a polylingual approach, which has often been described as *multi-stakeholding*.

We closed by connecting this discourse with the increasingly central knowledge economy and ended the chapter by advocating for a “public” organization embracing a multistakeholder approach.

### 12.3 Ecology

The last major domain which the above contribution approached was the issue of larger scale coordinating mechanisms. In Chapter 8, we argued that whereas economics usually views the market as a non-authoritarian coordinating mechanism, we cited Pat Devine to argue that “vertical links do not have to be authoritarian and horizontal links do not have to be market-based”. In fact, we interpreted the market largely as an outcome, not a coordinating mechanism. We furthermore distinguished between *market forces* and *market transactions* and followed Devine’s appeal for *negotiated coordination* as a non-authoritarian coordinating mechanism.

Instead of analyzing markets and market failures, we advocated for an ecological view, embracing Ulanowicz’s notion of *process ecology*, with its focus on complex interactions of multiple organizational levels. Particularly useful, we discovered, is the dual notion of complex organization as consisting of both ordered and disorganized elements. As we discovered, most real ecosystems are comprised of relatively more disorganized links than organized links, thus dispelling the idea that “efficiency” is a desirable indicator for social welfare. We concluded that the perspective of *metaphysical patience* is more desirable, considering the indeterminacy and uncertainty of a universe with irreversible thermodynamic processes.

We next attempted to apply this ecosystem logic in a *mission-oriented approach*, analyzing the potential for the 6th and 7th cooperative principles in particular to serve as *propensity ensembles* acting on multiple system levels and incorporating multiple logics. We closed Chapter 8 with Loet Leydesdorff’s concept of the *Triple Helix*, from which we developed the notion of a *cooperative n-tuple helix*, a concept emphasizing the synthesis of historical processes and discursive evolution of knowledge in cooperatively ordered meta-systems.

## 12.4 A New Public Economics?

What have we learned from the preceding discussion? For one, it would appear that we contributed to the effort, initiated among others by Thorstein Veblen and Karl Polanyi of critiquing the discursive evolution of economics and social science. Polanyi attempted to go back to Adam Smith, whom he reinterpreted in a much more polylinguistic manner than he had been historically received. We saw the problem elsewhere. In particular, the discussions of Chapters 3 to 5 showed that a genealogical view to democracy reveals that a progressive democratic ideal is incompatible with the monolingual principal-agent model. We learned that this model is largely couched in master-servant thinking and traced out the development of this thinking to Hegel's famed master-servant dialectic, which opened the door for future economists like Marx to decidedly move beyond it.

Any meaningful systematization of a cooperative science must be aware of this evolution and adopt theories and models that reflect a shift away from monolingual, to polylingual, reasoning. In particular, we learned that the neat distinction Public/private is one that is mostly arbitrary and that has historically been influenced by the legacy of absolutism. Property relations, as Gierke argues, always come with rights as well as responsibilities and they are certainly not unrestricted. Increasingly, as private activity (e.g., mass tourism) contributes to public harm, we must reimagine the public-private split and so must develop a new public economics.

The work of Isabelle Ferreras, David Ellerman, Silvia Sacchetti and others reveals the need of a new organizational theory. We hope to have provided that in the form of *relational economics*.

Moreover, this domain must be made inter-operable and so we require a means to relationalize the new public economics. The notion of a *cooperative n-tuple helix* can serve a central role here, by bridging process and event, and by linking multiple logics and domains simultaneously in an evolutionary dynamic that emphasizes synergies and that places emphasis on the communicative sphere and locates mutual advantage in both the sharing of meaning and in specialization or division of labor.

The outcome of this new public economics will be a *mission-oriented cooperation* that follows general principles and builds new wealth and value, not by increasing material output, but by innovating relationships in organizations, in politics, and between and among nations and peoples. The future is one of relationships and interdependence, and these can best be served with a progressive, democratic vision of a polylingual, polycontextual and polycontextual cooperation based on shared value-creation.

## 12.5 A Cooperative Commonwealth?

The end result of such a paradigm shift would be the laying of the foundation stones to a global *cooperative commonwealth*. By balancing power, influence, interests and passions between the local and the global and by embedding this balance at the level of the organization, a cooperative commonwealth of mutually reinforcing and mutually beneficial publicly-minded polities can emerge. There is no limit to the advantage that can be drawn from this shift in both thinking and practice. We have seen how this can serve in mutually beneficial ways in the traditional economy, by breaking out of the historical ballast of the modern labor contract and its master-servant logic.

The shift applies to domains beyond the labor relation, however. While we have focused on that domain in the above dissertation, we have also attempted to show how a mission-oriented approach to cooperation can create what James Steuart referred to as “positive profit” and what Josef Wieland refers to as a “cooperative rent” in domains like data governance and management, within the domain of artistic creation, design thinking and governance of the global commons. This approach can be extended to domains like genetic information, as well as the maintenance of balance in many of Earth’s fragile (natural) ecosystems, issues that have not been explicitly dealt with in these pages. To all these domains, a multi-stakeholder approach of *relationalizing* can contribute legitimacy, transparency and resilience. A logic of cooperation can theoretically scale up infinitely. The only limit is ourselves, our historical baggage and our courage.

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