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**Saving democracy by switching to corporate-like governance**

by

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## **Saving democracy by switching to corporate-like governance**

### **Abstract**

Democracy, as we know it, suffers from several irreversible deficiencies that may lead eventually to its demise. They are “the impossibility of representation in groups”, “the asymmetry of information”, “the state capture by political parties”, and the “uncoordinated administrative polycentrism”. Hence, should the circumstances render imperative a shift in the established mode of self-government, citizens should opt for a model referred to herewith as *digital citizen-managed democracy*, which combines key elements from the *direct democracy* of Athens in classical times with aspects of governance in the giant multinational corporations, and functions by digital Information and Communications Technologies (ICTs). For, aside of governance, self-government in this context is superior to *representative party democracy* because, first, it is free from the latter’s innate deficiencies, and second, it is endowed with several distinct advantages. In particular, it matches policy choices to citizen preferences. It offers superb institutional flexibility and efficiency. Citizens engage and take ownership of the institutions of democracy, and the problems of asymmetric information and management coordination are confronted through the widest possible discussion among citizens as true shareholders of the state.

Keywords: Deficiencies of representative democracy, Athenian democracy, governance in multinational corporations, prospects for digital citizen-managed democracy.

JEL Codes: D72, G30, G34, H11, H60, P16

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## 1. Introduction

By all accounts of experts from international organizations, academic research centers and independent think tanks, the crisis that erupted in the United States in 2008 and spread quickly throughout the world had all the makings to become catastrophic. Several immediate drivers instigated it. For example, one was the U.S. dollar. Given that the United States serves as banker to the world, the bankruptcy of the Lehman Brothers and the sudden stop in the U.S. banking system transmitted shocks via this channel that caught governments everywhere by surprise. As a result, the likelihood for discord among reserve currency countries skyrocketed and the international financial system did not implode owing to the cooperation that the U.S. Open Market Committee (henceforth the “Fed”) managed to elicit from their central banks. Another driver was globalization. To exploit the advantages of international trade, already from the 1980s large and small countries adopted policies to integrate into the international economy. Thus, benign and malign shocks from unexpected natural and manmade events transmitted among economies faster than ever before and shortened markedly the time limits within which slow-moving democratic governments could react. Still another driver in this category was the revolutionary technological advances in the electronic transmission of speech, text, and icons over long geographical distances, which weakened even further the capability of democratic governments to respond with timely enactment and enforcement of pertinent remedial policies. However, none of these drivers would have been able either individually or collectively to stir a crisis of such cliff-hanging proportions, if in the preceding decades democracy in the United States had not grown seriously dysfunctional.

On the front of economic policies, the calls that something was going wrong became increasingly louder and clearer from early in the postwar period. The battleground of ideas centered less on [Keynes \(1936, 1942\)](#) and more on the convenient interpretations and adaptations of his propositions by the so-called “Keynesians”. When [Hayek \(1960, 304-5\)](#) penned down the warning in the following quotation, he remained hopeful that democracy did have the capability to learn from its follies and reverse course away from systematic deficit spending and debt accumu-

...democracy will have to learn that it must pay for its own follies and that it cannot draw unlimited checks on the future to solve its present problems. It has been well said that, while we used to suffer from social evils, we now suffer from the remedies for them. The difference is that, while in former times the social evils were gradually disappearing with the growth of wealth, the remedies we have introduced are beginning to threaten the continuance of that growth of wealth on which all future improvement depends.

lation that threaten the welfare of future generations. However, he proved too optimistic because ever since democracy in the United States has continued on the same dead-end track.<sup>1</sup> In particular, when payments imbalances under the Bretton Woods agreements came to a heading in 1972, instead of committing to reestablishing budget discipline, the United States abandoned the agreements altogether and unilaterally abrogated the convertibility of the U.S. dollar into gold. What this decision signaled was that from then on they would adopt fiscal and monetary policies, and by implication foreign exchange policies, which would serve their national interests rather than those of the alliance of free nations that they led since the victorious big war. As a result, by the time [Buchanan, Wagner \(1977\)](#) were writing, *democracy in deficit* had been established already as the new normal. Entitlements kept increasing at unsustainable real rates of growth. Servicing of the unproductive public debts absorbed ever-increasing chunks of Gross Domestic Product (GDP), along with aggravating income and wealth inequality. The public sector expanded by crowding out the more productive private sector and limiting almost by a third its share in the country's GDP. As [Gordon \(2016\)](#), [Bitros \(2020\)](#) and many others have confirmed, long-term economic growth nosedived into the region of secular stagnation, precisely as Hayek had predicted in the above quotation. Regulatory arrangements designed to keep the markets open to actual and potential competition became part of the problem rather than the solution by failing repeatedly to perform effectively according to their mandates. Last, but not least, the United States from creditor turned into a debtor country, thereby eroding the value of the U.S. dollar as the preeminent currency of the world.

The crisis in 2008 presented another opportunity for the United States to return to time-honored economic policies. Instead, by adopting unorthodox initiatives they pushed budget deficits, public debt, and monetary accommodation to levels never seen before. The federal government used taxpayer money to save financial and industrial concerns from bankruptcy. Independent regulatory authorities gave-in to the too-big-to-fail doctrine, which was invoked by politicians to save unscrupulous financial enterprises. The Fed went into three consecutive rounds of so-called “quantitative easing” by printing money like there was no to-morrow, as well as reducing the Federal Funds Rate (FFR) close to the zero-bound. And, when by 2019 the economy had

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<sup>1</sup> It should be apparent by now that the focus in this paper is on the democracy in the United States because of its geopolitical influence and dominant role in the international financial system. However, with few modifications in the degree rather than in the structure, the findings and their interpretations regarding the decline in the quality of democracy in the United States hold for all Western-type democracies. This explains why the paper's title refers in general to “Saving democracy”.

been propped up to achieve economic growth rates even above its productive potential, unemployment declined to historical lows, asset valuations rose way above their pre-2008 levels, etc., policy makers rejoiced for a job well done. Therefore, when a few months into 2020, the news about the Covid-19 pandemic broke open, and the economy went into a sharp tailspin, extending spectacularly on the practices of *democracy in deficit* to forestall a catastrophe was hardly surprising. Yet, the iron laws of markets have memory and, when state capitalism, price controls and other administrative distortions encroach deeply into their realm, all of a sudden they may cause havoc in the fabric of society and ultimately personal freedoms. For this reason, preventing the grim outlook of such a predicament renders reforming democracy a most urgent imperative.

A second fundamental reason for acting in this direction is the following. The economic policies of *democracy in deficit* gained traction and took hold among U.S. voters because of their appeal to the socially desirable economic outcomes that Keynesians evangelized in abundance. In reality though, these policies were propagated by politicians, lobbyists, advertisers and in general, by a wide range of agents who are known to pursue their interests through the government and the public sector. As a result, gradually organized minorities captured the institutions of democracy, the latter stopped catering to the interests of the many, and this development has given rise to various sources that feed into the so-called *democratic deficit*. A core one among these sources has to do with the process of representation. To understand its nature and root causes, the excerpts below highlight [Barber's \(2003, xxxiii, ix-x\)](#) related assessments in 1984 and again in 2003. From them, it follows that back in the 1970s, due to non-transient misalignments in the

#### 1984

... Political scientists continue to hope that the crisis in participation is a function of party realignment of the kind that occurs in twenty or thirty-year cycles in most democratic societies. But there is evidence that the party system is breaking down or breaking up, and that representative party democracy may be being replaced by dangerous new variants of neodemocracy-the politics of special interests, the politics of neopopulist fascism, the politics of image (via television and advertising), or the politics of mass society.

#### 2003

... The democratic deficit that was becoming apparent in the 1970s has become far more widespread, both within the United States and beyond its shores. The number of nominal democracies has continued to increase-which nation does not today affect to call itself a democratic regime?-but the number of nations in which democracy is seriously practiced remains restricted and cannot even be said with conviction to always include the United States.

functioning of the political parties, U.S. voters started to lose trust in democracy. An increasing percentage of them became alienated and stopped taking part in the electoral process, and by the 1990s, this trend developed into a participation crisis of such proportions that it was difficult to tell whether the United States remained in the family of true practicing democracies.

Nor has participation rate improved markedly since then to warrant changing this view. However, even if there were no issues of legitimacy, the sources of *democratic deficit* cited in the relevant literature are many and very significant to ignore. For a brief account in this regard, consider the following passage from [Levinson \(2007\)](#). After confirming in passing that the corrupt-

...Though I agree that campaign financing, partisan gerrymandering, and the potential of election-day chaos present significant problems for anyone concerned about the future of American democracy, we are deluding ourselves if we believe that solving these problems alone would remove the root causes of our democratic deficit. Indeed, to a significant extent, the American democratic deficit is a function of the Constitution itself.

ing power of private money in the electoral campaigns, the partisan gerrymandering of legislative districts, and the glaring loopholes in the administration of elections, are all deficiencies of the U.S. democracy, he turns to two tasks. That is, first, to identify the particular features in the U. S. Constitution that “most contribute to a serious democratic deficit”, and second, to work out approaches through which these features might be corrected by mobilizing people within the present institutional setting. This is exactly the point of departure in the present paper. For, should it be possible to mobilize people to rid *representative party democracy* of its deficiencies, a prospect that would condemn self-government to slow death, it should be far more appealing to save it by substituting for contemporary democracy some form of corporate governance, which would amount essentially to restoring democracy to its historical precedent in classical Athens.

To establish this proposition, the presentation is organized as follows. Next Section focuses on the deficiencies that render democracy, as we know it, non-viable since, given the aforementioned *twin deficits*, gradually it can be expected to mutate into a regime of state governance where liberty and individual freedoms are suppressed. The reasons why these deficiencies are inherent and cannot be corrected through any social contract no matter how explicit and binding are explained in the same place. Section 3 describes the model of governance in the great multinational companies of our times. Although their systems of management and shareholder control vary from one corporation to another, depending on their geographical dispersion, home values and culture, and other

determinants, the advancement of digitization and teleconferencing in recent decades has resulted in the standardization of certain common features so that a general model of corporate governance in these companies is now discernible. Section 4 highlights the structure of the key institutions and the functions of state governance that they performed in classical Athens. Section 5 juxtaposes the two models of governance. From this comparative assessment, it is found that the model of state governance in Athens, *mutatis mutandis*, simulated closely the model of governance in modern multinational corporations, falling short only in the discretion that their shareholders allow to top management. For, in these companies, the institutional setup provides a better balance of incentives and deterrents for effective and creative governance in comparison to that in classical Athens. Lastly, Section 6 explains why a modern Athenian-cum-corporate-like model of state governance, called for purposes of differentiation *citizen-managed democracy*, would be far superior to that of *representative party democracy*, and in Section 7, the paper closes with a summary of findings and conclusions.

## **2. Innate deficiencies of representative party democracy**

*Democracy in deficit* was not always the normal. It was established as such in the post-1929 period because of certain popular economic policy shifts and it cannot be precluded that, in the event of another major financial crisis, the United States will not be compelled to return to balanced budgets. However, while unorthodox conventions like deficit spending and debt accumulation remain potentially reversible should the circumstances change, the *democratic deficit* springs ultimately from certain innate deficiencies of *representative party democracy*, which are structurally irreversible and the only way for citizens to minimize their adverse side effects is to change this mode of self-government altogether. The objective in this section is to explain these deficiencies.

### **2.1 Impossibility of representation in groups**

[Schumpeter \(1942, Chapters 12, 13\)](#) established that, under certain quite demanding conditions, representation in Western style democracies could be feasible and effective. But as he was writing almost a decade before [Arrow \(1951\)](#) and three decades before [Akerlof \(1970\)](#), he derived them from an analytical framework, which ignored the implications of the so-called Arrow's impossibility theorem and Akerlof's asymmetry of information in the context of state governance. So, the key question is this: Can citizens delegate through elections their choices over policies in a consistent way and hold politicians accountable for their implementation? Drawing on the abovementioned

more recent pioneering studies and the numerous applications to which they have led, the answer that emerges from the following analysis is in the negative.

Suppose a candidate for the U.S. Congress from a district in New York wishes through his campaign to get a precise idea about the ordering of the priorities of his prospective voters. In his speeches he presents a large assortment of policies supported by his party and shortly before the elections he asks from those present in a town hall meeting to order for him from the most to the least urgent a select number of policies suitable for the district. Can he expect to come out from their responses enlightened? In other words, will he be able to obtain an ordering that, if elected, he can take to Washington and state to his colleagues in the party that this is the order of priorities that represents the preferences of his constituents, irrespective of whether they voted for him or not? Assuming that the constituents we are talking about satisfy certain reasonable criteria concerning their autonomy and rational structure of preferences over the policies in question, the answer is most surprising. Arrow's theorem ascertains that from the responses of his constituents there is no way to construct a "collective ordering" such that every one of those who took part in the process would be able to recognize as his own.<sup>2</sup>

Being unable to obtain a "collective ordering" out of the stated preferences of his constituents, if elected, by necessity the Congressman will vote according to his own perception of this ordering, hoping that he may guess correctly.<sup>3</sup> If he does, most likely he will get re-elected. If not, he stands a good chance to become a one-term Congressman. However, this uncertainty is unlikely to leave his congressional behavior unaffected. For, having started eager to serve his district, and thereby his homeland, he will view his presence in the U.S. Congress as a one off opportunity for self-promotion. And when that happens, the problems for democracy start, because in his voting

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<sup>2</sup> At times, it is suggested that the relative frequencies of items mentioned in opinion surveys may be considered a good proxy of the "collective ordering" of the preferences of the people who participate. However, even if the sample of the respondents is representative of the wider population in statistical terms, the said frequencies are not a proper index of the ordering sought because, after the results of an opinion survey are announced, many of those who take part disagree that the frequencies coincide with their ordering.

<sup>3</sup> Since guessing on the missing "collective ordering" generalizes to the overall political system, it should be clear that the lack of representativeness poses a major problem. [Munger \(2012, 341\)](#) has articulated it as central by suggesting the need for:

Democratic coherence: How can collective-choice institutions be designed to limit the possibility that voting outcomes will be perceived as either arbitrary or imposed? Given the Condorcet-Arrow problem, this problem bears on both the moral legitimacy of democratic choices and the practical stability of democratic governments.

The view expounded in this paper is that no institutional remedies are possible short of switching to a direct mode of self-government.



calculus his short term personal and party's interests will take precedent over the longer term ones of his constituents and his country.

## 2.2 Asymmetry of information

The vast majority of people lack the knowledge and skills to understand complicated public issues and take decisions in the common interest. In addition, ignoring the responsibilities that spring from citizenship, many people detest participating in the solution of problems that arise from everyday common living. Therefore, they are glad to entrust these tasks to "proper guardians", or more commonly "politicians", who are presumed to have the necessary capabilities. The process of selection among all those who offer to undertake these assignments usually takes the form of elections every so many years over local and national levels, and thus the elected officials-politicians become *agents* of the citizens as *principals*. Therefore, beyond the thorny issue of representation, *representative party democracy* is beset by a second fundamental problem known in the literature as the *principal-agent problem* or *dilemma*. Let us see how it arises in the context of the previous example.

Upon entering into the U.S. Congress, the Congressman will be appointed to committees tasked with various subjects. Naturally in carrying out his duties he will gain a lot of information available only to a very narrow circle of people and hence potentially of considerable monetary value. Will he be tempted to use it for his own advantage? The paramount odds are that he will succumb to the uncertainty about his re-election, but also because of self-excuses as if others in his position would do the same, electoral campaigns are costly, and so on. As a result, given that informational asymmetry confers exploitable advantages to the political system as a whole, one must ask: Can citizens do something about it, and if so, how may they deter politicians from deceiving them?<sup>4</sup> The answers found in the literature follow two general approaches. The first maintains that the mandate citizens give to politicians should be specified in strict terms. In other words, what this approach recommends is that the government should be assigned a specific range of policies or projects, without any discretion to deviate from certain explicitly defined limits (*strict agency*).<sup>5</sup> The second approach suggests that the mandate should be completely open (*free agency*).<sup>5</sup>

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<sup>4</sup> One of the most striking cases of deceptive practices by politicians, remaining in the world of politics as a unique example for citizens in contemporary democracies to remember, is the challenge George W. Bush, Sr., addressed to the American voters in 1988. In order to persuade them that he would not increase taxes, he proclaimed "Read my lips: No more taxes". Not only did he impose taxes, but also they were quite high.

<sup>5</sup> This distinction was already made in the 18<sup>th</sup> century by [Burke \(1774\)](#).

That is, once elected politicians should be free to decide according to their own perception of correctness, without even taking into account the preferences of their voters. History and experience show that only the latter approach has been adopted. Hence, it is not surprising that as a rule in contemporary democracies elected officials deceive citizens and introduce measures to strengthen their authority, quash accountability, and insulate themselves from the control of the public.

The problems that emanate from asymmetric information become insurmountable when we turn to the implementation of the enacted policies. For then, the ultimate principals, i.e. the citizens who pay the bills, are passive, the immediate principals are the elected-politicians who act autonomously and quite likely for their own interests, and agents are the unelected employees in the narrow and the wider public sector. Since they are the latter who produce and control the data on any one subject and as a rule provide the continuity of service in the public administration, while their political supervisors come and go, the asymmetries of information they enjoy may enable them individually and collectively through their labor unions to act as “a state within a state”. To be sure, the installation of digital monitoring systems in recent decades may have stemmed widespread attempts by employees in the public sector to take advantage of hidden knowledge and hidden actions. On the other hand, the continuing enlargement of the state may enhance the opportunities for such aberrant behaviors, and hence on balance the situation has been worsening.<sup>6</sup>

### 2.3 The deleterious role of political parties

As their views had been shaped by the study of the Athenian democracy and their experiences under the British rule, most of the founders of the U.S. democracy were distrustful of political parties. Madison in particular appears in his essay *On factions* to believe that they would not emerge. Yet he and the other founding founders were proven wrong because already in the 1790s two parties were established and started to compete fiercely. As a result, even though the *Constitution* does not make any mention to them, from very early political parties became a *de facto* institutional complement of representative democracy in the United States.<sup>7</sup>

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<sup>6</sup> Political scientists have long been trying to devise mechanisms in order to mitigate the undesirable consequences from a social point of view of the *principal-agent problem* both in policy design and policy implementation. The results so far are not encouraging because controlling of the practice of opportunism by politicians and bureaucrats carries exorbitant costs on the part of citizens. For an assessment of this literature, see for example [Lane \(2013\)](#).

<sup>7</sup> Madison did not take long to realize that the great dispersion of power that he had embedded in the *Constitution* would render the formation of governing majorities extremely difficult. That is why, according to [Postell \(2018\)](#), he started to view the usefulness of political parties in the following context:

Within a few years of writing No. 10, Madison had shifted his focus from the fear of majority tyranny

The general assessment by experts is that in the 19<sup>th</sup> century the political parties contributed significantly to the establishment and operating maturity of the principles and institutions that the founders provided for in the U.S. constitutional order. They managed to create governing majorities by focusing electoral campaigns on the issues rather than on the personal traits of the politicians that were involved. After elections party leaderships were flexible to bargain and compromise as in a process of search for the policies that would serve best the long-term interests of the country. By raising the reputation of the legislative branch, they were able to check the accumulation of excessive power by the executive through two avenues. On the one hand, they articulated the voices of the citizens, whereas on the other they reinforced the separation of powers. In general, they acted as a mechanism that mediated among the state powers and assisted them to run relatively efficiently.

However, in the 20<sup>th</sup> century and particularly after World War II the political parties lost their orientation. Already in the first quarter of the last century, when [Weber \(1921/1946, 94\)](#) was writing by drawing on his visits to the United States, it did not escape from his sharp observational lenses that “The management of politics through parties simply means management through interest groups”. Yet the capture of the political parties by special interests was still in its infancy at the time and Weber thought that only large, organized parties could oppose bureaucracy as a tendency towards a caste of mandarins, removed from the common people by expert training, examination certificates, and tenure of office. Had he lived into the 1980s, most likely he would have concurred with [Barber’s \(2003, xxxiii, ix-x\)](#) assessments in the quotations exhibited in the introduction. As for more recently, the case is that poll after poll reveals that more Americans today identify as independents than with either of the two major political parties. Citizens do not miss the opportunity to emphasize their distance from either Republicans or Democrats and to show it by abstaining from elections.

In short, experience and evidence demonstrate that political parties behave as large enterprises, acting to maximize the interests primarily of their organized members, secondarily of their sponsors and lastly of their supporters in the electoral body. As foreshadowed by [Franklin \(2005, 87\)](#), rarely maximizing the interests of the country. These assessments are based on at least the

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to the difficulty of organizing the majority in the first place. Without a majority capable of acting collectively, he now believed, the government would fly out of its proper orbit, no longer following the people but rather following its own interest. What was needed, he argued, was a mechanism for mobilizing popular will and exerting its influence over the government.

following considerations. First, and foremost, is the pretext of the need for governmental stability. [Gehl, Porter \(2017\)](#) have established that the political market has been transformed into a tightly controlled oligopoly with no real competition and two large parties alternating in power. In turn, this structure, supported by multifaceted legal and other constraints, renders the entry of new parties exceptionally difficult and allows the political system to become autonomous, and hence indifferent to the preferences and interests of citizens. Second, as the political system becomes autonomous, the relationship of representation deteriorates, voters become alienated from politics,<sup>8</sup> stop caring about the common good, and resort to maximizing their own private interests by attaching to the clientelist system of the political parties or rent-seeking. Third, voter alienation erodes solidarity and social cohesion.<sup>9</sup> To counterbalance this process, political parties introduce costly and inefficient programs, mainly in the context of the “welfare state”, in which the beneficiaries feel more allegiant towards the initiators of these programs rather than to the citizens who pay the costs through their taxes. Fourth, by attaching to the political parties, the citizens become addicted to the restrictions of their rights and liberties and become tolerant to the enlargement of the state at the expense of the private economy. Fifth, even worse than all the above, is that the problem political parties pose for contemporary democracy becomes insoluble, because as stressed by [Lyon \(1996\)](#):

Parties and businesses, however, have a strong vested interest in restricting competition. In the case of business, government regulations limit the ability of corporations to choke off competition. But parties control the only body-the government-that can regulate them.

## 2.4 Uncoordinated administrative polycentrism

Large multinational companies have manufacturing facilities in many countries and at the close of each day, despite the time differences among various geographical regions, they are able to know

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<sup>8</sup> An index of the alienation of citizens in the representative democracies is the percentage of those who abstain from the elections. As [Barber \(2003, xxxiii\)](#) notes:

Mean voter turnout in America since World War II hovers around 50 percent for presidential elections-lower than every other non-compulsory democracy in the West. In a country where voting is the primary expression of citizenship, the refusal to vote signals the bankruptcy of democracy.

<sup>9</sup> In certain democracies where the parties often alternate in government, either through implicit or explicit agreements, changes are introduced for perpetuating their hold on power. In the United Kingdom, for example, a government can hold majority in the parliament, despite receiving only one third of the votes of the electorate, enabling it to vote for laws opposed by the vast majority of the population. Governments that are elected by non-proportional electoral systems, inspire doubt about their representativeness, thereby undermining the quality of democracy. In turn, the lack of representativeness induces citizens to perceive government decisions as illegitimate, and to resort to behaviors that aim to annul the results intended by the laws.

the results of their operations as well as the main problems they face in each country. How do they achieve this remarkable coordination? They achieve it through decentralized management systems, in which their managers in each country may decide freely within certain general limits set by the center and expressed in terms of market shares, profitability and other indicators of measurable performance for which they are held accountable. But why even in the United States, the mightiest *representative party democracy* of all, the government is unable to govern effectively? This is a difficult question and answering it would require writing a separate paper. So consider the following brief remarks.

Governments are unable to govern effectively because, among other shortcomings, they lack the prerequisites that have been worked out by contemporary management science. In particular, the objectives they set to achieve are at best broad and uncertain. Their information lags constantly behind the current state of the economy or of the problems they are called to face. The ministers in the various ministries, including their advisors, rarely know the operation of the civil service departments they undertake to work with, thus leaving much leeway to the technocrats and bureaucrats to undermine the enacted policies for their own purposes. Since the objectives pursued are often obscure and immeasurable, growing conflicts among ministers allow them to pull the efforts of the government in various directions, etc.

However, none of the above organizational weaknesses undermines so decisively the effectiveness of governments than the lack of automatic mechanisms to coordinate the information which is necessary to confront a problem of general national interest and which is diffused across many ministries and state agencies and organizations. It transpires from experience how all these administrative units safeguard their importance by sitting tightly on the information they collect regarding the tasks to which they have been assigned, so it is safe to surmise that the difficulty of elected governments to control the centers of power within the public sector is an inherent weakness of *representative party democracy*.

### **3. The structure of governance in contemporary multinational companies**

Suppose that the founding fathers of the United States were alive today and that they were called to decide anew the mode of self-government they thought appropriate to embed in the U.S. Constitution. Would they have decided to establish a *representative* or a *direct* democracy? Quite likely, including Madison who was much opposed to popular settings for decision making in the public interest, they would have opted in favor of *direct* democracy, not so because they were

unaware of its limitations under the Athenian model, that they so much admired, but because technological developments in electronic communications have brought its superior advantages well within reach.<sup>10</sup>

Thus, paving the way towards a modern adaptation of that Athenian mode of self-government, the focus below is on the apparatus by which millions of shareholders, dispersed across all continents and holding small and large portfolios of shares, control the managements of the giant multinational companies. Given that these companies distribute internationally highly diversified baskets of products, produced in many geographically dispersed facilities, and are able to deliver consistently high dividends and share-price appreciation, it follows that shareholder control has performed as an important driver of success, along of course with numerous other technological and organizational innovations in the fronts of management and production. Expectedly, therefore, upon transplanting this apparatus into the public sector, it should emerge a robust model of self-government in which the citizens retain ownership of the institutions and the results, and exercise effective control of state governance. So, let us look into its building blocks and structure.

Figure 1 displays a stylized conceptualization of the main centers of ownership and control in the headquarters of a hypothetical multinational company, as well as the directions of command and the flows of information exchange among them.<sup>11</sup> The state in the middle top of the figure provides the legal and regulatory framework within which the corporation operates, including adjudication mechanisms for the speedy resolution of conflicts that arise in the enforcement of private contracts. Internal and external auditors on the upper right provide independent certifications about the integrity of the reports issued by the management as well as the compliance of

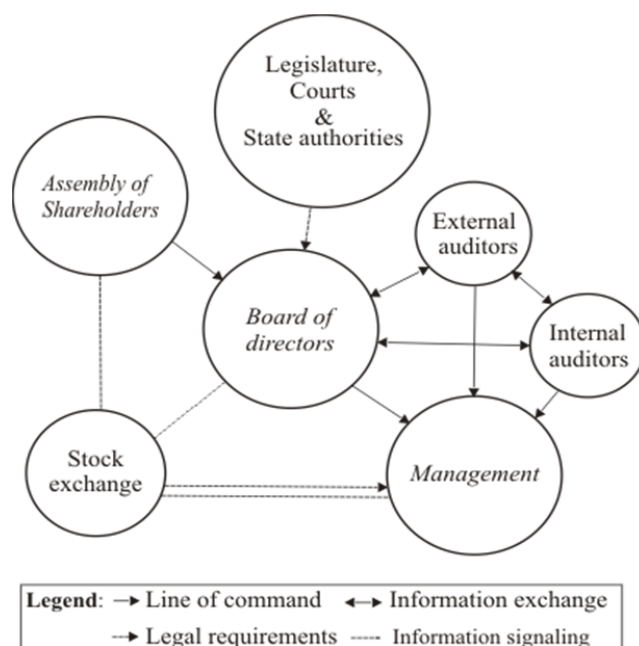
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<sup>10</sup> In the relevant literature, it is generally accepted that the regime in classical Athens was *direct democracy* in the sense that state governance was exercised by citizens themselves. However, because of the mechanisms through which certain classes of public officials were nominated and selected to serve, there is ample evidence that they became distant from their supporters and could act as present day managers in large corporations. Therefore, since self-government was based partly on citizens and partly on qualified *manager-like* elected officials, the nature of democracy in classical Athens was in essence more *managerial* than *direct*. To emphasize the importance of this differentiation, one might think of this as a *managerial model of democracy*. In addition, this change in emphasis would be warranted because the remarkable accomplishments of Athens in the 5<sup>th</sup> and 4<sup>th</sup> centuries BCE could have been achieved only through effective corporate-like state governance.

<sup>11</sup> According to [OECD \(2015, 13\)](#) the terms “corporate governance” define a fairly wide field of institutional provisions comprising:

... elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country’s specific circumstances, history and tradition.

In this paper, I employ these terms in a much narrower sense. That is, to refer to the centers of control and administration of a multinational corporation in the institutional setting that prevails in the country, where the corporation’s headquarters are located.



**Figure 1:** Institutions of corporate governance in the headquarters of a multinational company

operations to laws and regulations. The lower left side shows the stock exchange where the shares of the company are traded. This offers advanced signaling about the evaluation by the participants in the stock market of the prospects regarding the performance of the company under the projected plans of its management and the expected developments in the economy. Lastly, as indicated by the diagonal large circles, key protagonists in the control and administration of the company are the *Assembly of Shareholders*, the *Board of Directors*, and the *Management*. The emphasis next is on them.

Normally, once a year, at a specific place, day, and time, the *Board of Directors*, consisting of executive members of the top management and non-executive independent members, must appear in front of the *Assembly of Shareholders* and, on the grounds of their accomplishments in the previous year, ask for their vote of confidence. Well in advance of the meeting, the management dispatches to all shareholders, irrespective of the number of shares they own, full documentation of performance together with the agenda of the meeting, including proposals regarding the appointment of new or reappointment of old members to the *Board of Directors*, their remuneration, revisions in the article of incorporation, etc. The whole package of documents that goes to an eponymous fund in New York or Tokyo, which may hold several thousand or millions of shares, will go also via e-mail, say, to a shareholder residing in the North Pole. Shareholders are invited to either

take part in the meetings in person or authorize an independent office of lawyers to vote their shares according to their instructions. The technology involved is now standard and, given the capabilities of present day teleconferencing, it is more than certain that soon shareholder meetings will become all electronic, even in the absence a pandemic like the current one of Covid-19.

In addition to the mandatory annual meeting, shareholders control the management of the company through various supplementary mechanisms. For example, one is the provision, under the law and/or the articles of incorporation, that on the petition of shareholders representing a certain percentage of the share capital, say 5 or 10 percent, may call a special meeting at any time to discuss and decide on the specific issues they raise. Another is the mandatory change of external auditors. Not long ago, certain high visibility bankruptcies in the United States and elsewhere showed that shareholders paid leap attention to the consequences of cronyism that developed between managements and external auditors. As a result, now by law shareholders must change external auditors every few years. Still a third mechanism springs from the functioning of financial markets. This is at least three-pronged. First, there are the professionals in banks and investment houses who assess the prospects for the share price of the company. They follow closely the activities of the company and by publicizing the data for their assessments, they keep alert potential investors, shareholders, directors, and managers to the prospects of the company. Second, shareholders who are disappointed with the prospects of the company can always vote against its management by selling their shares in the stock exchange. Presumably, if share prices start falling, not because of the general market sentiment but because of issues specific to the company, its *Board of Directors* would take notice and force the management to take corrective actions. Thirdly, by law companies whose shares are traded in the stock exchange are obliged to submit regularly standardized information about their operations and prospects. Hence, the asymmetry of information between potential investors, shareholders and members of the board on the one hand, and management on the other, is mitigated.

Implicit in the preceding analysis was the assumption that the *Shareholders* are able to exercise full control over the *Management* through the *Board of Directors*. However, piles upon piles of theoretical and empirical research, indexed for example in [Fama, Jensen \(1983\)](#), [Williamson \(1985\)](#) and [Marks \(1999\)](#), have shown that this is not the case. In particular, the overwhelming evidence is that because of (a) the dispersion of the company's ownership among millions of *Shareholders* around the world, and (b) the costs involved in the exercise of their rights, in actu-



ality the control of the company has passed on to the *Management*. This separation between ownership and control is accompanied by several advantages and disadvantages, which are beyond the scope of the present. They are explained in the above-mentioned literature, and on perusal, one may surmise that the net benefits of separation have been such that motivated the *Shareholders* to remain *passive*, thus leaving ample independence to managers to pursue the interests of the corporation. In the future, as advancements in telecommunications and teleconferencing continue to reduce the cost of participation, whereas simultaneously returns to capital shrink and remuneration of professional management becomes ever more expensive, it cannot be precluded that *Shareholders* may become more *assertive* than in the past. However, as long as results correlate strongly with the human capital and the expertise embodied in the *Managements* of these companies, it will be always to the interests of their *Shareholders* to allow *Managers* adequate leeway to manage business activities effectively.

#### 4. The model of state governance in classical Athens

Voluminous research in recent centuries has established that in classical times Athens accomplished a level of achievements that have marked indelibly the history of the world and particularly that of Western civilization. From the architectural marvels of the monuments we so admire today to the millions of citations across all fields of knowledge, and from politics and ethics to economics and the arts, it is not an overstatement to say that in the 5<sup>th</sup> and 4<sup>th</sup> centuries BCE Athens reached an apex of military, economic, political, cultural, and scientific influence in the world comparable to that of the United States in the post-1929 period.

To be sure, this astonishing feat came about because of many strategic choices by great Athenians leaderships, the norms and values of Athenian citizens themselves, and not to a small extent because of exceptionally good luck when the odds were heavily against Athens, like for example in the Battle of Salamis in 480 BCE. But, if I were asked to single-out only one key factor that made the difference, this has to be the institutions of the Athenian democracy, and particularly those, which by design operated, in a corporate-like or managerial mode. The presentation immediately below aims at providing evidence for this proposition.

Democracy in classical Athens was ruled by three entities:<sup>12</sup> The *Ecclesia of Demos* (congregation of citizens) or *Assembly*; the *Council of 500* or *Boule*; and the *Dikastiria* or *Courts*. The

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<sup>12</sup> For a detailed indexing of the sources of evidence on which the presentation in this section is based, please see [Bitros, Karayiannis \(2012\)](#) and [Bitros, Economou, Kyriazis \(2020\)](#).

*Assembly*, in which participated all adult male Athenian citizens, exercised the decision-making authority, including legislative, supervisory, and select ultimate-degree judicial and auditing powers. It convened four times during each *prytany* (tenth of the conciliar year), which lasted from 36 to 39 days, and at least forty times per year in total ([Thorley 1996, 30](#)). It could be in session only when more than 6,000 citizens were present. One of the four meetings of each *prytaneia* was devoted to discussion and decision-making on issues of governance, defense, foreign policy, provisioning of food and other supplies, including welfare, while the other three dealt with various issues.

The *Council* consisted of ten groups with 50 members each from the 10 tribes of Athens. The group of 50 members of each tribe served for one tenth of each year and it was replaced by another group at the end of each *prytany*. In practical terms, each tribe that held this post actually ruled the city-state with full executive rights ([Lyttkens 2013, 59, 76](#)). Among the main duties of the *Council* were: a) to prepare the so-called *probouleumata* (preliminary decrees) and submit those which were approved for final discussion and voting in the *Assembly* ([Demosthenes, Against Neaera, 59.4](#)); b) to prepare the agenda for each meeting of the *Assembly*, c) to care for the arming and manning of warships as well as the cavalry; d) to supervise the execution of the budget, the management of the *temples*, which serve also as *treasuries of the gods*, the operations of the *mint*, and a wide range of special purpose funds; and e) to be in constant contact and monitor the performance of the nine *archons*, the ten *stratego*i (*generals*), and several hundreds of public officials (magistrates), most selected by lot and appointed to manage the affairs of the state on a daily basis in conjunction with the services of the *public administration* ([Aristotle, Athenian Constitution, 46.1, 49.1-2](#)).

As for the judicial powers, these rested with the *Courts*, which heard cases in the civil, maritime, and penal domains. Competent to adjudicate civil disputes were the *Dikasteric Courts* (*Popular Courts* or *People's Courts*). These dealt with most cases, albeit scarcely in a law-based fashion. On the contrary, as argued by [Cohen \(1973\)](#) and [Lanni \(2008\)](#), the *Maritime Courts* and the *Areiopagos*, which handled maritime disputes and most homicides, respectively, functioned in a precedent-setting manner from a legal standpoint. The Supreme Court called *Heliaia* comprised 6,000 judges and served as a *Court of Appeals*.<sup>13</sup>

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<sup>13</sup> *Heliaia* convened very rarely in its full membership. The bulk of cases were brought in front of the *Popular* or *People's Courts*, which constituted particular chambers of *Heliaia*, specialized according to the nature of the law they applied and the importance of the cases they heard. For example, the *Maritime Courts* was a chamber of *Heliaia* dealing with maritime cases. The higher the social importance of the cases a chamber dealt with, the larger

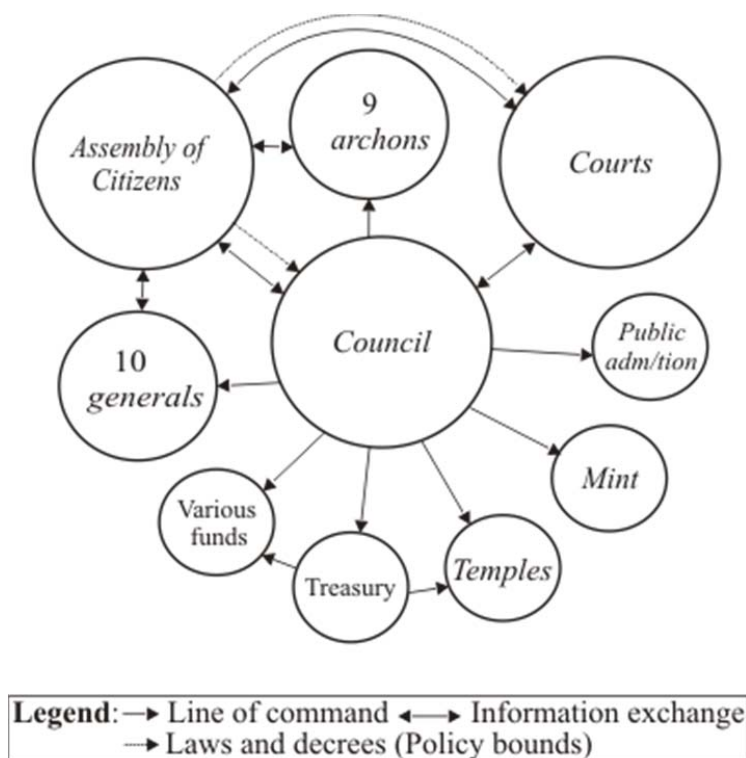
In the above institutional setting, state governance was exercised by the *prytaneis*, the nine *archons*, the ten *strategoï* (*generals*), and the *magistrates* in their dedicated functions, all assisted by the *public administration*. The nine *archons*, all of whom were equal among themselves, although one had the title of *eponymous* (the most important of the nine *archons*), carried out specific projects and responsibilities. For example, the *archon* in charge of defense was responsible for collecting all public revenues earmarked for the financing of the army, and paying all related expenses ([Tridimas 2012, 4](#)). The *public administration* consisted of various departments, providing services to enable compliance with building codes, enforcement of regulations regarding food and other supplies, orderly conduct in the markets, and the design, construction and maintenance of public infrastructure, among others. The ten *generals*, each coming from one of the ten Athenian tribes, oversaw the armed forces. Their service was annual, and depending on the evaluation of their performance by the *Council*, they could be reappointed ([Lyttkens 2013, 52](#)). At the end of each *prytaneia*, a vote was taken as to whether they had performed their duties adequately, and those who were found inadequate lost their office.<sup>14</sup> As for the institutions in charge of the state's budget and the currency, they were embedded in the above organizational structure with enough autonomy from the central authorities to pursue effectively their tasks, but also under closed supervision and brevity of tenure to discourage corruptive practices on their part.

Figure 2 displays the institutions of state governance in the Athenian model of democracy in classical times. The separation of state powers is shown by the double-headed arrows. Among the centers connected by them, there was exchange of information in an environment of cooperation and mutual respect for their institutional independence. On the contrary, single-headed arrows denote the lines of hierarchical command and in reverse the obligation for reporting on the results and possible problems in the course of governance. This institutional setup emerged neither suddenly nor by design at some particular period. It took a certain form under the reforms by Cleisthenes in 508 BCE. Nevertheless, it evolved mostly over time through judicial trial and error by applying, among others, three fundamental principles. Namely, first, unequivocal ownership of the institutions of democracy by citizens, second, the greatest possible dispersion of state powers among citizens, and third, absolutely no one was to be trusted in the manage-

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its membership was in terms of participating judges. Worth noting is also that before the reforms of Ephialtes and Pericles in the 460s and 450s BCE, respectively, the judicial functions of *Heliaia* were performed by the *Assembly*, which stood as court.

<sup>14</sup> [Pritchard \(2012, 48-49, 2014, 8\)](#) argues that *generals* were often required to finance by themselves the means to perform their *strategia*, i.e. to fulfill their annual responsibilities as *generals*.



**Figure 2:** Institutions of state governance in the Athenian model of democracy in classical times

ment of state affairs.<sup>15</sup> It was the first ever and only system of state governance in which, allowing for the arrangements of monitoring and auditing that they had put in place to control corruption to a minimum, the interests of those who governed coincided with the interests of those who were governed. That is why, according to this normal, it was to the benefit of all to manage the state's affairs as per [Adam Smith's \(1776/1977, 456-7\)](#) dictum that "what is prudence in the conduct of every private family can scarce be folly in that of a great kingdom".

### 5. The citizen-managed model of democracy

Comparing Figure 1 with Figure 2, observe that missing from the latter is the key center of *Management*. The reason is that in the Athenian model the *Council* acted at the same time as *Board of Directors* and top *Management*. To understand how unique this institution was one has to go meticulously through the insightful analysis of [Manville, Ober \(2003\)](#) in their treatise *A Compa-*

<sup>15</sup> The term "citizen" refers to male Athenians over 30 years of age who had the right to participate in the *Assembly of Citizens* and hold public office.

*ny of Citizens*. In essence, Athens operated as a company. In this company, on the one hand, citizens acted as *Shareholders* in the *Assembly of Citizens*. On the other hand, the same citizens sent to the *Council* the best of them in terms of social, ethical, and knowledge qualifications to run the affairs of the state on a day-to-day basis with the commitment to serve the common good as proof of loyalty to their citizenship. Could the 500 *Bouleutai* or *Councilmen* who were appointed behave as simple *representatives* of those who elected them? Did these officials have enough discretion to use their positions for their own personal benefit or for catering to the interests of their supporters and/or friends? In the operation of the *Council* was there room for building coalitions among the *Councilmen*, which could derail it to pursuing objectives alien to the common good? To these and other similar questions addressing the possibility of aberrant behaviors, the evidence amassed and analyzed by [Ober \(2008\)](#) leaves no doubt that the answer ought to be definitely in the negative.

To corroborate it, recall from above the principles on which Athenians had erected their institutions of self-government. The greatest dispersion of state powers among citizens implied that, depending on qualifications, everyone had the opportunity and the obligation to serve in some capacity. This equality of opportunity stood in the eyes of Athenian citizens as the best title of ownership of their state institutions. However, on the other hand, again by principle, none ought to be trusted with state power, because Athenians knew very well how tempting it could be when citizens are given the opportunity to serve their own private interests. Thus, in the case of the *Council*, the nature of the services was considered so sensitive that those appointed as *Bouleutai* or *Councilmen* passed through the following procedures:

- Candidates for *Council* members were nominated initially by vote at the *deme* level, each *deme* having been allotted a certain number of slots proportional to its population in the context of the tribe to which it belonged. From those proposed by each tribe, the standing *Council* would select by lot 50 and an equal number of alternates.<sup>16</sup> The next step was a process called *dokimasia*. Before being appointed, those drawn to serve had to meet several criteria of maturity and moral standing in their community. For example, they ought to be 30 years old, to have clean records for law offenses, to have cared for their old parents, etc.

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<sup>16</sup> Initially, membership was restricted to the top three of the original four property classes, i.e. the *pentacosio-medimnoi*, *hippeis*, and *zeugitai*. The class of *thetes* acquired the right to elect members in the Council later. By contrast, the great majority of the 700 magistrates who were assigned to administrative tasks were elected by vote from lists of knowledgeable and experienced Athenians. For more details on this issue, see [Aeschines \(Against Ctesiphon, 29\)](#) and [Aristotle \(Politics, 1317b15-1318a3\)](#).

- As explained already, *Councilmen* were appointed for annual service, whereas every group of 50 *prytaneis* from a particular tribe managed the affairs of the state only for a conciliar month and in sequence within every year determined by lot.
- In the 5<sup>th</sup> century, no citizen could be appointed twice in the *Council*. However, for various reasons that go beyond the present, in the 4<sup>th</sup> century this rule changed to two non-consecutive terms.
- At the end of its annual service, the *Council* reported on the results of its activities and the outstanding issues to the *Assembly of Citizens*. If everything turned out ok, they would be honored with a golden crown, whereas serious offences by *Councilmen* were referred to the *Courts*, which imposed stiff penalties particularly for abuses of public money.

Clearly, in the light of the above demanding procedures, the *Council* should have operated as an *Executive Board*, whose members pursued the common good under the policies laid out by the *Assembly of Citizens*, whereas isolated cases of unscrupulous *Councilmen* constituted exceptions.

Now, from the structure of the two models it follows that they share some similarities and several differences. Table 1 summarizes the most important of them. Looking across rows 8 and 9, observe that the *Council* in Athens reported to the *Assembly of Citizens* at the end of their service and in turn, they were relieved by them from all responsibility or not for the way they had man-

**Table 1:** Comparison between the Athenian *Council* and the *Board of Directors* in multinational companies

Properties	Similarities and Differences	
	<i>Council</i>	<i>Board of Directors</i>
1. Duration of appointment	Annual	Multiyear
2. Term limit	Up to two terms	Determined by the <i>Assembly of Shareholders</i>
3. Recallable	Yes, on successful motion initiated by citizens	Yes, under the terms specified in the corporate bylaws
4. Method of selection	By nomination, sortition, and screening	By vetting and vote
5. Number of members	Large, rotating by groups	Small, continuous
6. Standing of members	All executive	Some executive, some non-executive independent
7. Decision making discretion	Bound by the policies laid out by the <i>Assembly of Citizens</i>	Bound by the decisions taken in the <i>Board of Directors</i>
8. Reporting	Annually to the <i>Assembly of Citizens</i>	Annually to the <i>Assembly of Shareholders</i>
9. Release from responsibility	At the end of the annual term by the <i>Assembly of Citizens</i>	Annually by the <i>Assembly of Shareholders</i>

aged the affairs of the state. The same transpires in the annual *Assembly of Shareholders* in multinational companies. Shareholders may accept or reject the proposals submitted by the board, hold particular directors accountable, and so on. Another similarity is shown in row 3. Citizens in Athens had access to multiple avenues through which they might recall officials. It was not easy, because the accusers had to prove the wrongdoing of officials at their own risk. But it was an option and the same holds true for shareholders of multinational companies. The entries in all other rows denote differences. For example, consider those in rows 1 and 2. In Athens, the duration of appointment was annual and in the 4<sup>th</sup> century BCE, *Councilmen* could be reappointed for one more annual term. On the contrary, members of the *Boards of Directors* in multinational companies are appointed for several years and in the case of those who hold executive positions they may be entitled to high severance payments, if their contracts are terminated early.

Of all differences in the two models, the most significant is that in row 7. In Athens the *Council* was free to decide on all aspects regarding the implementation of policies, provided they kept within the bounds set by the respective laws and decrees that were authorized by the *Assembly of Citizens*. They had to be exceedingly careful in keeping within these bounds because they were open to charges of transgression by any citizen in front of the *Assembly* or the *Courts*. By contrast, in multinational companies, policy decisions are taken by the *Board of Directors* and responsible for their implementation is the top *Management*. Why is this difference so significant? It is because differentiation between the Athenian and the corporate model of governance offers a range of choices regarding the participation of citizen-shareholders in the management of the state's affairs. On the one end, under the Athenian model, citizens-shareholders would manage the affairs of the state through an Athenian-type *Council*, whereas on the other end, under the model of multinational corporations, citizen-shareholders would limit their involvement in the appointment of a corporate-type *Board of Directors*. In between these two extremes, one may think of reform designs providing more or less involvement of citizen-shareholders in the management of state affairs. For example, an intermediate arrangement would be to setup a *Council*, consisting of a large number of citizen-managers from all states, proportional to their population, elected by lot from a larger number of nominated candidates, appointed for multiyear terms of service after tough screening based on character integrity and professional qualifications, and entrusted with considerable discretion on decision making. For differentiation relative to the *Athenian* and the *representative party* types, the model of democracy that would result from such a reform may

be called *citizen-managed democracy*. Functionally, governance in the latter model may be relatively more bureaucratic and less effective and creative than in multinational companies, even though introducing modern information and management systems and technologies might compensate to some extent for this inferiority. However, its merits over *representative party democracy*, about which below, render it a most attractive option, should the social circumstances call for a radical regime change.

## **6. Advantages of citizen-managed over representative party democracy**

Aside of being free from the deficiencies that were analyzed in Section 2, in the absence of political parties, *citizen-managed democracy* has several advantages that render it far superior to *representative party democracy*. Main among them are that it allows citizens: First, to arrive at consistent orderings of their preferences over policies, second, to implement them promptly and efficiently, third, to engage in the governance of the state based on fairness and merit, and fourthly, to ameliorate the issues of asymmetric information and uncoordinated government polycentrism. The aim in this section is to explain briefly the sources from where these advantages emanate.

### *Unbundling of policies*

Presumably, by voting for a political party, citizens under *representative party democracy* vote for the package of policies that the particular party proposed during the electoral campaign. Hence, due to its very nature, this type of self-government does not permit citizens the possibility of unbundling, that is, to vote for the policy option, say on education, proposed by party A, on health by party B, on defense by party C, etc. What this difficulty implies is that the ordering of citizen preferences is not revealed, at least not precisely. On the contrary, in the *Assembly of Citizens*, the decisions are taken by voting on a case-by-case basis and the true order of citizen priorities is arrived at by applying the majority rule among those who vote. Thus, by matching policy choices to citizen preferences, *managerial democracy* delivers what is the true essence of democracy.

### *Superior flexibility and efficiency*

To highlight this advantage, consider the case of the British exit from the European Union (EU), i.e. Brexit. British citizens had second thoughts about leaving the EU and the popular sentiment in favor of holding a second referendum gained momentum. However, institutionally this presented considerable problems at both the political and the legislative levels. It was a difficult issue for the prime minister, the ministers, members of the parliament of all parties, etc. Under



*managerial democracy*, the solution would be simple, straightforward and could be implemented fast. An initiator would just have to propose a new vote in the *Assembly of Citizens* and if the outcome were different from the previous one, the new decision would be implemented. A famous example in this regard is the one reported by [Thucydides \(\*History of the Peloponnesian War\*, 3.36-49\)](#). In 427 BCE, the *Assembly* decided to punish the rebellious citizens of Mytilene (a member of the Athenian League) by putting to death all adult males upon their surrender after a long siege. An Athenian ship sailed bringing the order of execution to the Athenian general of the island. The next day, the Athenians had second thoughts on the harshness of the punishment and the *Assembly* took a decision to annul the previous one and to execute only the leaders of the revolt. A second ship was sent, countermanning the previous order, with its Athenian commanders promising the rowers extra pay as an incentive if they arrived in time to save the Mytileneans. The second ship did overcome the first and the Mytileneans were saved. Presumably, if Athens followed Brexit procedures, the decision would have not changed at all, or not in time to save the citizens of the island and the *Assembly* would have committed a terrible mistake.<sup>17</sup>

#### *Institutional arrangements for every citizen to engage in state governance*

Tough conditions more or less similar to those described in Section 4.2 for appointment in the *Council* applied across the board in classical Athens. Every citizen had the right and the obligation to serve in some capacity based on merit and qualifications, but even then, since none was to be trusted due to the frivolity of human nature, Athenians kept the term of service to one year and, with few exceptions, the selection among the candidates for office was effected by lot or sortition. By implication, the system assured that: a) all competent and interested citizens had an equal chance of holding public office; b) factionalism was minimized, since there was no point making promises to win over key supporters; and c) clientelism in the form of distributing state benefits to particular groups of voters so as to get re-elected was absent. All these merits would render *managerial democracy* a vastly better functioning democracy in comparison to *representative party democracy* which, as the quotation from [Barber \(2003, xiv\)](#) suggests, vitiates the essence of democracy per se:

When the public yields its basic governing functions to representatives, it has begun a

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<sup>17</sup> The evidence is that Athenian democracy in the 4<sup>th</sup> century became less radical in the sense that after 403 BCE they introduced two new institutions, i.e. “*graphe paranomon*” and “*nomothetai*”, which acted as further checks and balances mechanisms regarding the decisions of the *Assembly*. Readers interested in the role of these institutions may start with [Lyttkens, Tridimas, Lindgren \(2018\)](#), regarding the former, and [Harris \(2013\)](#), regarding the latter.

process of alienation that in the end taints the very idea of public goods and common ground. This alienation in turn trivializes democracy, transforming what should be ongoing deliberative participation in governance into a cynical preoccupation with media-hyped elections. ... In a word, then, privatization, alienation, and the abuse of civic deliberation are actually easier in a representative democracy than in a strong participatory democracy-which is one more argument in strong democracy's favor.

*Procedural counterbalancing of informational asymmetries*

The Athenians who participated in the *Assembly of Citizens* and served in the *Council* and the other state services came from all occupations. They were not presumed to have expert knowledge on any of the multifaceted functions of the state. The only thing they were presumed to have was common sense and motivation to serve the “common good”. By culture and values, Athenians citizens were trained to listen and being guided by those more knowledgeable and experienced among them. For an example, consider the case of *Nicophon's Law*, which was introduced in 375/374 BCE and concerned matters of the currency. Nicophon was a monetary expert in the service of the *Assembly of Citizens*. To win support for his proposals he should have strived to explain what the objectives of his draft law were and how they might be achieved. Speaking in the presence of at least 6,000 people, the great majority of whom knew little or no monetary economics, he had to communicate his ideas in simple but not simplistic terms. In the process, every citizen present shared the same information, which formed a basis for his vote. Therefore, the asymmetry of information between Nicophon and the prospective voters in his audience was reduced and the decision was carried out with a better understanding of the pros and cons by those who voted and would share in the consequences, if the law were adopted.

In this context, one may argue that the *Assembly of Citizens* and the *Council* functioned as markets for the exchange and competition of “ideas” and “courses of action”. A participant brought forward and tried to “sell” a proposal, for which he had to offer convincing information (arguments) that would make it superior to another proposal on the same issue. In turn, this exchange of arguments among all present, counterbalanced informational asymmetries and established a common ground, which facilitated “informed” choices. Helpful in this regard was also that a) those who participated spoke the same language, shared the same code of ethics, and adopted the same practices in politics, and b) whoever wished to speak, propose, or even accuse somebody was free to do so, knowing that what he said could be potentially used against him.

*Coordination through accountability, personal responsibility and commitment*

All public servants remained personally responsible and accountable for the way they conducted themselves in the service of the state until they were relieved by the auditors. In addition, for an Athenian, as honorable as it was to serve in a public post, the same held true when one assumed the mantle of the defender of the public interest. Between them, these rules inspired discipline in the lines of service and precision in the execution according to the prescribed job tasks. Therefore, it would not be farfetched to surmise that coordination in state governance in classical Athens was at least as effective as in contemporary multinational companies.

Athenians, but ancient Greeks in general, believed that election to all state posts particularly by lot is one of the cornerstones of democracy and they would understand neither today's proliferation of non-elected officials heading the ever expanding plethora of regulatory bodies and independent quasi-state authorities, nor the formation of labor unions and their practices in the public sector. This is a crucial difference with today's democracies.

## **7. Summary of findings and conclusions**

Contemporary democracy has numerous deficiencies. A few frequently emphasized in the literature are: a) the self-interest of politicians; b) bureaucracy; c) rent-seeking; d) regulatory and state capture; and e) deficit spending and debt accumulation. These are secondary in the sense that emanate from certain deficiencies that are inherent in the mode of self-government, which is based on the process of representation. The latter is the source of deficiencies that may be patched in one way or another through the social contract, but they cannot be eliminated. These are "the impossibility of representation in groups", "the asymmetry of information", "the state capture by the political parties" and the "uncoordinated administrative polycentrism". Unlike the deficits to which state governance has led in this type of self-government, corporate governance particularly in the giant multinational companies has work wonders for their shareholders. For, even a cursory look in the pertinent data would reveal that companies like Nestle, Danone, Unilever, Siemens, Phillips, Toyota, Mitsubishi, Colgate-Palmolive, Hewlett Packard, and 10s of others, have delivered consistently remarkable value in terms of dividends and share price appreciation over many decades. Their success is due largely to their *Boards of Directors* and the *Systems of Management* information and communications technologies enabled them to put in place. As for their *Shareholders*, they have contributed mostly by monitoring and reacting to the results and prospects, and less so by intervening directly to force changes by exercising the prerogatives of ownership.

On the above account, the model of governance in multinational corporations provides one possible option after which to pattern decisive reforms of state governance. Another option is the one that Athenians practiced 2500 years ago. In the latter model, governance was in the hands of citizens as *Shareholders* and *Managers*, acting in the *Boule* or *Council of 500* or just *Council*, but within the bounds of policies set by the *Ecclesia of Demos* or *Assembly of Citizens*. This is the key differentiating feature between the two models of governance, thus offering a good basis for thinking about various types of *citizen-managed democracy* with more or less discretion over policy matters on the part of the appointed *Councilmen*. Therefore, should the circumstances render imperative a shift in the established mode of self-government, citizens should opt for such a model. For, aside of governance, self-government in this context is superior to *representative party democracy* because, first, it is free from the latter's innate deficiencies, and second, it is endowed with several distinct advantages. In particular, it matches policy choices to citizen preferences. It offers superb institutional flexibility and efficiency. Citizens engage and take ownership of the institutions of democracy, and the problems of asymmetric information and management coordination are confronted through the widest possible discussion among citizens of the issues under consideration.

Thinking ahead of such a revolutionary change demands preparation on many fronts. Some are technical and fall in the purview of specialists in Information and Communications Technologies (ICTs). For example, two fundamental are how the United States Congress might be replaced by an *Electronic Ecclesia of Demos* or *Assembly of Citizens*, and the United States Government by an *Electronic Council of Federal Directors*. Owing to the advances in ICTs, preparedness in these fronts may be relatively easy to achieve. However, in fronts such as politics, public administration, central and commercial banking, etc., which have served traditionally as bastions of the established mode of self-government, short of some monumental social upheaval, progress is highly unlikely because:

In today's political climate, with elite corporate interests firmly in control of most Western governments, the prospects for any radical changes being implemented in a way that actually serves popular interests are very slim indeed. The simple truth is that those interests currently in the ascendancy would be blind fools to allow system changes that seriously threatened the control over the political process that they now enjoy. ([Moore 1999, 56](#))

Lastly, there are fronts in which citizens can and should mobilize to arrest control over future

developments. One such front is the ethos built into children in their formative years, because the model of *Digital Citizen-Managed Democracy* (DCMD) sketched in this paper presumes free-minded and responsible citizens, as the Athenians were. Hence, change in this direction should start right away by attending to the appropriate upbringing and education of children.

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