

The Military System of Democracies I: Man and Society

A leader without either interest in or knowledge of the history and theory of warfare – the intellectual concept of his profession – is a leader in appearance only. ... after all, an officer's principal weapon is his mind. ALFRED M. GRAY (1989 / 1995, p. 67)

One of Machiavelli's assumptions, although it is never clearly articulated, is that an army tends to reflect the quality of the civil society of which it is a part. NEAL WOOD (1965, p. LXXII)

The Fundamental Restriction and Its Impact on Human Existence

The fundamental restriction of human life

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(1) The human **mind** with its **mental capacities** like **rational thinking** – developing a life concept and acting accordingly – and **communication** evolved during the **evolution** of man because it improved the chance of **survival**.

(2) In particular, the mind **facilitates** the two main types of actions, **cooperation** and **conflict** (refer below), by offering the possibility to “put oneself in the shoes of the other party” – partners and opponents alike.

(3) The human mind is **irrevocably tied** to a **biological body**. This represents the **fundamental restriction** of human existence.

Implications of the fundamental restriction I: **Bounded rationality, self-interest, scarcity** and others

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(1) **Vita brevis est** and each life features three phases: A period to **grow up** – focusing on learning –, a period of **maturity** in which skills are in their **prime** and a period of **decay** – ending in death.

(2) To offer the best chance of survival and reproduction, each biological body possesses a genetic **code** facilitating the choice of actions. The driving force behind this behavior code can be called “**self-interest**”.

(3) Body and mind are continuously exposed to evolution. Consequently, men **differ** in skin **colors**, **body shapes**, **habits** etc. These differences offer **advantages** or **disadvantages** in specific environments.

(4) Perceptions of oneself, of others, the environment and of actions must remain **subjective**. The memory of the past is incomplete, too. Thus, there is **no objective truth** feasible, only a “**fuzzy consensus**”.

(5) The human body needs periods of **regeneration**. In addition, the body functions consume a specific amount of energy. Most of it is covered by **nutrition**.

(6) To realize goals, persons or resources have to change their location. In general, the range of these movements is limited to Earth resulting in a **scarcity** of **resources** available.

(7) Finally, the restriction and the implications are responsible for the differentiation of various *sciences* analyzing the challenges to human existence and developing means to diminish their impact. For example, **philosophy** is looking for principles to live a life that is not only morally justified, but also offers minimum regret. In **physics** solutions are developed how the forces of the environment can be used to the best advantage.

Implications of the fundamental restriction II: **Coordination** design in **cooperation** and **conflict**

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(1) The restriction and its implications force humans to engage in two basic types of relations: Cooperation and conflict. For example, acquiring and training social skills requires the support of the family. In contrast, scarcity always implies a conflict because the different options to use the resource **exclude** each other.

(2) **Cooperation**: The parties involved share some common interest. While this shapes the corresponding situation, a coordination effort is still needed because of missing information, differences in preferences or diverging incentives to participate due to differing cost structures.

(3) **Conflict**: In regard to the outcome of an issue, the parties perceive themselves as opponents – every option available to solve the issue **seems** to imply that only one side receives benefits (the **winner**) while the other is forced to accept a reduction in its welfare (the **loser**).

(4) In reality, the **borders** between conflict and cooperation are **blurred**: As an example of a conflict featuring elements of cooperation, consider the case of soldiers preferring to fight in a war where the rules for the treatment of captives are respected. Analogously, a cooperation offering mutual benefits may not be realized because the incentive to shirk is simply too strong and no counter design can be established or enforced. For a more detailed explanation, refer to schema XXX providing an overview of information economics.

The role of societies

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(1) The organization of individuals in societies represents the main instrument to **counter** the fundamental restriction and its implications: First stages in the development of societies were the horde and later the clan. As history progressed, societies gained in complexity. The main function of societies lies in offering institutions to facilitate the **coordination** in cooperation and conflict: These designs make even relations possible between players who remain nearly anonymous – be it for social interactions, exchange transactions, production benefitting from a division of labor arrangement or for insurance purposes. Thus, advanced societies can produce greater opportunities for the individual than the **family** mainly restricted by blood ties.

(2) As pointed out by ARTHUR SCHOPENHAUER in his parable of the hedgehogs, a society always faces the following **coordination dilemma**: Its members **need** each other to tackle the fundamental restriction and its implications. But this dependence also limits their **freedom**.

(3) Freedom is the right to life in accordance with a **self-determined** life concept. Ex. g., total freedom to one person would call for a social order with all people acting and scarce resources used **only** in accordance with the life concept of this person – leading to a **collision** with the freedom of **all others**.

(4) In reaction to the hedgehog dilemma, a society must determine the **sustainable** level of freedom for each of its members. As a binding agreement, a so-called (ex- or implicit) **social contract** has to be established: It determines the frontier of individual freedom by offering a **moral justification** of actions. I.e., a single act can not only be justified as rational by its originator. In addition, the perspective of the other members is incorporated by explaining why they should not oppose this specific action.

History as a field of experiment for the best design of social contracts

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(1) History did see a significant number of different designs of the social contract – either as **theoretical** proposals or as **actual** guidelines for real societies. Adopting a simplifying perspective, the following design types can be differentiated: a) **Anarchy** – each individual seeks to maximize their freedom. b) **God-kings** – society is focused on achieving total freedom for **only** one person. c) The reign of a single **class** – a group maximizes its freedom at the expense of other groups and this claim is “justified” by race, religion, success, birth etc. d) **Socialism** – society pursues an approach of rigorous **equality** (⇔equal rights) in socio-economic settings. Thus, all members are **only** allowed to realize the **same** standard of living (despite being engaged in an economy seeking to optimize division of labor) or there is only one *standard* life concept for each member permissible – the latter's archetype: The Spartan society. e) **Democracy** – each of its members enjoys **equal rights**, may pursue their **individual** life concept and can (directly or indirectly) **participate** in the ongoing process of revising the social contract.

(2) The rise and fall of empires like Rome, ancient China or the imperialist European powers provides several insights: a) Every society has the potential to become an economic **success story**. b) Because of the fundamental restriction, each individual must develop their own understanding of life concepts and of the different society designs available. Thus, there cannot be a thing like the HEGELIAN “**Weltgeist**”, i.e., a **linear** development of societies through time towards an optimal state like the FUKUYAMAIAN “**end of history**”. For example, after the 4<sup>th</sup> century the knowledge of how to build an aqueduct became lost in Europe and it took Italy more than 1'400 years to regain the GDP (Gross Domestic Product) per capita level it did enjoy in 100 AD. c) Nonetheless, the option to communicate vital experiences, theoretical insights or skills by “oral tradition” or by media like writings makes the repetition of major faults or flaws in society design **less likely** – or in the words of Prussia's king FREDERICK II: “The lifetime of one man is not long enough to enable him to acquire knowledge and experience. Theory helps to supplement it ...”

Spectrum of coordination designs in conflict and cooperation

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(Overall) Level of *freedom* a society experiences ceteris paribus when choosing the respective mechanism for coordination purposes

War of extermination

Civil war / asymmetric war

Conventional warfare respecting the Geneva conventions

Conflict resolution by ordeal

Laissez-faire-society

Social market democracy

Socialism

Volonté générale

Dictatorship / totalitarian regime

Feudalism / caste society

Anarchy

(1) Designs discriminating groups as well as designs pursuing socio-economic equality have **failed** so far – in particular, after their inferior performance became too visible to the population in comparison to **contemporary** alternatives. What are the reasons for this general assessment? First, discriminating societies are not able to **fully mobilize** their potential for an optimized division of labor economy. Second, they bear high costs to **secure** their **unjust** social order.

(2) The success of the economic reforms in China illustrates why societies pursuing socio-economic equality fail. Such societies do not **reduce** self-interest to morally justified levels, but they seek to **destroy** it. So the major incentive to produce an excellent output is lost: Why invest outstanding effort if this does not increase the access to resources the individuals consider vital for the realization of their (self-determined) life concepts? ADAM SMITH: “It is not from the benevolence of the butcher ... that we expect our dinner, but from their regard to their own interest.”

The most convincing design so far: **Social Market Democracy**

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(1) Democracies featuring social market economies are arguably so successful because they achieve a workable **compromise** between the forces shaping the performance of society's performance.

(2) Social market democracies reward risky **innovation** and **effort**. They also significantly weaken the incentive to **discriminate**. Instead they promote the participation in – often transparent – **competitions** for scarce resources. They also offer **insurance** against risks or stress the importance of (public) **support** for education or subventions. Overall, the design provides a convincing **moral legitimization** for a specific level of **sustainable freedom** that generally forwards private property. However, social market democracies are **no paradise** and they face **severe challenges**. The next schemata describe the main features of their social contracts to explain why the **security dimension** represents a vital subsystem of democracies.

A Socio-Historical Perspective on Society Design



## The Military System of Democracies II: The Social Contract

Even if a people were not forced by internal discord to submit to public laws, war would compel them to do so ... Now the republican constitution is the only one entirely fitting to the rights of man. But it is the most difficult to establish and even harder to preserve, so that many say a republic would have to be a nation of angels, because men with their selfish inclinations are not capable of a constitution of such sublime form. ... The problem of organizing a state, however hard it may seem, can be solved even for a race of devils, if only they are intelligent. The problem is: "Given a multitude of rational beings requiring universal laws for their preservation, but each of whom is secretly inclined to exempt himself from them, to establish a constitution in such a way that, although their private intentions conflict, they check each other, with the result that their public conduct is the same as if they had no such intentions." A problem like this must be capable of solution; it does not require that we know how to attain the moral improvement of men but only that we should know the mechanism of nature in order to use it on men ... A good constitution is not to be expected from morality, but, conversely, a good moral condition of a people is to be expected only under a good constitution.

IMMANUEL KANT (1795), [www.constitution.org](http://www.constitution.org)

### The Social Contract – General Overview and the Struggle for the Constitutional Principles of Democracies

#### The main components of social contracts

(1) As already stated above, only a **fuzzy** and **temporal consensus** about the social contract is feasible due to the fundamental restriction and its implications. That is why the social contracts of social market democracies are not only constituted in one moment of history, but must be **maintained** and **revised** as well. In consequence, a social contract features the following four components – content, fields of application, organization, and locus of specification.

(2) The main parts of the contract's content are the (general) **constitutional principles** – determining the morally justified level of freedom every individual enjoys in a society – and the **contract rules** applying to **specific situations**. Once identified, constitutional principles or central rules like human rights even gain the status of factual **immunity**.

(3) **Fields of application**: Certain activities are **exempted** from the contract – for example, **simulated** breaches are allowed in entertainment for this sharpens the understanding of ethics. Or a love relationship between adults with its sexual implications is primarily a **privacy** matter. Still, there are **limitations** – games promoting perverse ideals like torture or a destructive love relationship often force **public intervention**.

(4) An **organization** must apply the social contract to society's various activities – ranging from daily business to projects affecting several generations like AlpTransit. This is the sphere of the **state** with sub-organizations like **politics**, **bureaucracy**, **law** and **law enforcement**. The state's organization may either prefer **centralized** approaches – this offers standardization benefits and avoids costly "double structures" – or **decentralized** solutions (stressing heterogeneous **local** preferences and **information advantages**).

(5) The locus of **specifications**: Because the social contract should be **binding** to all members of a society, **centralized** media must publish its official status quo or updates. Which medium should be chosen, depends on the relevance of the respective rule. Relevance is determined by the rule's regional impact, its generality in application and the anticipated time the regulation will be in force. The most important media – to **explicitly** communicate content and application fields of the social contract – represent the **constitution**, the **laws** and **official governmental decrees**. More **informal** guidelines – including the vital feedback about the contract's performance or frictions at the "grass root level" – are delegated to **culture** which belongs to the social system of societies.

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#### Constitutional principles for democracies I: Utilitarian Approaches

(1) The struggle for the constitutional principles determining the **sustainable** level of freedom for the members as well as the other elements of the social contract is as old as democracy itself. Its beginnings lie in ancient Greece 2500 years ago. However, it took alone over 2300 years to enforce the prohibition of slavery in democracies. Thus, the following overview focusses on the insights achieved since the 18<sup>th</sup> century.

(2) Should a democracy pursue the "**maximization of general happiness**" for its members? This guideline has its origin in EPICUREAN philosophy and forms the foundation of all UTILITARIAN approaches which evolved in the wake of the age of enlightenment. But because this principle can be misused to justify, e.g., cannibalism – the pleasure of the cannibals then compensates for the suffering of their victims – philosophers like VILFREDO PARETO already started to look for **refinements** in the 19<sup>th</sup> century.

(3) But the corresponding propositions like JOHN S. MILL'S "... the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others." or **Pareto efficiency** – claiming a resource allocation to be optimal when the welfare position of one person can **only** be improved by **reducing** the position of another individual – face their own **issues** when it comes to substantiate their relevance in **realistic** settings.

(4) First, the use of **scarce** resources *always* results in the **reduction of options** available to persons of current or future generations who will not (directly or indirectly) benefit from the specific act. In other words: In scenarios where scarce resources are to be allocated, harming or decreasing the welfare position of others **cannot** be avoided.

(5) Second, the fundamental restriction confronts the assessment of welfare improvements or of welfare reductions with an information issue which can be described as the ALEXANDER-PARMENION-problem: "If I were Alexander, I would accept the terms." – "So would I, if I were Parmenion." Thus, judging the preferences of others must principally remain a **subjective** affair.

(6) Third, even if it is possible to determine all the changes in welfare positions arising from one specific action, the guideline of Pareto optimality would then call for a system of side payments to compensate the "losers" – otherwise the latter could **veto** the corresponding activities. This is neither feasible nor helpful in a world where time is often a critical input in economic activities. Schema XXX will show that social market economies use a "**short-cut**" to morally justify transactions involving scarce resources by focusing on the most important **stakeholders**.

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#### Constitutional principles for democracies II: Kant's Categorical Imperative

(1) Is this information issue **exaggerated** because **communication** and **observing** (credible) actions revealing the others' preferences diminish its impact? This is less likely as the credibility of players in market economies is often connected to the "**dollar votes**" they are willing to sacrifice for a specific resource / project. Thus, 40 percent of the current world population – forced to live on two dollars per day or less – **lack** credible options to **participate** in a globalized economy.

(2) It seems MILL himself is aware of the Utilitarian shortcomings because he also discusses why the **Golden Rule** (= GR) of the Sermon on the Mount ("Therefore whatever you desire for men to do to you, you shall also do to them.") represents a convincing moral criterion. But he fails to see its relation to KANT'S Categorical Imperative (= CI): "Act only according to that maxim whereby you can, at the same time, will that it should become a universal law."

(3) First, both maxims represent moral criteria for **democracies** because the sustainable level of individual freedom is determined by a perspective **balancing** the self-interest of the individual with the interests of the others. Second, they also shift the analysis from the problematic attempt to measure the happiness of individuals to the more **visible** dimension of **property rights**: Is the same activity that is granted to *player 1* also granted to *player 2*?

(4) However, the GR is only an **incomplete** version of the CI: The GR focusses on those activities that require **active** players performing the corresponding actions – because *player 1* expects help in cases of emergency, they must also help others. In contrast, the CI also includes activities that should be omitted or for which the individual even has no personal preference – the corresponding key words in the CI to substantiate this claim are: "according to" and "universal law."

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#### Why the Categorical Imperative is not enough

(1) These differences between the CI and the GR make the criticism on KANT and the CI by KEN BINMORE ("... an emperor who was clothed in nothing more than the obscurity of his prose.") and others ring hollow. Even if both maxims are considered to be equivalent, KANT deserves the merit to be the first philosopher offering a logically derived **explanation** why the CI – among a myriad of moral principles – can rightfully claim the rank of a constitutional principle: Neither (economic) equality nor the reign of privileged groups, but **equal rights** to each member represent the foundation of democracies.

(2) Still, the CI has to be complemented by other guidelines. KANT involuntarily provides the reason: In the famous debate with a French philosopher whether a person should tell the truth to a murderer and reveal the location of their victim or lie to protect the latter, KANT grotesquely recommends to tell the truth.

(3) Many people would agree that it is morally justified to lie when this would save a person. This can be explained by the setting. It qualifies as a **case of emergency** where the exemption from the rule should be applied: When lying, the person – whom the murderer asked – can afterwards continue their life and stick to tell the truth without a loss of reputation. In contrast, by truthfully revealing the victim's location, the latter's life will most likely be lost forever. Thus, KANT's recommendation highlights a general problem – the existence of moral *dilemmata*: The claims of *player 1* (an individual or a group) collide with the claims of *player 2* while **at the same time** both claims, when analyzed in isolation, are "perfectly" in line with the constitutional principles. However, KANT'S failure to develop a convincing answer offers additional insights. These insights prove essential for the following synthesis about the design elements of the social contract of democracies.

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#### Premises to a modern understanding of the social contract

(1) Moral dilemmata call for a consensus about the **priorities** between clashing interests. For example, will other moral claims automatically be considered forfeit when one player is under the threat of losing his life or his existence?

(2) The debate in Western democracies about the provocative "Innocence of Muslims" video in 2012 with protagonists like MERKEL and OBAMA taking different stances on the issue shows that no **deterministic priority** can be established between the **right of existence** – more than 50 persons died in the riots incited by extremists after its publication – and the right of **free speech**.

(3) Thus, the difficulties realizing a consensus seem to be sobering, but they also represent the foundation of a feasible "optimum" in a reality facing the fundamental restriction. This also explains why the search for **one** decision criterion in welfare economics proved to be **illusionary**.

(4) Even the order of criteria developed by JOHN RAWLS relying on a convincing illustration of an ideal setting for the CI – the **veil of ignorance** – face massive opposition. First, RAWLS actually ignores the impact of the fundamental restriction and consequently develops his set of criteria for a world of **pure reason** where differences in capabilities or incentives to satisfy self-interest are **irrelevant**.

(5) Second, RAWLS underestimates the functions of **politics** and **culture**: They represent the main platforms to achieve a **fuzzy** consensus about moral dilemmata the society may consider important to its activities. Thus, it is far too ambitious for a single scientist to provide solutions to all dilemmata. Finally, these difficulties force a return of the **Utilitarian perspective**: **Cost-benefit analysis** – seeking to calculate the consequences of specific actions – helps to determine a specific order for various claims in a public debate.

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### The Foundation of Modern Democracies



# The Military System of Democracies III: Moral Dilemmata and Their Impact on Society Design

We understood that the extremist attacks and the new reality they created would require new offensive and defensive measures to protect the country. ... Within the department, an informal three-part test emerged to assess each and every one of them. A passing grade required perfect score. Two out of three wasn't good enough. Will the new measure make us safer? Will it be consistent with the Constitution and the rule of law? Will it have good or bad economic consequences for our country?

Tom Ridge with Lary Bloom (2009, p. 109)

## The Constitutional Principles of Democracies – A Synthesis

### Determinants of moral dilemmata

(1) The previous schemata have shown why **equal rights** represent the **primary** constitutional principle of democracies determining the sustainable level of individual freedom. Its application and enforcement is **challenged** by the fundamental restriction and its implications: Scarcity, self-interest, the different stages of human existence or the subjectivity of human perspectives make it impossible to produce a **unanimous consensus** in the face of moral dilemmata.

(3) The efficiency level of these tasks should improve when the various forms of moral dilemmata and the **determinants** of the settings can be brought into a common **structure**. In particular, a corresponding systematization is able to provide an **overview** of the different proposals that are discussed as solutions to a specific dilemma. Therefore it facilitates the possibility of cross-reference – which, in turn, greatly improves **consistency**. This structure can be derived from combining three main determinants of moral dilemmata – the moral claims of *player 1*, those of *player 2* and the level of credible **information** that is available to resolve the corresponding coordination issue.

(5) Concerning the information level available to resolve the respective dilemmata, four types can be identified in accordance with the Knightian concept of uncertainty: a) The outcome may occur under approximate **certainty**. b) The decision makers are confronted with **risk** – each possible outcome occurs with a specific probability. c) **Uncertainty** – while the possible outcomes are known, the corresponding probabilities remain unknown. d) A state of **ignorance** ("the black hole") exists – neither the possible outcomes nor the probabilities are known.

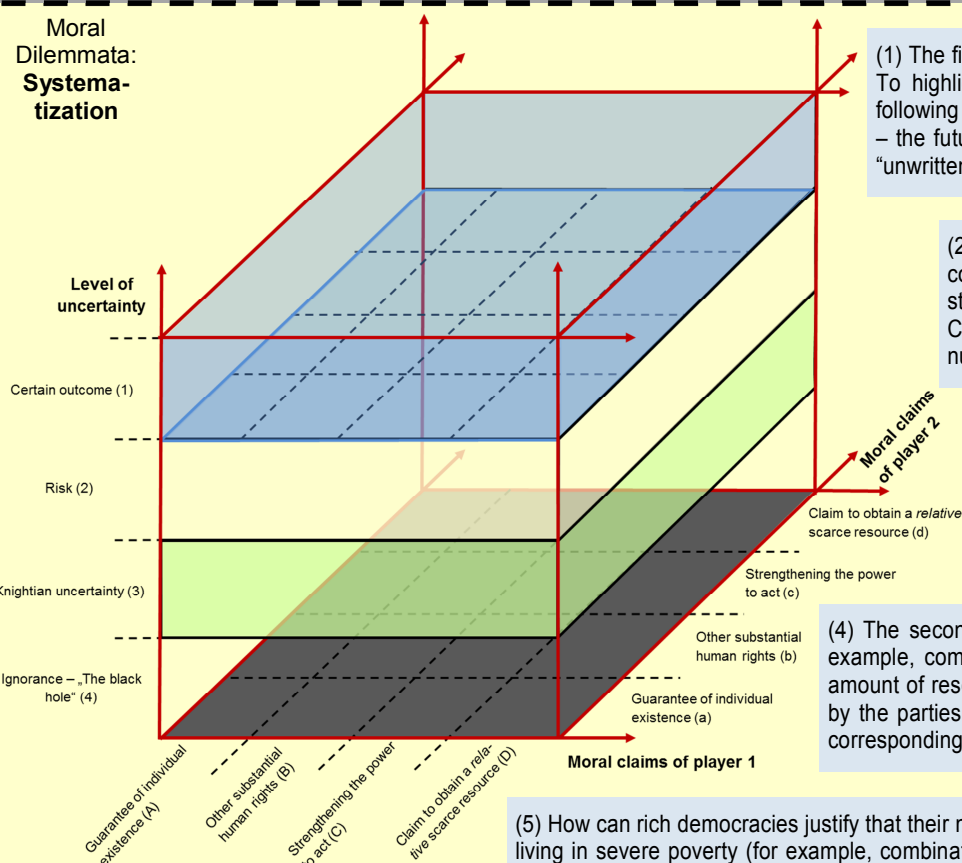
(2) Democracies **approximate** this consensus by establishing institutions like politics and culture serving as the main platforms for the analysis of dilemmata. The legal apparatus offers **explanations** for rankings of clashing claims. The nationwide access to constitution, laws and decrees establishes the **transparency** required to have specific solutions serving as **binding** agreements or to revise this status if necessary.

(4) In democracy, players possess **four basic classes** of moral claims – a differentiation that is compatible with "The Universal Declaration of Human Rights" by the United Nations: a) **Guarantee of individual existence** b) Other substantial **human rights** (like equality before law, freedom of speech, freedom of religion etc.) c) Public support to become a capable player, in particular, by education or subventions ("**Strengthening the power to act**"). Here a compromise has to be reached between the own capabilities, the personal life concept and society's needs. d) The right to claim a resource that is **relatively scarce** – e.g., books or ice cream when the nutritional needs for everyone are already satisfied.

(6) The combination of the determinants results in  $4 \times 4 \times 4 = 64$  possible moral dilemmata – refer to the following graphic. However, because of a **symmetry argument** derived from the principle of equal rights – e.g., it should make no difference for the moral solution whether player 1 is confronted with a threat to their existence and player 2 seeks only to strengthen their power to act or vice versa – the number of relevant cases **shrinks** to  $(n^2 - n)/2 = 40$ . To clarify the implications of this systematization, some examples of moral dilemmata are now discussed.

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### Moral Dilemmata: Systematization



(1) The first example examines moral dilemmata where *player 1*'s "right to exist" clashes with the "right to exist" of *player 2*. To highlight the impact of the information level available on the corresponding moral recommendations, consider the following variants: To the shipwrecked crew of the whaler Essex – crammed into small boats without any significant supply – the future looked most bleak (combination A-a-4). To survive, they even had to resort to cannibalism. According to the "unwritten law of the sea", a crew may even **draw lots** to decide who will be the next victim to prolong the life of the others.

(2) This changes, when the players are aware of conditions that maximize the probability of their survival (refer to combinations A-a-3 or A-a-2). For example, the Essex crew may agree that a nautical officer receives a "special status". This variant is not only addressed in "doomsday movies" like 2012. It also was highly relevant during the Cold War when governments had to allocate the limited capacities of shelters where people could "survive" a nuclear war. Thus, a part of the resources must be spent on the prioritization and screening of the "chosen people".

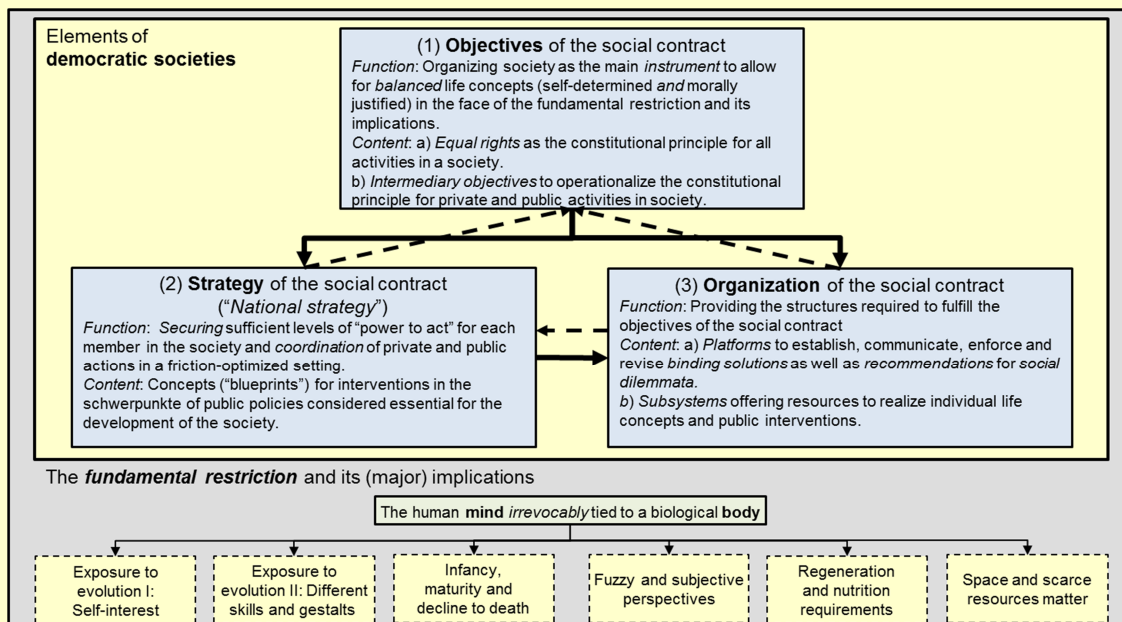
(3) Finally, is it morally justified for a democracy to send its special forces on **suicide missions** – implying the "**certain**" sacrifice of a few to save the society (combination A-a-1)? The literature discusses this dilemma in a more generalized variant as BERNARD WILLIAMS example "Botanist JIM and the reprisal executions" or as the "trolley problem". Often a solution consists in recruiting only **volunteers** who will be fully and honestly informed **ex ante** about the odds.

(4) The second example focusses on the question if players should receive public support to improve their power to act (for example, combination C-d-2). Often societies provide only a **basic** level of services for all members because of the limited amount of resources available and the differences in capabilities and life concepts. **Additional** support must then be organized by the parties involved. However, companies may receive subventions because they can successfully claim – bolstered by a corresponding cost-benefit analysis – that their output significantly influences the economy's growth path.

(5) How can rich democracies justify that their members spent scarce resources on leisure when, at the same time, people in developing countries are starving or living in severe poverty (for example, combination A-d-3)? Perhaps two reasons can be offered. First, the economic understanding of how a transfer of wealth may help to **permanently** improve the situation is still limited – refer to DAMBISA MOYO's "Dead Aid". Second, the reluctance of democracies to intervene can be traced back to the fear such activities may be interpreted as violations of sovereignty ("new colonialism"). The following section offers a wrap-up of the main results achieved so far and establishes the link to the security dimension of democracies.

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### The principle system of society



(1) The graphic on the left provides the **principal system** of a democratic society. On one hand, it focusses on the driving force behind the existence of societies – the fundamental restriction and its implications to human life. On the other hand, it provides the **first level of differentiation** in a society: The elements required to bring a social contract to life and refine it.

(2) Thus, the graphic distinguishes between the **objectives** of the society, its **national strategy** and its **organization**. Despite the coarse-grained level of resolution applied in this analysis, an interesting result becomes visible: A general assessment of how these aggregates relate to each other. In particular, is it possible to identify a systematic ranking?

(3) Originally, this issue has been investigated in industrial economics – refer to ALFRED CHANDLER's paradigm "**structure follows strategy**", but it is also relevant to the **military** or to the **system perspective** in general. An answer can be derived by simple logic: Basically, "**objectives**", "**national strategy**" and "**organization**" represent **interdependent** aggregates.

(4) However, the human mind is able to analyze, design and improve **purpose-driven activities** ("actions") to tackle the fundamental restriction and its implications. Consequently, "organization follows strategy follows objectives" serves as a **leitmotif** in the development and implementation of rational actions, but this guideline has to be complemented – in the face of uncertainty and the complexity of the coordination effort – by an **inverse perspective**. The latter is necessary to incorporate the opportunities and restrictions the "following" aggregates represent to the design of the previous subsystem and to ensure the installation of feedback loops – refer to the dashed arrows.

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## Social Market Democracies – Key Elements



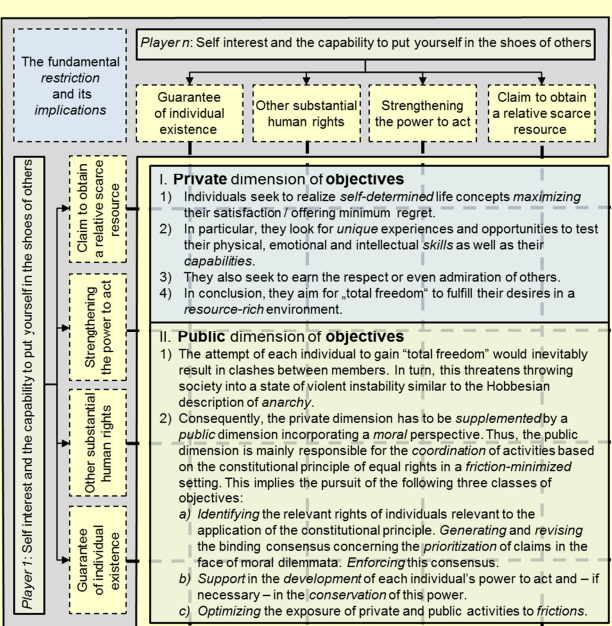
The Military System of Democracies IV: Outlining Social Market Democracies

The market system is like democracy. It is the worst form of economy, except for all the others that have been tried from time to time. It succeeds because, precisely as in Forster's view of democracy, it admits variety and permits criticism. We should cheer it because it solves some all-but-intractable problems, which have been tackled by none of the alternative forms of economic organization. It generates wealth. It alleviates poverty. But it has its limits. There are things it cannot do. It does not necessarily do even what it is supposed to; it works well only if it is well designed. Two cheers are enough.

John McMillan (2002, p. 229)

Social Market Democracies – Objectives and National Strategy

Objectives of the social contract



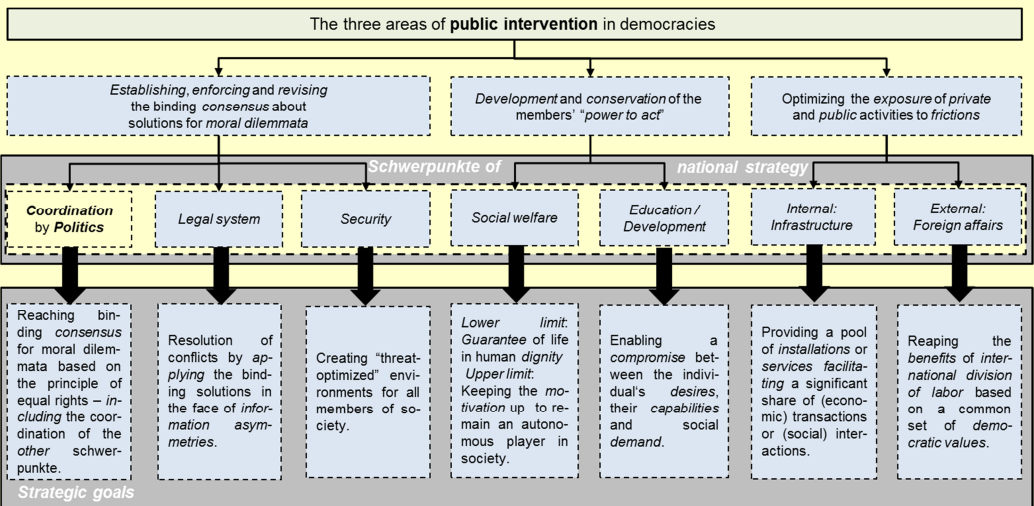
(1) The graphic on the left describes classes of objectives in democracies. Primarily, these objectives can be traced back to the different claims *individuals 1 to n* may make in their attempt to pursue a self-determined life concept. In comparison to HOBBSIAN anarchy, democracy requires a cutback of individual freedom to a **sustainable** level that can be *morally justified* by the constitutional principle of **equal rights**. The corresponding coordination effort focusses on three **areas** of public intervention. First, an approximate **consensus** about binding solutions for **moral dilemmata** has to be produced.

(2) Democracies often differ in the conditions to accept a solution as consensus because population's **heterogeneity** calls for greater effort to protect minorities – e.g., refer to the Swiss concept of "**consociationalism**". Second, the interventions aim to develop and conserve each individual's **power to act**. Third, they seek to **optimize** the exposure of private and public activities to **frictions**. The set of private and public objectives has several implications for the features of the other two aggregates, strategy and organization. a) Each member of society must be aware of the **significance** of the public coordination effort to their actions.

(3) Thus, the members require a sufficient understanding of the democratic system and must be informed about changes in the contract – refer again to [XXX]. b) The cutback of freedom to the level of equal rights – in the face of the fundamental restriction and its implications – implies the emergence of **seven schwerpunkte** for public **intervention** in the three areas mentioned above – for the details of this logic deduction, refer to the next section [XXX]. c) To achieve its specific objectives, each schwerpunkt requires a corresponding **organization**.

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National strategy: Its Schwerpunkte and its strategic goals



(1) Each of the three areas of public intervention features two or three schwerpunkte. **Politics** represents the dominating schwerpunkt. First, it has to develop solutions to moral dilemmata based on the principle of equal rights in each other schwerpunkt. Second, this task has to be combined with the coordination across all schwerpunkte because this implies the resolution of moral dilemmata, too – for example, due to the scarcity of resources available (refer to section [XXX]).

(2) The cutback of individual freedom in democracies makes it tempting to **violate** the social contract – either by exploiting information asymmetries or by violence. Because fraud and robbery undermine the performance potential of societies, the latter attempt to keep such threats at bay by employing a mixture of **deterrence** and **sanctions**.

(3) That's why organizations in the **legal system** and the **security dimension** operate with fines, prison sentences or even counter-violence. In addition, courts or media often represent the place where moral dilemmata are identified for the first time. **Social welfare** offers insurance for those members who cannot produce sufficient income or lose sources of income because of a lack in competitiveness.

(4) Often this situation is a temporary one because of other opportunities arising in the economy. Consequently, society also seeks to improve the chances of a new engagement. As the social contract of democracies seeks to establish equal opportunities, **education** has to raise the individual **potential** to levels representing a **satisfactory compromise** between individual desires, capabilities and social needs.

(5) In addition, individuals or corporations – e.g., the aviation industry or "green industries" – may receive additional support because their contribution potential is considered vital to the growth path of society. Finally, many interactions and transactions face the same frictions resulting from the fundamental restriction and its implications. Thus, it pays off to invest in a "pool" of **infrastructure** that reduces the costs of overcoming these barriers. The same applies to **international relations**: A society is no "island" as it has to compete with other societies for scarce resources. More importantly, a society can engage in mutual beneficial transactions with others. Other societies also serve as benchmarks – dictatorial regimes like the former Socialist countries experienced a drain of human resources because their members retreated to "voting by feet" due to the poor performance of their society in comparison to democratic alternatives.

17

Organization I: Tuning the organization of the public sector

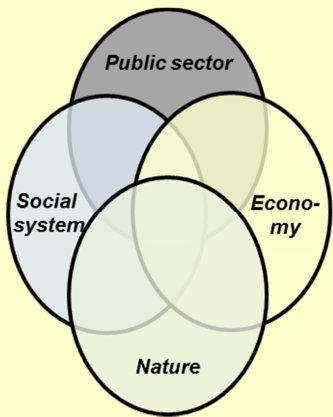
	Coordination by politics	Legal system	Security	Social welfare	Education / Development	Infrastructure	Foreign affairs
Administration Interaction with external (private and public) players, supporting the activities of the public corporations and of the political management.	Public relation office, Swiss Federal Statistical Office	Investigative authorities, archive services	armasuisse	Federal Office for Migration, Federal Office of Public Health	Swiss National Library, Swiss National Museum, Federal Office for Agriculture	Federal Office of Transport, Federal Office of Civil Aviation	Directorate of European Affairs, Swiss Agency for Development and Cooperation
Public corporations Producing output vital to the performance of the specific schwerpunkt.	Parliament, committees	Courts	Police, armed forces	Social security offices	Schools, universities	Swiss National Bank, Swiss Federal Railways	Embassies, Development projects
Political management Developing intermediary objectives and strategies to align the performance of the schwerpunkt with national objectives, controlling the results for efficiency and moral legitimacy.	Federal Council	Federal Department of Justice and Police	Federal Department of Defence, Civil Protection and Sport	Federal Department of Home Affairs	Federal Department of Economic Affairs, Education and Research	Federal Department of Environment, Transport, Energy and Communications	Federal Department of Foreign Affairs

(1) By differentiating between three classes of activities – required to realize the goals of public interventions – a matrix of **public organizations** becomes visible. However, in comparison to the transaction pyramid differentiating between six steps – refer to [XXX] – this structure only represents a **simplified** variant to describe the **value chain** of rational actions. Furthermore, the real public organization may differ due to historical reasons.

(2) For example, sports originally emerged in antiquity and during the Napoleonic wars as a public affair to strengthen the manpower available for military service. The public organization may also differ due to the personal preferences of the department heads. To avoid a potential misunderstanding: The term "public corporations" does **not** imply that these organizations should be organized as **clones** of private companies – they rather feature organizational **similarities** as well as **differences** to their private counterparts. The relevance of this observation to the military system is discussed in more detail in [XXX].

18

Organization II: The principal subsystems of societies



(1) The different objectives of private and public players calls for the organization of society featuring four primary subsystems: a) The **public sector** responsible for the development, implementation and revision of the social contract. Its formal and binding guidelines are assembled in the **constitution, laws** and **degrees**. b) The **economy** allocating scarce resources in accordance with the system of ownership – distinguishing between public, private and common property. To this purpose, a **set of allocation mechanisms** is employed. This set contains **markets** (short-lived transactions based on **voluntary** exchange) and **limited hierarchies** (allowing for given orders to agents within the limits of a **voluntary** contract).

(2) In addition, the economy features **absolute hierarchies** (orders enforced by force if necessary – an option reserved for the state) and **hybrids** (mixing elements of these mechanisms). c) The **environment** provides **natural resources** and **free goods** – in contrast, public goods require investment – and establishes restrictions on activities. **Examples**: Sunshine, the sea, deserts, plains or mountains. d) The **social system** provides basic **needs** that can only be **imperfectly** covered by the economy – for example, love, friendship and life concept tutoring. It also offers **implicit guidelines** by **cultural institutions** – such as recommendations on the fluid borders of privacy and public space in different societies, the essentials of self-determined and morally justified life concepts or how to interact with strangers, colleagues, family and friends. The **intersections** represent organizations featuring elements of the corresponding sets – for example, a public theater incorporates elements of the public sector, the economy and the social system.

19

Social Market Democracies – Organization



# The Military System of a Democracies V: Organizing Social Market Democracies

What Putin misunderstands most is that the center of gravity for the former Soviet Union has shifted west. Former Soviet satellites such as Poland ... are prosperous members of the E. U. The nations that made up what was once Yugoslavia have survived their bloody breakup, and most have emerged as strong democracies.

David Ignatius (2014), www.washingtonpost.com

## Social Market Democracies – Organization (continued)

### Public Organization III: The Macro-Microstructure of Societies

Organization III: The Macro- structure of Societies	Macrostructure of Societies														
	Public sector							Economy		Social system		Nature			
	Politics	Legal system	Security	Social welfare	Education / Development	Infrastructure	Foreign affairs	Companies	Households	Churches (Religious organizations)	Culture and charity organizations	Land	Air	Sea	Space
	Coordination of the <i>schwerpunkte</i>	Applying binding solutions to conflicts	Threat-optimized environments for all members of society	Supporting losers and socially disadvantaged	Developing and securing the "power to act" of individuals and organizations	Reducing the frictions to private and public activities	Framework for the public and private interactions with other societies	Identifying and satisfying needs of public and private players	Realization of individual life concepts	Supporting the development of individual life concepts	Offering additional support in aspects suboptimal covered by families, the public sector and churches	Offering natural resources and representing restrictions to human activities	Offering natural resources and representing restrictions to human activities	Offering natural resources and representing restrictions to human activities	Offering natural resource and representing restrictions to human activities
Politics	Theoretical foundations: Political science	The appointment of judges mirroring political proportions	The primacy of politics: "ultima ratio regis"	Determining the level of subsistence income	Centralized or decentralized exams at the level of secondary school?	The pro and contra of road pricing	Unilateral versus consensual approaches	Grading the government for a "business friendly environment"	Petition by "concerned citizens" to a local official	Defining the relationship between the (secular) state and a religion	Scanning governmental programs to identify areas deserving additional support	Land reclamation as a national project	Law regulating the maximum level of emissions	Law regulating the maximum level of emissions	"Space technologies as part of a country's strategic portfolio"
Legal system	Constitutional compatibility of political instruments	Theoretical Jurisprudence	Military Justice	Deciding about the legitimacy of claims	The legitimacy of force based at public schools	The compulsory purchase powers of public authorities to acquire land	Public international law	Resolution of business conflicts by applying commercial law	The legal system as an instrument to enforce consumer rights	The compatibility of religious law and civil law	Change of all-caring funds in violation of the foundation statutes	Ill defined property rights lead to legal conflicts	Breaches of night flying restrictions	Compensation payments in the case of oil spill	Space law to coordinate the rights and duties of space-faring nations
Security	Bodyguards for politicians	Bailiffs to enforce order in courts	Theoretical foundations: Security sciences	Fire protection in employment agencies	Protection against school shootings	Securing nuclear power plants against terrorism	Embassy security by marines	Fighting industrial espionage	Installing counter-measures against burglary	Protecting religious buildings, pilgrims and tourists	Security guidelines for NGOs in failed states	Evaluating the risk of landslides for a specific area	De-icing and anti-icing of aircraft	Safety regulations for bulk shipments	NASA security protocol
Public sector	Incentive design of pensions for politicians against corruption	Public servant status promotes impartiality	Family-friendly policies for police forces	Theoretical foundations: Welfare sciences	Tuition fees as a danger to equal opportunities	Privatization can result in cherry-picking – in turn, services may be too costly for the poor	Projects developing job alternatives for prostitutes in developing countries	He who can't pay, dies (John McMillan)	Receiving social aid	Mission station at railroad station	Support program for drug addicts	Reforestation and the indigenous population	Distributional effects of hot spots in air pollution	Compensation payments to local fishermen in the case of an oil spill	Distributional effects of hot spots in air pollution
Education / Development	Lessons in oratory	Courses in forming of legal systems in other countries	Courses in decision theory	Setting up an learning environment for the jobless	Theoretical foundations: Pedagogy	Diving schools for the poor	Student exchange programme by the European Union Erasmus	Sabbaticals	Studying journalism	Theological faculty	The Getty villa promoting ancient cultures	Geological institute	Weather station	Merchant Marine Academy	NASA National Aeronautics and Space Administration education
Infrastructure	Parliament building	Archive of the opinions of a specific court	Police stations	Internet rooms	Tuition fees as a danger to equal opportunities	Theoretical foundations: Public utilities sciences, monetary policy	The World Economic Forum (WEF)	Cafeteria	(Net) investments in public infrastructure create new jobs	Seminary library	Initiative for safe roads	Roads	Airport	Harbor	Cape Canaveral Air Force Station
Foreign affairs	Language services	Compatibility of judgments in a globalized environment	Military attaches	The International Labour Organization (ILO)	The Programme for International Student Assessment (PISA)	Agreement to strengthen the social consequences of kids	Theoretical foundations: International relations and economics	Establishing international standards in accounting	Work permits for citizens of other countries	Exchange of political prisoners between Poland and German between 1939	Coordination with the State Department to increase the impact in joint projects	Land swap agreement between two countries	Kyoto protocol to the United Nations Convention on Climate Change	Bilateral trade partnership agreements	Memorandum of understanding to produce a space glider in multinational cooperation
Companies	Voters and taxpayers	Participation as accused, plaintiffs, witnesses or experts	Marketing campaign for new recruits	Recipients of Social Aid and financial sources	Feedback on the relevance of course content to careers in a company	Subcontractors or innovators of infrastructure services	Export credit guarantees like "Hermes Cover"	Theoretical foundations: Management and economics	Companies as sources of income	Catholic social teaching	Research in bycatch reducing technologies	Research in bycatch reducing technologies	Research in bycatch reducing technologies	Research in bycatch reducing technologies	Terraforming as a business project
Economy	Taxpayers and job machines for voters	Participation as accused, plaintiffs, witnesses or experts	Armed industry	Financial control and key players in job reintegration	Feedback on the relevance of course content to careers in a company	Subcontractors or innovators of infrastructure services	Schengen agreement for a borderless Europe	Mitbestimmung ("Co-determination") of employees	Theoretical foundations: Philosophy and economics	Attending mass of prayers	Call for donations to aid the victims of an earthquake	The consequences of using fertilizers on water quality	The consequences of using fertilizers on water quality	The consequences of using fertilizers on water quality	Volunteering for the Mars colony
Churches (Religious organizations)	"Moral conscience" Offers solutions to moral dilemmas	Participation as accused, plaintiffs, witnesses or experts	Military chaplains	Additional support for "the needy ones"	The confrontation of young people with death or serious illness	Platform to develop guidelines or innovative providers of infrastructure services	Embassy in Vatican	Order to renovate the cathedral roof	Member of the local church choir	Theoretical foundations: Theology	Imitating organizational principles of churches	Deserts as places of religious revelations	The annual Nile inundation "caused" by the god Hapi	The annual Nile inundation "caused" by the god Hapi	Does the evolution of the universe support the existence of god?
Culture and charity organizations	Engagement offer chances to increase the politicians' popularity	Participation as accused, plaintiffs, witnesses or experts	Net foundations	Specific aid for handicapped persons	Highlighting topics of special interest to "ideal" life concepts	Automobiles Asoe can be used as hotel rooms under subordinated conditions	Cultural programs to increase the heritages of minorities	Donations as signals that corporate goals are not dominated by profits alone	The institution of marriage to enhance mutual responsibility in love relationships	Promoting the peaceful co-existence of religions in a joint project	Theoretical foundations: Sociology	Deserts as places of religious revelations	The annual Nile inundation "caused" by the god Hapi	The annual Nile inundation "caused" by the god Hapi	Developing technologies for interstellar communication with extra-terrestrial life
Land	Features of the landscape determine the federal organization of the state	Features of the landscape determine the location of courts	Theater of operations	Locus of regional, distributional effects of land property	Catchment area of schools	Roads as part of public infrastructure	Landmarks may determine borders	Area of natural resources	Locating the family's domicile in a specific suburb	A garden of herbs in monasteries	Establishing a national park to conserve the natural heritage	Theoretical foundations: Geology or physics	The annual Nile inundation "caused" by the god Hapi	The annual Nile inundation "caused" by the god Hapi	Efficient technologies to reduce the earth's stratification
Air	Fresh air ventilation system determines the working conditions of politicians	Fresh air ventilation system determines the working conditions in courts	Theater of operations	Air pollution in slums	Noise pollution in universities	Air corridors as part of public infrastructure	The flying Genshman: Planes as assets in real-time diplomacy	Using wind as a source of renewable power	Stress caused by noise	Sky as a metaphor for the realm of Christ	Gliding association	Stone formations shaped by wind	Theoretical foundations: Earth science	Strong winds contribute to the danger of rogue waves	Heat shields contribute to the atmosphere
Sea	Features of coastlines and rivers determine the federal organization of the state	Coastlines and rivers influence the jurisdiction of courts	Theater of operations	Seaside vacation for the poor	Visiting a container harbor to illustrate globalization	Sea lanes as part of public infrastructure	Coastal lines may determine borders	Area of natural resources	Fishing as an option to make a living	Views of different religions on the burial at sea	Initiative to protect sea turtles	Land erosion on Heligoland	Theoretical foundations: Oceanography	The annual Nile inundation "caused" by the god Hapi	The open sea as a landing zone for space capsules
Space	Sunlight determines the working conditions in the house of parliament	Sunlight determines the working conditions in courts	Theater of operations	Individual protection against effects of ozone depletion	Introductory course in astronomy	Satellites as part of public infrastructure	Participation in the race to space to signal technological superiority	Focus of private space corporations	Satellite dishes to receive TV programs	Stars as religious symbols	Society to minimize the risk of comets and meteoroids on human civilization	Geomagnetic storm caused by a solar wind shock wave	The Ries impact crater in the vicinity of Nördlingen	The sea as a landing zone for space capsules	Theoretical foundations: Astronomy

(1) The previous discussion of the four primary subsystems underlines the perception that **inter-dependent forces** shape human activities. To structure the relations, the investigation introduces the so-called **macro-microstructure of societies**. The entries in the matrix (refer to the left) result from combining the major exponents of the four primary systems – public sector, economy, social system and nature. Thus, these exponents represent the elements of the column vector and the row vector constituting the matrix.

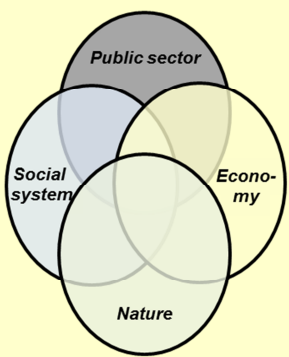
(2) To obtain a resolution for the economy, the social system and nature that is similar to the perspective already achieved for the public sector, the analysis identifies companies, households, religious organizations and charity organizations as key players. In addition, nature features the four subsystems of land, air, sea and space. The single entries in the matrix offer examples how the performance of each subsystem belonging to the macrostructure is affected by the activities of organizations / structures stemming from a different subsystem of the society.

(3) As the analysis will later focus on the (military part of the) security dimension, the corresponding entries are highlighted in bold white letters: They encompass not only the different aspects of the security dimension, but also the security aspects in other subsystems. Finally, there are entries that result from combining the identical subsystem. These entries represent the feedback of an organization on its own activities and can be interpreted as theoretical reflections. Consequently, the matrix offers examples of (sub)disciplines investigating the respective field.

(4) The Macro-microstructure is able to provide two insights: First, it helps to explain the existence of "interface disciplines" like the economics of defense – refer to [XXX]. Second, the structure offers assistance when it comes to develop the outline of a thesis because it facilitates the identification of aspects relevant to the corresponding research question.

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### Public Organization IV: Driving forces



#### Advantages of decentralized coordination mechanisms

- Tailored solutions are able to reflect **heterogeneity** in local information.
- It is possible to quickly **adapt** to changed settings.
- Costs and benefits of activities are more likely "tied" to personal preferences. Such close links to **self-interest** promote a drive for **innovation and efficiency**.
- These effects are even more strengthened by the fact that decentralization offers conditions favorable to the establishment of **competition**.
- Mechanisms based on competition are best to determine **credible priorities** for players who fulfill the condition of **equal opportunities**.

#### Advantages of centralized coordination mechanisms

- The focus on **fit-for-all solutions** is able to exploit the **experience curve effect** – refer to [XXX] – to the maximum.
- The number of activities involved represents a **diversified portfolio** allowing for **cross subsidization**.
- Once identified, superior solutions developed in one specific department can **quickly** become available for **transfer** to other sections.
- Centralized mechanisms can avoid **costly double** structures or processes.
- Centralized mechanisms should best be applied to avoid **cherry picking** and to allocate a **basic endowment** based on the moral principle of **equal rights** or even based on **equality** (before the law).

(1) As already mentioned in [XXX], the organization of society's subsystems is confronted with a basic **trade-off**: The advantages and disadvantages of **centralized** and **decentralized** coordination – refer to the table on the left. In regard to this trade-off, a general insight becomes visible by adopting a historical perspective.

(2) The human catastrophes of "laissez faire" market democracies in 19th century Europe and those of socialism in Europe or Asia in the 20th century resulted in the death of millions. Thus, society designs based on such **single-sided** perspectives are regularly dominated by social market democracies seeking to establish a **sustainable mix** of decentralized and centralized coordination mechanisms.

(3) In politics, the corresponding strategic parameter represents the **proportion** between **private property rights** and **public property rights** – whereas these rights may either be **officially** acknowledged or only founded on **informal** claims. For example, socialism is not only hampered by an "overkill" of public property – with the latter severely reducing the incentives for innovative entrepreneurship and resulting in the depletion of resources due to the missing link between benefits and costs. In addition, it suffers from the successful attempts by party elites to transform significant parts of public property into informal private fiefdoms. This **shadow economy** – as MANCUR OLSON shows in "Power and Prosperity" – has often remained intact even after the fall of the communist regimes in 1989. Its survival creates significant **barriers** to the successful **transformation** of the affected countries to social market economies. This problem can often only be tackled with the arrival of new players like the European Union capable to fundamentally change the "rules of the game". Because the incentive to misuse political power is ultimately rooted in the self-interest of individuals, each society – regardless of its cultural background – has to develop **institutional** and **organizational countermeasures**. This challenge is investigated by the economic literature under the label of "rent seeking" – for its military application, refer to [XXX].

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### Public Organization V: Principles

(1) This permanent struggle for the performance potential of social market democracies has resulted in the following **design principles**.

(2) The constitutional principle of equal rights urges the banishment of **informal** property. Consequently, the property relationships in the public sector, in the economy and in nature (when scarce resources are involved) should be **transparent**.

(3) In general, **private property** is considered the best instrument to **secure** a wealth- and competitive society in a globalized environment.

(4) To keep up the motivation of remaining an **autonomous** player and due to the importance of local information advantages, interventions are organized by the **subsidiary principle**: Only **after** private or public players have **signaled** their failure to come up with a working solution by themselves, they may receive **external** support.

(5) The subsidiary principle can be adopted to define private relations like family ties, relationships between various subsystems like the economy or culture or to the internal organization of the public sector as a federal state.

(6) The **power to tax** must be limited to the level required to finance the different tasks in the seven *schwerpunkte*. Consequently, fiscal argumentations promoting rules of thumb like „the state may claim up to 50% of private income as taxes“ must be refuted because the mandatory connection between tax revenues and expenditure programs is missing.

(7) The relation between **stability** and **innovation** represents a **second trade-off** influencing the organizational performance of societies: Innovation is vital to their development due to the limitations of the human mind. Otherwise, humanity would still experience the "brutish and short" life of the Stone Age.

(8) However, societies also require a certain level of system stability to install and operate such different **institutions** like marriage, hospitality or business codes of conduct. In contrast to **ad-hoc-solutions**, institutions serve as **blueprints** for the coordination in **repeated** constellations. They significantly lower the coordination costs for individual actions because the players have only to be **initiated** once – for example, by rituals.

(9) This ends the section devoted to the general analysis of social market democracies. The analysis represents a **departure** from the traditional view on public finance. This is mainly motivated by three reasons: First, ADAM SMITH originally envisioned economics as the subdiscipline of moral philosophy focusing on the impact of scarcity. This investigation has shown that a **Kantian synthesis** of the social contract promises to be a more consistent and convincing alternative to mainstream economics.

(10) In particular, the latter fails to highlight the following insight: Not only the famous issue of "moral hazard" (refer to [XXX]), but actually **all** coordination failures discussed in economic literature, starting with ARTHUR C. PIGOU's investigation of **externalities**, represent **moral issues**. Second, the analysis supports GORDON TULLOCK's thesis about the **irrelevance** of Pareto optimality to many realistic constellations. Third, "The Lighthouse in Economics" by RONALD H. COASE has initiated a discussion whether governmental interventions are legitimized by the criteria of **public goods** introduced by PAUL A. SAMUELSON – **non-excludability** and **non-rivalry**. The investigation has shown that these features are **not responsible** for a specific good or service becoming a "public good". Instead they should be considered **consequences** of a decision that can be traced back to the (morally justified) **objectives** of the **social contract** of democratic societies.

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