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Social Institutions in Modern Democracy

Fredrik Engelstad

Department of Sociology and Human Geography, University of Oslo/

Institute for Social Research, Oslo

fen@sosgeo.uio.no

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In the decade after the fall of the Berlin Wall it was held by many that liberal democracy was the only game in town; although not necessarily as drastically expressed as in Francis Fukuyama's infamous dictum on the end of history. Optimism reigned for quite a time, also reflected in my own work (Engelstad and Østerud 2004). However, during the last decade the world has seen more of a democratic backlash (Diamond, 2015). Autocracy has been growing behind the façade of elections and formal democratic arrangements. The number of failed states has increased. Attempts at democratization have ended up in harsh military dictatorship.

These trends call for a renewed reflection on the quality of democracy as well as its viability. Despite the backlashes, in some societies the stability of democracy does not seem to be threatened at all. Why is this so? One common answer points to the existence of political, civic culture, a shared feeling of responsibility for the common fate of groups or citizens (Almond & Verba, 1963; Dahl, 2000). Culture denotes deep-seated values and norms, underlying political structures as well as well as society as a whole. Despite their salience, cultural patterns are often volatile by being inconsistent or undetermined. Lately, the effects of culture have also been called into question, on the assumption that growing individualization is undermining structures of the civil society (Bauman, 200X; Putnam, 2000).

In the following I argue for an alternative thesis, that stability of democratic rule is anchored among other things in its integration in the large set of social institutions indirectly related to political institutions in a narrow sense. That politics is complemented by voluntary organizations and social movements is a common assumption; the point here is the significance to democracy also of other social fields, permanently present in the life of citizens, such as education, health care, and others. They are linked to, give input to and shape democratic processes, and are in turn shaped by them. The question raised is not primarily what constitutes democratic political structure, but what a democratic society can be. Given that social institutions vary between societies, this question has no definite answer. Nevertheless there may be a transference value form one society to others. In the following,

this approach is specified and applied to the modern societies in the Nordic region, with special emphasis on Norway.

The salience of normative theory

Analyses of democratic functioning to a large extent emphasize their practical aspects. Even the greatest political theorists, e.g. Robert Dahl in his *Democracy and its critics* (1989) mostly restrict themselves to reflecting on the political institutions in a narrow sense: election systems and democratic assemblies, somewhat less on civil service and the judiciary. A recent example is Larry Diamond's *In Search of Democracy* (2015). But in order to see the continuity of democracy and social institutions in a broad sense, it is necessary to focus on normative aspects, the norms embodied in democratic processes as well as in social institutions in a broad sense. Institutions are regulations that cannot be reduced to purely practical concerns; without normative justifications institutions would hardly be viable, despite their wide-ranging practical consequences. Yet the relationship between democracy, democratic norms, and social institutions in a broad sense has received less attention than it deserves. Two prolific philosophers, however, John Rawls and Michael Walzer, take a broad view with clear focus on social institutions in a just society. Even though they represent very different approaches, they have as a common concern what constitutes a just society – in other words, how is a democratic society at its best?

Beginning with *Theory of Justice* (1971) the work of John Rawls aims at developing the idea of constitutional democracy (Rawls, 1993, 2002). In addition to the democratic mechanisms of decision-making used by voters and politicians, Rawls underlines the requirement of maximal, albeit not total, equality between citizens. A just society is a society which secures liberty for all, and at the same time induces its members to moral responsibility and social cooperation. The autonomous individual enjoys rights that guarantee participation in society, and should to as large extent as possible be able to take responsibility for his and her own choices. Here, autonomy should be taken in its Kantian meaning: Freedom to formulate one's own law, on the condition that it is generalizable to society as a whole.

Rawls does not focus on individual dispositions, but on social institutions. A just society is a society with just institutions, to paraphrase Bo Rothstein (1995). Just institutions are those which live up to the two principles, the principle of equality and the principle of difference. The (i) principle of equality prescribes that basic social rights and liberties are equal to all citizens, whereas the (ii) difference principle states that differences are acceptable, given that

(a) offices and public positions are open to all, and that (b) unequal distribution of resources are such that they make the least advantaged group better off. However, aside from those requirements, with few exceptions Rawls does not elaborate on which institutions are necessary for society and how they operate (but see Freeman, 2007 for further specification).

Investigating principles of distributive justice, Michael Walzer takes the opposite point of departure. In *Spheres of Justice* (1983) he draws up a relatively large set of social fields distinguished by their distribution of specific sets of social goods. Walzer sketches ten social spheres, such as politics, education, working life, welfare, religion, but makes no claim to have covered the total number of spheres. In contrast to Rawls, he does not posit a common set of rules to these fields; on the contrary, his point is that they all have different ways of working, and thus different modes of distributing goods. Since people differ in their talents, inequalities in distributive outcomes are unavoidable. If citizens excel in different spheres, inequalities within each sphere should be allowed, on the condition that their gains are limited to the given sphere. Walzer's main concern is to avoid spill-over effects between spheres; a crude example being that money should not be allowed to buy political power or positions.

What Walzer accentuates is a combination of normative regulations, specific functioning, and distributive outcomes. Even though varying in their nature and scope, many of the social spheres he discusses may be regarded as institutions. Despite their dissimilarity, spheres such as leisure, money and kinship, all of them among the ten taken up in the book, each in their own way constitute institutions. A main contribution by Walzer is that such different fields are discussed under the same heading. Simultaneously, this may also be a weakness, as there is no discussion of what binds all these spheres together. On the contrary, Walzer's many examples are drawn from a wide variety of societies and historical epochs. Rawls, on the other hand, insists on just how we conceive a possible society as a unity, something more than a fragmented set of social fields. At the same time his conception of rights, of citizen morality, of common principles, becomes abstract when not anchored in specific institutions such as those sketched by Walzer.

It would be tempting to construct a theory combining these two strands of thought, but that would hardly make sense. Despite his acknowledged debts to Rawls, Walzer (1983, p. xxvii) developed his theory explicitly in contrast to Rawls, not only concerning disciplinary references, but also intellectual style. However, even if the two theories are incompatible, they may both serve as theoretical reference points for empirically oriented analyses of

institutional specificities. At the same time, they encounter different problems when it comes to tackling empirical matters. A crucial problem for Walzer is whether it is conceivable to keep institutions sufficiently separated for his criterion of justice to be applied. Likewise, for Rawls the crucial question is whether it is possible to implement the same principle, more or less untouched in a large variety of institutions. A possible approach to these problems is to accept that theoretical impurity is unavoidable, but single out some core concepts appropriate for both. In that case it makes sense to combine two contrasting viewpoints, those of centralization and of differentiation, with their specific characteristics.

Here, three core concepts present themselves. The notion of *social membership* is treated by Walzer as one of the ten spheres, but is only implicitly present in Rawls. In his general perspective, everyone is called to take his or her position behind the veil of ignorance, and assess a desirable structure for a possible society. Walzer's concretized perspective, on the other hand, raises the basic question of who qualifies as a citizen of a given specific social formation, or who is counted as relevant participant in a given social institution. At the same time, two possible specifications of the main aspects of Rawls' theory remain implicit in Walzer. *Autonomy* is seen as the core element of democracy by Rawls; citizens taking responsibility for moral action and social cooperation. The institutional preconditions for this are operationalized in the principle of equality, without equality of liberties and rights citizens cannot act as responsible individuals. However, when applied to specific institutions, citizens encounter specific limitations and rules, which they have to take into account. In working life, to give a simple example, employees have to find a balance between on the one hand their own conceptions of how a job is to be performed, and on the other the fairness of employer prerogatives in structuring the tasks. *Political equality* points to the other side of this coin, to the balance between individual rights and competing legitimate concerns in the organized structures of exertion of power and bargaining in a given social institution.

Institutional differentiation and coordination

The overarching story about social change is that of evolution and differentiation, much along the same line as division of labour (e.g. Parsons 196X). New institutions evolve due to increased efficiency paired with normative specification. This has led to discussions on the possible development of a society without a centre (Luhmann 19XX). The assumed problem in this conception is that of coordination – if new institutions are cultivating specific sets of norms and new modes of operation evolve, how can they communicate and form a society as

an ensemble? Beneath this idea lies the assumption that institutions may be conceived as uniform fields of action, each dominated by one set of principles (Roth & Schütz, 2015). However, the empirical reality is that no institutions are governed by one single principle. Normative conflicts are unavoidable, as are inconsistent modes of operation. Institutions are always in transformation, because they are continuously in change created by actors with different interests, partly operating independently of each other. A related challenge is the difficulty of isolating institutions from each other. Spill-over effects between institutions are inevitable as long as their functioning is dependent on a large set of factors, such as economic resources or cultural beliefs (see Dahl & Lindblom, 1953, for an early formulation). Thereby institutions become fields of power. A simple example is near at hand. According to Walzer's conception, there should be no link between economic resources and political influence. Given that political influence is channelled via the media, this is virtually impossible, as the media also have important economic aspects. The access of wealthy actors to media may be wide open, as in the United States, or more restricted as in Norway, where political campaigning via television is prohibited, but the freedom of expression sets limits to restrictions on actors who are well off. Hence, even though Walzer's idea of barriers between institutions is very attractive, it cannot be fully upheld in practice.

The opposite angle is that of the state as guarantor of social consistency, which is a prerequisite for democracy. If political equality is to be a part of democracy, society must be sufficiently consistent to make it possible. This is obviously one of the challenges to the modern state. To varying degrees this is taken care of by the state via fine-meshed networks of regulations. Pressures toward consistency are also found in the everyday life of ordinary citizens, who are continuously moving between several different social institutions, such as enterprises, schools, hospitals, family connections. At the same time several forces counteract tendencies of coordination. One has to do with differences in the extension of institutions. Michael Mann (1986) has pointed out how societies as constituted by unevenly distributed power networks; as an example, the extension of political power is limited to the state territory, whereas cultural or economic power may stretch over much larger areas. At the same time, given that institutions are in change, between them new forms of tensions and incompatibilities develop continuously. Finally, the general principles of Rawls have to be combined with different norms specific to a given institution, e.g. specific ethics of profession (Engelstad 2017), and thus lose some of their general character. Thus, despite the obvious

need for coordination of complex societies, in accordance with Rawls' general principles of justice, full normative consistency is practically unattainable.

Institutions in modern societies

The idea of basic social institutions originated in the sociology of the late 19th century. Durkheim (1978) distinguished six main types of institutions, or better, institutional spheres common to all societies: Religious, political, moral, juridical, economic, aesthetic. Since the advent of modern society and subsequent processes of social differentiation, these broad categories have necessarily been further specified. What can count as a basic set of institutions in modern societies like the Nordic ones is not given, but depends on the level of analysis; institutions have some similarity with Chinese boxes, inside one there are other, more distinctive ones. But delimiting a fairly small group with particular characteristics is still possible, on the basis of specificities of activities, role patterns and power structures.

Theory of social differentiation assumes that social fields are differentiated out, mostly by processes of fission, and acquire specific modes of functioning. That implies specific activities, internal norms, criteria of success, and modes of recruitment into the institution. Among social institutions politics is in a special position, because it has its focus on citizenry as a whole, by legislation, by distribution of rights, taxation and welfare services, and infrastructure. At the same time politics is the field for handling intentional social reform, renewal and change. Yet the other social institutions cannot be reduced to politics, because they produce goods that cannot be acquired by political means. Accordingly, politics does not exert full control over society. Crucial in this respect is that different social fields have very different extension; as an example, legitimate political power is limited to the territoriality of a state such as Norway, whereas the Norwegian economy reaches out to much of the world, Norwegian culture receives impulses from other parts of the world (Mann, 1986). Thus, societies are not "systems", and certainly not closed systems, but are better understood as constellations kept together by interaction of governance and interdependence.

Nevertheless, to the degree that societies are delimited by politics and political legitimacy, it also makes sense to describe them in terms of constellations of institutions. Despite different extension, social institutions have common elements in their varying relationship to and dependence on the state. In the following, what may be regarded as the basic institutions in modern society are sketched in table 1, where a list of 15 institutional spheres is drawn up. The list emerges by combining three works elaborated independently of each other: (i) A

recent conceptualization of a "canon of function systems" (Roth & Schütz, 2015) inspired by Niklas Luhmann. The authors makes a critical survey of a large amount of attempts to single out core function systems in modern society, and end up with a list of ten specific social subsystems. All of these are defined by a special binary code. (ii) A study of power elites in Norwegian society at the beginning of the 2000s (Gulbrandsen et al., 2002), intended to reveal similarities and differences between sector elites, and thus the mode of integration of social power. (iii) A general discussion of theory of modern society with the specific aim of setting up an inventory of basic institutions in a modern society like the Norwegian (Aakvaag, 2013). This contribution is also informed by Niklas Luhmann, and especially by his final work (2013, chapter 4), however, the idea is not to develop further the concept of function system, but to reconceptualise it as a stepping stone for delimiting a basic set of institutions. A striking aspect of the 15 institutions in table 1 is the high degree of overlap between the three works, despite their different approaches, even if there are striking differences as well. Only the work by Gulbrandsen et al. focus on the salience of power, pointed out by Thelen (20XX) as a

Table 1. Basic institutional spheres in modern societies

	Roth & Schütz	Gulbrandsen et al.	Aakvaag
Politics	X	X	X
Civil service		X	
Judiciary	X	X	X
Military		X	X
Economy, working life	X	X	X
Economic associations, trade unions		X	
Mass media / news media	X	X	X
Art and culture	X	X	X
Religion	X	X	X
Science	X	X	X
Voluntary organizations, social movements		X	X
Sports	X		X
Family and kinship			X
Education	X		X
Welfare, health, social security	X		X

crucial aspect of institutions. And despite common inspiration from Luhmann, the function system aimed by Roth & Schütz speaks to a theoretical strand quite different from that of Aakvaag. A crucial point here is that institutions have normative components, which are absent in Luhmanian theory. The aim here is not a theory *ex ante* on communication, as in Luhmann, but an empirically based conception of production and power.

All of the 15 institutions in table 1 differ from each other in terms of the main "goods" they produce. Thereby they differ in their criteria of quality in production, as well as their internal norms guiding the production, along with their arrangements for internal normative regulation. Even though institutions have their specific tasks and aims, they are interconnected in several ways. Hall and Soskice (2001) have coined the concept of bundles of institutions, underlining the stability of their constellation. One way to delimit these bundles is the fourfold AGIL scheme proposed by Talcott Parsons (1960): adaption, goal attainment, integration, and latent pattern maintenance. In more specific terms: economy, politics, culture, and community/socialization. Close to this, but not identical, is the classification of four power networks by Mann (1986). However, as the Parsonian scheme is about societal functions, institutions are more specific arenas for coordination and conflict resolution, more in accordance with Mann's conception. At the same time, the dynamic character that Parsons (195X) ascribed to those general types should be noted: continuous interaction is going on between them. This is true for the specified 15 basic institutions as well. Interaction is taking place within each bundle, as well as across the borders between them.

All of these institutions are interrelated in several ways; hence, they contain salient democratic elements, both as concerns individual autonomy and democratic decision-making. These elements are of course the defining characteristics of the institutions of the state; citizen rights are issued by democratic bodies, which directly or indirectly cover all other social fields. This is equally true for political/bureaucratic regulation and control. Moreover, monopoly of state institutions on physical violence is a precondition for political equality. In the economic sphere the main democratic elements are located in citizens' rights to enter into contracts, and thereby bargaining relations, whether over goods, services, or labour power, and in this context as well the right to association. Salient democratic features in the economy are also the protection of employees in labour relations, along with their potentials for development of competencies at work, and accordingly their influence on decisions in the enterprise. Common to the integrative institutions, from science to religion, is their close links to the freedom of expression. In the next round this leads up to access to information necessary to

make rational judgement, forming opinions on socio-political problems, aesthetic and value based questions, as well as transcendental beliefs. As part of the public domain, sports function as a learning arena for a combination of competition and common rules, representing – like democratic politics – the agreement to disagree. The fourth category of socialization is no less linked to democracy: families constitute the foundations for formation of autonomous individuals in the primary upbringing; these are carried on and generalized by educational institutions. Health care institutions maintain and if possible reconstitute the capacity of citizens to act as responsible individuals. Even though there is considerable variation between societies in the extension and mode of regulation of institutions, in no modern democratic societies are links to politics absent. Some institutions are related to political processes, such as the media, while the organization of welfare state and basic education are subservient to politics. The economy and the markets are object of political regulations, but this is often true also for religion or sports, as is the case in the Nordic model.

Nevertheless all of these institutions enjoy considerable autonomy vis-à-vis politics. Without a certain autonomy institutions would wither away, become subordinate to politics or other institutions. In large parts of the world, voluntary organizations are closely controlled by the state, or by political parties. In the Nordic societies, in contrast, voluntary organizations to a large extent are subsidized by the state; not to make them conform to given policies, but in order to secure civil society commitment and open public debate (Engelstad et al., 2017). This degree of autonomy also presupposes the existence of formal or informal codes of conduct, regulated and handled within the institution itself. In this optics institutions may function as fields for professional action.

Despite their relative inertia, institutions are dynamic, in continuous change. One set of driving forces is found in the internal changes in the mode of functioning (Mahoney & Thelen, 2010). Another stems from the interaction between them; they must in some sense be compatible, both concerning organizational operations and individual adaption. Even small changes are sources of tension, affecting institutional compatibility. A third element is the compatibility between institutions and politics, and how impulses of governance are transposed from one institutional sphere to another. The specification of these three levels generate variation between societies: which modes of governance are possible and appropriate; which links between institutional spheres are acceptable, and how basic equality of citizens is constituted and interpreted.

Social institutions and democracy

In various versions, modern democracy reflects a general idea of checks and balances, not only between the institutions directly linked to the state – legislation, civil service, judiciary – but also between the state and civil society. Citizens have autonomous modes of organizing outside politics, which makes it possible to influence politics. If not, citizens remain subjects only, along with insufficient guarantees of minority rights. Within the confines of civil society, citizens likewise gain autonomy by moving between several social institutions; hence, here too, institutional differentiation functions as a form of checks and balances, and thus as a precondition for democracy.

The corresponding source of freedom for citizens is of course a set of core citizen rights. In an elaborate discussion of political rights, Robert Dahl (1989, p. 222) pointed out five basic rights directly linked to the functioning of democracy: freedom of expression, access to alternative information, associational autonomy, voting rights, and right to run for office. These fall within what T.H. Marshall (1950) classified as civil and political rights. In addition, Marshall pointed to the salience of social rights, connected to education, health care and minimal income security. But these rights have a double character. Whereas they secure citizens' well-being, they also have a distinct democratic character. Without basic education, health and income, citizens are unable to act as rational participants in democratic processes. Marshall's conception of social rights is in accordance with Rawls' (1971, 2002) conception of primary goods, i.e. rights or goods that are to be accessible to all members of society.

A salient point here is the relationship between rights and institutions. In one sense, rights are institutionalized, and assigned to individuals. At the same time, rights constitute a foundational element in social institutions. An example: It makes good sense to regard the freedom of expression as an institution; it is constitutionally guaranteed in many societies, and upheld by a series of criss-crossing social arrangements. But in the present context the opposite perspective is equally fruitful, namely pointing to how rights are integrated as parts of basic institutions. In addition to being a precondition for enlightened political debate, freedom of expression is a constitutive element in the institutions of science, of the arts, of religion, and media. In a slightly different way it is also present in institutions of education, and in the economy and working life. Freedom of expression is never completely unconditional, and its extension and limits must be specified in a variety of contexts. Nevertheless, the more strongly freedom of expression is emphasized and specified in these and similar institutions, the better they reflect and support the values of democracy.

Vibrant social institutions outside of politics serve as guarantees that the power of the state does not become all-embracing. Reciprocally, the state may renounce on direct political domination of institutions, and actively strengthen the autonomy of social institutions, via legislation, infrastructure, and economic support. However, such ideal relationships are necessarily precarious. At one extreme, if social institutions are fully autonomous, institutions will not have a grip on politics, and have few if any means of curbing political corruption and abuses of power. Likewise, politics has few if any means of coordinating and overseeing social institutions. At the other extreme, social institutions may be the victim of "party governance", and dominated by central power circles. Between these two, there are numerous modes of interaction between social institutions and the state, with a wide variety of more or less democratic modes of functioning. Democratic governance has as one of its obvious goals to maintain and develop political equality, and thereby the autonomy of citizens. Basically this is given by legislation and constitutional guarantees, but in order to be workable they have to be operationalized within the large set of specific institutions. This raises two questions, to be discussed in the following: (i) How do institutions support or counteract individual autonomy, and reciprocally, how does forms of and limits to autonomy affect social institutions? (ii) How does democratic governance support or counteract the autonomy of social institutions? And reciprocally, how do social institutions support or undermine democratic governance? Even superficially answering these questions would be impossible within the limits of the present text. Hence, the main focus in the following is set on central parts of the institutions of working life and the welfare state, and some decisive aspects of the relationships between the two.

Democracy and the Economy as Institution

Constituted by a combination of norms and practical rules and arrangements, institutions are hybrid constructions, open to varying interpretations, and always ridden by conflict, between norms and between norms and means-ends considerations. Norms, in turn, may be seen under two different angles; as regulative prescriptions, and as empirical dimensions used to describe and measure social phenomena and conditions. The economy is dominated by an overarching ambivalence between autonomy and hierarchy; at the most general level, between the roles of producers and consumers. In the role of consumers are basically in an autonomous position; in the role of producers, they are placed into drastic hierarchical systems. Does this constitute a deep tension, as envisaged by Daniel Bell (1976), or is it possible to point out compromises between these two forces?

When prospective democratic elements in the economy are discussed, the old notion of "economic democracy" unavoidably comes up. This is not so much a concept as a generic term to cover expansion of political democracy into some sort of democratic governance in the economy. It has been given several meanings; most prominently (i) state ownership of the means of production, (ii) political agency represented in decision-making bodies of enterprises, and (iii) employees electing management/CEOs. All of these have been tried out in practice, and none has survived in its original form. *State ownership* was the dominating form of ownership in the Communist societies, and still is so e.g. in China, but has hardly anything to do with democracy. Some democratic countries have a large amount of public ownership in central parts of the economy, of which Norway is the most prominent example (XX 20XX), something that does not preclude private ownership as dominant, whereas state-owned enterprises are run on a commercial basis. *Political representation* into decision-making bodies has been tried out in many versions. Two examples are the "socialization" of commercial banks in Norway in the late 1970s, and the Swedish Wage Earner Funds of the 1980s transferring parts of the profits to public investment funds. Both were given up after a relatively short time (Engelstad, 2015). Partly this has to do with problems related to transgression of property rights, and partly to goal conflicts between economic and political considerations. *Election of management/CEO* was practiced in former Yugoslavia in the 1970s and 1980s, and to some extent in Israeli *kibbutzim*, but at present it does not play a significant role. Exceptions are found in fully worker-owned enterprises, which constitute a small minority in some Westerns countries (e.g. in Emilia Romagna in Italy, with 6% of the labour force [Rinehart, 2009]).

These mainly unsuccessful attempts at introducing democratic elements into the economy should not shadow for two other aspects of democracy relevant for the economic sphere. On the one hand the direct and indirect relationships between the state and the economy at the macro level. In the following, the emphasis is not on varieties of economic policies and regulations, be it more or less Keynesian policies or more or less tight regulation of the finance sector. Rather, the attention will be directed at some basic traits of any modern economy, and their manifest or latent relationship to democratic governance. On the other hand, protection of citizen rights and autonomy within basically hierarchical work organizations will be discussed. Central in this respect is the difficult balance between democratic considerations for citizens as workers, and considerations of property rights, which is also a central part of democracy.

Preconditions underlying the modern economy

Modern economies have at least three basic traits with a clear connection to democracy. These are ideal preconditions, never found in pure form, but nevertheless they constitute necessary elements for the functioning of the economy. These are (i) freedom of contract, (ii) property rights, and (iii) well-functioning markets for goods and services, including labour markets.

Freedom of contract denotes the individual right to enter into binding transactions with other parties, including the ability to annul agreements. As a universal feature, freedom of contracts is limited to modern, capitalist economies, and is even a relatively recent element within capitalism. It is not present in premodern economies; typically, slaves, serfs, and women are denied the right to enter into contracts.

At the level of the individual, the freedom of contract is a basic precondition for personal autonomy and liberty. The individual is accorded the right to assess the risks and take responsibility for his or her own dispositions. Furthermore, s/he is free to enter into cooperation with any other actor, be it as partner in some sort of joint venture, or as employee subordinate to the plans and disposition of other actors; freedom is retained by the possibility to annul the relationship on a set of given conditions.

Property rights is the right to feely dispose objects in the possession of the individual, be it acquired via work, gifts or inheritance (Carruthers & 200X). Property rights are essential to the function of any economy based on exchange and division of labour. Marxist thinking assumed that property rights would wither away if enterprises became the property of the collective, and not under private ownership. This, however, is unrealistic, as any enterprise, whether privately or publicly owned, must be able to sort out which objects are under its own control, and which are the under the responsibility of other actors. This is true for markets transactions, investment decisions, and general governance of enterprises (Fligstein, 2003).

For individual citizens in a society with widely developed division of labour, property rights are a precondition for a basic feeling of security and stability in everyday life. It is a central feature of the role of consumer. Moreover, property rights constitute a precondition for the general development of people's life careers. It is not possible to develop rational plans for educational and occupational careers without being able to count on a minimal set of resources which is under the control of the individual.

Without *well-functioning markets* any modern economy will get into serious difficulties, even if the idea of perfect markets, cherished by economists, is an illusion. Well-functioning markets, allowing the choice between alternative goods, and more generally between alternative structures of opportunities, constitute the prime arenas of development in economies depending on division of labour. This is true also for labour markets, which have a very special status in that the goods traded is the labour power of citizens, and thus an agreed renouncement of the freedom they otherwise would have exercised.

As actors in a market, consumers have the opportunity to make rational choices between goods as well as types of goods. Thus participation in well-developed markets opens up for choices of life styles and – at least partly – identities. The most significant element of markets in pure form, however, is that is does not discriminate between buyers and sellers. Regarded as market actors, all participants are equal, what counts is the supply and demand they represent, otherwise nothing. In this respect, the idea of a perfect market also acquires normative character.

These elements are not in themselves democratic, but their prospective universalist character constitutes a precondition for democracy in modern societies. Economic differentiation leads to varieties of jobs, increased freedom of choice, in combination with reciprocal dependency and thus potential feeling of solidarity. It also fosters occupational competencies, ability to cope with challenges. These are potential supports for democracy. Democracy, however, cannot rely on structural traits in the economy. It is dependent on a well-functioning state that is able to formulate and guarantee these elements as rights, while at the same time instituting corrections to the tendency to undermine their universalist functioning.

Take first the constant pressures on universalism. A crucial pressure on universalism stems from the fact that the economy consists of enterprises that are necessarily particularistic. Firms have specific aims and criteria of success, in contrast to politics, whose main character is regulation of society as a whole. This means that freedom of contract, property rights and market functioning are also dependent on political governance. Legislation regulates the conditions of work contract, e.g. in the Scandinavian countries by regulation of work environments. The extension of property rights must be specified, and are likewise regulated by the state, as concerns e.g. taxation, legislation of inheritance, and structuring of joint-stock enterprises. As areas of success and failure, markets are always in danger of developing monopolistic patterns; the classical formulation is found in Adam Smith (1776 [xxyy]), that

strong actors see it in their interest to avoid competition. Hence, some form of anti-trust regulation by the state is obviously required.

Furthermore, enterprises are structured as organizations; by implication they are constituted as hierarchical system of power. The economic division of labour is simultaneously a division of power between a minority of owners, shareholders and managers, and the broad majority of employees. Such power imbalances are unavoidable if organizations are to function in accordance with their aims; at the same time they are crucial sources of power abuse. A flagrant denial of this fact is found in the literature on agency theory, where it is maintained that no power is part of work contracts, as both parties are admitted to term the contract at any time (Jensen, 198X). In cases of oversupply of labour this is obviously wrong, management's disposal of jobs that job seekers are dependent on, makes it possible to press wages below subsistence level; a problem that is present in large parts of the third world, and even in the United States. An obvious example of power abuse connected to property rights is the denial of employers to accept collective wage bargaining; common both in France and the United States, to mention a few prominent cases. Finally, an example of power abuse connected to the labour market is the paternalistic binding of workers to the enterprise, in the form of "company towns" or of requirement of the employee to remain an "organizational man" (White 195X). I these cases too, political regulation, be it by legislation or provisions, are called for, albeit very differently interpreted in modern society, accordingly with different effects on democratic elements in the economy.

Democratic elements in the economy

Specific democratic elements into the economy may be introduced on three levels: (i) employee autonomy, (ii) political equality, and (iii) political regulations of working life in macro. The first two of these are consonant with Rawls' theory of constitutional democracy; the third concerns the structuring of the social field, more in accordance with Walzer's conception.

Politics protecting *autonomy* concerns the ability of employees to function as responsible citizens on the basis of traits specifically connected to the jobs. Most important of these are the risks connected to health and security, and accordingly the political measures of protection against accidents and work routines detrimental to health. Such measures are found already in early capitalism, in legislation regulating children's work and dangerous work. To varying degrees it has been further developed in modern societies, also including legislation on

psychological and socially stressful work – again the classical formulation is by Adam Smith on the deteriorating effects of the division of labour in needle production. The work environment legislation in the Scandinavian countries is the most advanced in this respect. In order to counteract abuse of power, some sort of countervailing power is necessary within the enterprise, which represents the interests of employees.

The ability to reinforce *political equality* is the organizational counterpart to employee autonomy, i.e. the institutionalized resources to meet and counteract employer prerogatives based on private property rights. A core question in this connection is the definition and interpretation of property rights. The matter here is not that of abolishing property rights, but taking as a point of departure that property rights are necessarily politically defined (Engelstad 2015). To which extent are they regarded as absolute, and how much are they open to redefinition without losing the core character of ownership rights to dispose over objects?

If property rights are assumed to be absolute, owners and managers have the right to deny any interference in the setting of work contracts, and work conditions. This, however, is in conflict with basic civil rights, such as freedom of expression and of association. Hence, some sort of balance between property rights and employee counter power is a precondition for democracy. There is a great variety of the position of trade unions e.g. in Europe; a very strong position in Scandinavia, somewhat less so in Germany, and very weak in France, where the *patronat* generally denies the presence of unions within enterprises. Whereas trade unions are voluntary associations, they are supplemented by legislation on employee representation in bodies of deliberation and decision-making: from the weak type of fora for consultation (sjekk) in France, over works councils in Germany, employee representation on the board of directors in Germany and Scandinavia, and health and safety committees with equal representation of employers and employees in Scandinavia. All of these arrangements may be regarded as limitations of property rights, as they interfere with the sole right of decision-making for owners/managers. But all these cases are about the varying right of employee voices to be heard, while they do not constitute a majority when decisions are to be made. If so, the core meaning of property rights remains untouched. A more recent supplement to these questions is legislation securing gender quotas on the boards of directors of listed, or otherwise very large companies, introduced in Norway, and about to be implemented in several other countries (Teigen, 2016; Engelstad & Teigen, 2013). This too is a form of delimitation of property rights, which does not break with the decision-making rights of owners/board members.

The broadest forms of *macro intervention* into economic processes are found in Scandinavia, and foremost in Norway. These are connected to wage bargaining on the national level, where political authorities have a core role at several stages in the process. The main aim of this intervention is to preserve the competitive ability of the national economy on the world market. Interventions comprise consultations between the government and the employer and employee federations, professionally neutral assessments of various economic scenarios, parts of the bargaining taking place between industry federations at the national level, and public agencies for mediation. This "politisation" also lifts wage bargaining into the public sphere, and thereby makes it a subject of democratic deliberation in the media.

Finally, on the basis of these points at the micro as well as the macro level, a general assessment of autonomy in working life is possible. In a liberal society citizens may choose their education, and hence between prospective employers. A well-functioning labour market gives the citizen the opportunity to choose between jobs, by implication also between organizational regimes. Given that s/he freely chooses a job, the next question is the degree of arbitrariness in management. In the case that arbitrariness is negligible the element of power is legitimate; if so the worker has no reason to wish it otherwise, or possibly has the opportunity to suggest alternative ways of organizing the work process. In this sense the worker is autonomous in a Kantian sense; s/he follows a law that s/he freely has given herself (Svalund, 2003; Engelstad et al., 2003).

The Welfare State in Democracy

The basic task of the welfare state is the inclusion of citizens into regular participation in society. Here as well, the underlying normative elements are social membership, autonomy and political equality. Welfare state measures aim at maintaining or restoring – as far as practically possible – the ability of citizens to act as free and productive individuals. This is done via redistributive policies, and rights-based provisions. The contrasting case is that of charity, which rests on a basis of inequality. Even if the recipient is "worthy" of assistance, when the benefactor allocates "help" to the recipient, a basic inequality between the two is confirmed. The aim is short term relief, not the maintenance or restoration of individual responsibility for his or her life. An intermediate case between charity and mature welfare state arrangements is the large programs for allocation of food and work found in India. In that case the benefactor is the state, so in this sense political equality is untouched. Simultaneously the programs have clear traits of charity, as they function as poverty

alleviation with little if any potential to bring recipients out of poverty (Engelstad, 2016). In this regard, the ideal of political equality is emasculated. Even though modern democracies have one form of welfare state or other (Esping-Andersen, 1990), it is in no way given that the existence of broad sets of welfare provisions is a sign of democracy. The legitimacy effects of welfare allowances are not restricted to democracies. The Bismarckian welfare system of the late 19th century, which was very advanced for its time, reflected exactly that. Citizens were presented with a broad welfare system in exchange for acceptance of a pseudo-democratic political system. Today's authoritarian regimes offer similar pictures. Hence, the link between welfare state and democracy hinges on the character of individual autonomy and political equality in the organization of welfare provisions.

Social membership implies the ability of the citizen to find an acceptable position in a complex society. A first precondition is basic education, yielding the possibility to understand and interpret social and political structures and processes, and thereby understanding of what is demanded for making democracy a going concern. Moreover, education is necessary in order to find and perform a job. To a large extent it depends on the knowledge and talent of the individual, but just as much it has a policy aspect. Efficient labour market policies are a precondition for full participation in society. In this respect as well, well-functioning labour markets are a highly significant element in democracy in modern societies. This also goes for arrangements for occupational training and retraining, which are unavoidable to uphold social integration in societies where jobs are in constant change.

Basic characteristics of *autonomy* in the welfare state, rest in compensation of health problems and income deficiencies. Citizens are unable to act responsibly on their own behalf without a minimum of resources and capabilities at their disposition; be it a minimum of income, or a set of basic physical abilities to pursue their goals. Additionally, in Esping-Andersen's threefold typology of modern welfare states, variation in conceptions of individual autonomy, and the relationship of individuals to the state, is a crucial element. In what Esping-Andersen terms the liberal welfare state, the state has a restricted role to play; production of welfare services is basically located in the private, market based sectors, and funding takes place via the private insurance sector. The state takes on responsibility for the most needy, otherwise not. In the conservative welfare states of Continental Europe, the state has a somewhat more active role, and funding is not in the same way privatized. But in line with the dominant "subsidiarity principle", families and local communities have a prime responsibility for mitigating social needs. In the Scandinavian welfare state, on the contrary,

the relationship between the individual and the state is differently conceived. The goal is rather that of minimizing individuals' dependency on support from the family; it has rather the character of a state supported individualism (Trägård 1999?).

The relationship between the welfare state and working life varies also considerably. Health and security measures within enterprises are already mentioned. Other aspects of the interplay between working life and the welfare state are unemployment benefits, sickness pay, and arrangements of parental leave. All of these show clear aspects of autonomy, with implications for democracy; here democracy not only implies needy citizens, but also those directly dependent on them, not least their children. Here too, the Scandinavian welfare states are the most comprehensive.

At the same time, a precarious balance is coming to the surface in mature welfare states, stemming from possible hyper-development. Presently in the Scandinavian countries welfare state benefits are changing from general allowances to comprehensive plans for reintegration, specifically targeted to each individual. Here a possible conflict between integration and autonomy is coming to the fore. How much room is left for individual responsibility may then be an open question; when does a gift become a claim on the recipient? In this sense, the welfare state may materialize as a benign but authoritarian shepherd state, already feared by Tocqueville (after Dahl 2001:133) and later by Foucault (1983).

The aspect of *political equality* concerns the ability to act as a responsible citizen. In the context of political processes, individuals who are under a constant pressure to survive physically and/or socially, are unable to orient themselves, acquire relevant information to take part in democratic deliberation. Here a crucial aspect of democracy comes to the fore.

A different perspective on the citizen is that of being bearer of social rights. Modern welfare systems are large organizational and bureaucratic complexes. Political equality also implies the ability to understand and handle these organizations. One precondition is the willingness of welfare bureaucracies to make information about their services accessible to citizens, both those who are needy and those who may be so in the future. Of similar importance is the design of the organizations themselves, and the degree to which they are accessible to ordinary citizens, and their ability to handle grievances. In this respect, rationalization of bureaucratic routines is a crucial contribution to democracy.

Working life and welfare state at the macro level

One crucial condition for the development of the Scandinavian welfare states was the establishments of broad compromises between labour and capital before the Second World War. This compromise, materialized in the Basic Agreements, implied the institutionalization and subsequent mitigation of class conflict, which in turn became a framework for the gradual expansion of the welfare state in the post war period. But more than that, it also furthered the development of the employer associations and trade union federations into political actors on a broad scale, acting as responsible partners in political negotiations over welfare issues such as pension systems and regulations of health care (Hagelund & Pedersen, 2015). The robustness of these constellations, however, is dependent on the continued centrality of trade unions and employer organizations in the regulation of labour markets. In the Scandinavian countries membership in trade unions is slowly diminishing, due to internationalization of labour markets along with shifts in the composition of occupations. If this trend continues, the tripartite regulations may erode in the long run (Dølvik et al 2015).

At the same time, an underlying implicit contract in the maintenance of democracy is that of economic growth and increased productivity. This is true for working life in general, a crucial element in the legitimacy of organizational hierarchies and income differences, is the experience that all groups in society have their share in economic growth. A large majority of citizens cherish a moderate form of capitalism which gives them material affluence and a feeling of security. This of course spills over to the legitimacy of democracy. In the mature welfare states, as e.g. Norway, the main political issues are linked directly to welfare state allowances, health and social security arrangements. Even if welfare state arrangements are quite costly – which is a main reason why they are met with resistance in some modern democracies – they entail net increases in economic productivity. Social safety nets encourage higher productivity in employees. Broad-spectrum labour market policies increase labour market efficiency. Moreover, the welfare state is in itself a relatively stable employment system. Democracy functions best in efficient and to some extent expanding economies.

Conclusion: Institutions in change

Mainstream theory on institutional change mainly analyses changes in single institutions and institutional policies. As a conclusion to the present context, the focus is broadened to changes in relationships between institutions. In the cases of the economy and the welfare state, these relationships are clear. The comprehensive character of the welfare state in the

Nordic countries is not least due to the compromises of the 1930s, in the Basic Agreements between employer and employee federations institutionalizing mutual recognition of employer prerogatives and collective bargaining. This in no way meant the abolishment of class conflict, however, frameworks for interest were institutionalized. The long term result was increased productivity as well as increases in trust between the labour market parties. At the macro level, this opened up for the development of employer federations and trade unions appearing as powerful partners in debates on social policies in general (Hagelund & Pedersen, 2015).

Reciprocal trust in the next round also was a precondition for an increasingly broad consensus on the development welfare state from the 1960s. This in turn had significant repercussions on working life. An important effect of welfare state security was a high degree of flexibility in the labour market, both as concerns willingness of employees to contribute to a high degree of innovation in production processes, as well as an important security net in the case of umemployment. A third factor here is that development of the welfare state also means mobilization of broad groups for the labour market, partly as employees in the growing welfare state professions, and partly mobilized as a result of alleviation of burdens of caring in the households. Hence, what we see here is a long term process of institutional change by reciprocity between institutions. This is of significance to the general theoretical understanding of institutional change.

It also invites a comment on theories of social differentiation. A general assumption in this theoretical conception is that institutional dynamics take the form of increasing specialization of institutions, or functional fields. The present analyses illustrate an opposite development, that of increasing interaction between social sectors, despite their obvious specificities of functioning. Luhmann (2013) rightly points out that changes in one social field also influence other functional fields, because it implies a change in their environment. But this is only half of the story. What is demonstrated here is that changes in one field may influence the accessibility of resources to other fields. In the present case this has had a positive effect, but negative effects are accordingly possible.

Negative impulses to the positive reciprocal relationship between the economy and the welfare state may come from several sources, both external and internal. The external factors are connected to globalization of commodity markets, financial crises, and immigration. When these factors are taken in isolation, the experiences of the last decade do not point to a

general weakening of the Nordic model. On the whole, the Nordic countries have shown themselves quite resilient when faced with the challenges of globalization. This is true even of Iceland after its financial meltdown, of Sweden with its exceptionally high rates of immigration, and of Finland faced with drastic economic problems after the breakdown of its Russian export markets. However, internationalization in combination with internal problems may show itself to be more problematical. Large scale immigration not only poses challenges to integration across cultural differences, it also opens up chances for employers to withdraw from established norms of the labour market, by hiring workers who are willing to work for wages much lower than the going wage rates in the regular economy, and undercutting their social rights (Nicolaisen & Trygstad, 2015). A long term result may be a gradual waning of the established system of cooperation in working life. Moreover, prospective conflicts due to the compressed wage structure of the Nordic countries may be reinforced by assumptions that immigrants receive an undue amount of welfare benefits. If so, the general support for the welfare state may be in danger, by increased tendencies to seek private solutions both for health care and pensions. A long term result of such tendencies may be a general weakening of support for the welfare state. Hence, even if the virtuous cycle of work and welfare has developed successfully for seventy years, no guarantee exists that this cycle will not be broken.

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