

RESEARCH NOTE

Promoting democracies by democratising capitalism, with time limited equities and polycentric self-governance

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At a time when democracy is weakening under extreme wealth concentration, Dr Shann Turnbull advances a radical proposal: redesigning capitalism through time-limited equity and polycentric self-governance. The approach seeks to rebalance economic power, strengthen democratic accountability and align markets with long-term social and ecological priorities.

Introduction

The extraordinary concentration of global corporate assets has perverted and/or replaced worldwide democracies: “Eight men own the same wealth as the poorest half of the world’s population” (Timms, 2017).

Corporations with unlimited life can aggregate such wealth. A counterintuitive and peaceful solution for promoting both democracies and capitalism is to use a self-funding tax incentive for the wealthiest people on the planet to increase their profits. But this would be on condition that they would “democratise the wealth of nations” (Turnbull, 1975, Turnbull, 2000, p. 403) for their children who need to survive our “ghastly” (Bradshaw *et al.*, 2021) environmental future. The approach has potential appeal across the political spectrum.

The ability to encourage wealthy investors to “democratise the wealth of nations” (Turnbull, 1975) arises because corporations concentrate wealth in a way accounting doctrines cannot report. This is because accountants only take

annual snapshots of profits without reporting their accumulation by shareholders. Accountants have no requirement to identify shareholder investor time horizons. Tax authorities cannot tax unreported profits. Neither can economists like Picketty learn how wealth becomes so concentrated.

Picketty (2017, p. 253) asked in his 2017 book: "Why is the return on capital greater than the growth rate?" The extent is astonishing. Picketty reports, "Through most of human history, the inescapable fact is that the rate of return on capital was always at least 10 to 20 times greater than the rate of growth output (and income)."

The absence of a term to define returns exceeding investment incentives is another reason why economists cannot explain rising wealth inequality. I define such profits as "surplus" (Turnbull, 1975, p. 36). Economists use words like "excessive", "pure" (Emerson & Dixon, 2024, p. 30), "super-profits" or "economic rent" that are reported by accountants. Another word is required to distinguish profits that are *not* reported.

Surplus profits

I learnt about surplus profits as a financial analyst in the Treasury department of a global corporation in New York City in 1962. It was during the summer break between my two years at Harvard Business School. A prescribed reading in our first year educated me on how foreign investment exported wealth from host nations on a basis that generated "unlimited, unknown and uncontrollable foreign liability" (Penrose, 1956, p. 235). This is not in a way identified by the winners of the 2024 Nobel Prize (Nobel Prize Outreach, 2025b).

The Treasury Department of the global corporation received pitches from international operating units to fund new projects. The foreign exchange risk

was not as volatile as it is today. There was a gold standard and fixed exchange rates.

Discounted cash flow analysis supported pitches for the life of projects. These could be for periods of up to thirty years. However, we did not recognise projected cash flows beyond ten years, even in the US. This meant projects could receive surplus profits for at least 20 years. Most countries were allocated a shorter time horizon to reflect perceived country risks.

Several countries had a time horizon of only four years. This meant recovering all the funds invested within four years plus an after-tax return above a specified hurdle rate. Surplus profits could also be generated for 26 years, representing 87% of the project's life. Surplus profits are not trivial. Penrose identified how a single US investment in Australia generated dividends 260% times greater than the initial investment each year to become "8% of the dollar export receipts in the Australian balance of payments" (Penrose, 1956, p. 221).

Because surplus profits are untaxable, corporations can distribute them via stakeholder shares. These shares can then be endowed to each voting citizen in each bioregion, creating locally owned and controlled richly democratic stakeholder governed circular economies. It would replace the non-self-funding US tax incentives to develop the complicated Employee Share Ownership Plans (ESOPs). These involve only around 6% of US citizens (NCEO, 2024).

In Australia, all employers must contribute 12% of any wages and salaries to fund employee pensions. Contributions began at only 3% in 1992. By the end of 2024 they had accumulated to \$A4.2 Trillion. As all publicly traded equity investments in Australia are only \$A2.6 Trillion, Australian pension funds are now being forced to invest an ever growing

one third share of their funds in less liquid private equities and/or overseas.

The exporting or domestic saving in this way makes the economy less self-reliant. In addition, it indicates the extent that the sharing of unreported surplus profits could increase national self-reliance and increase the wellbeing of all employed citizens' spending power by 12%. Inequality and taxes would also be reduced with the size and cost of government to enrich democracy.

Distributed decision making (Polycentric governance)

The tax incentive would be tied to corporations also adopting distributed decision-making that Elinor Ostrom described in her 2009 Nobel prize lecture as "polycentric governance" (Nobel Prize Outreach, 2025a). This allows organisations to become both self-governing and provide other benefits to all citizens. In this way, corporations could achieve the objectives of the US Business Roundtable (BR, 2019) "to provide benefits for all Americans". Corporations would then become agents for what Ostrom described as being a "Common Pool Resource". Such corporate CPRs create a basis to protect and nurture host environments from the degradation created by the 8 billion people on the planet.

A way to obtain the above outcomes is to introduce a self-funding tax incentive for shareholders to change corporate constitutions in three ways: 1. A fraction of their shareholder equity is transferred by book entry each year to a stakeholder equity account from which shares can only be issued to citizens. Location of the citizens would be limited to the host bioregion of the firm and/or in the electorate of the politicians who introduced the tax incentive;

2. Shareholders elect two boards, one to manage the business elected with one vote per share and a second board to manage the corporation with one vote per shareholder. (European corporation may have two boards, but shareholders only appoint one board that then appoints the other);
3. Each stakeholder constituency on which the corporation depends for its existence in its host bioregion elects advisory boards to protect their interests, mentor management and suggest Key Performance Indicators for the "Governance Board" (Murray, 1998).

The democratically elected governance board has no power to manage the business. It simplifies complexity for directors by removing their systemic, direct, unethical conflicts. These arise when directors become involved in selecting and paying auditors who report to shareholders on the integrity of the directors' accounts. Other conflicts arise when a director controls the AGM to hold directors to account, determines the agenda, location and/or time of the meeting, counts the votes in contested elections, use open proxy votes to entrench their positions, control the and/or support their own re-nomination or remuneration.

Managing other conflicts of interest is also made more credible by the governance board. Eliminating systemic director toxic conflicts reduces both the complexity of their duties and financial liabilities. It allows completely different skill sets, experiences, and community connections to be introduced to the firm. These are enriched by the stakeholder mentoring boards. However, shareholder's primacy is maintained as only shareholders possess the power to nominate or dismiss directors and determine their remuneration.

The tax incentive cost is recovered from taxes paid on dividends gifted to stakeholders, with other

stakeholders reducing or eliminating their welfare costs. Dividend distribution would be maximised to minimise equity dilution. Because the incentive costs are recovered, they can be made sufficiently large so shareholders can achieve higher, quicker, less risky profits by endowing stakeholders five per cent of their equity each year.

The stakeholder boards provide a way to “privatise regulation” (Turnbull, 2008; 2021) and advise the governance board, independent of management, on how well management provides other benefits to stakeholders.

Ecological corporations protecting nature

Corporations would then take on ecological characteristics in three ways. (a) adopting polycentric self-governance like all living things; (b) creating “offspring” corporations like biotas. Firms would grow their business through their offspring entities funded by dividend re-investment plans and from new investors. Offspring firms also provide succession planning for shareholders, management, and stakeholders, and (c) Like all biotas, possess limited life. A five percent endowment per year creates a 20-year life. This time limit, *without a tax deduction*, was adopted by US corporate charters after the War of Independence. “Having thrown off English rule, ... citizens made certain that charters were issued one at a time with a limited number of years” (Grossman *et al.*, 1993).

I have twice proved the practicality of raising high-risk start-up enterprises with contracts for their investment being limited to 15-year leases. The first was Saxonvale Vineyards Limited. It was funded in 1969 and publicly traded in 1975. The second was Barwon Cotton Limited funded in

1979 and publicly traded in 1984. I was also a 1983 co-founding owner of Australian Film Underwriting Pty. Ltd. We funded half a dozen films with investors only obtaining copyright revenues for seven years to minimize reporting costs.

Self-funding wellbeing for all citizens

Distributing surplus profits to citizens creates a process to fund a universal corporate wellbeing dividend for all citizens. It would reduce the need for taxes, welfare payments and big government. The US State of Alaska illustrates the potential. In 2022, every resident over 12 months obtained a dividend of \$US3,284 from a single pipeline business (DeMarban, 2022). If a similar dividend was obtained from four other enterprises, it would exceed the US minimum wage (US Department of Labor, 2009).

The endowment of surplus profits directly to only citizens would allow a majority of the UN's seventeen Sustainable Development Goals to be achieved (United Nations, 2024). These are the first 7 (“no poverty”, “zero hunger”, “good health and well-being”, “quality education”, “gender equality”, “clean water and sanitation”, “affordable and clean energy”), number 10, “reduced inequalities”, and number 17, creating “partnerships for the goals”.

No new laws are required to introduce polycentric governance. Significant business examples exist in leading jurisdictions. It is only the corporate constitution that needs changes. Examples of such distributed decision-making are the Mondragón Corporacion Cooperativa in Europe, The John Lewis Partnership in the UK and VISA International based in the US. These principles are consistent with earlier work on building self-reliant communities through locally embedded ownership,

participatory governance, and decentralised economic control (Benello *et al.*, 1997).

Each example has survived business cycles for over half a century to provide evidence of their competitiveness and resiliency. These features are consistent with why evolution universally develops distributed decision-making in all living things. It allows them to become self-regulating, self-reproducing, self-governing, and to various extents self-repairing.

Changing corporate constitutions

I have twice changed corporate constitutions to introduce polycentric governance. The first was in 1974. I became the unpaid CEO of the unincorporated Australian National Ski Federation. I federated the self-governing state bodies into a non-profit incorporated as the Australian Ski Federation. Australia became a self-governing member of the Fédération Internationale de Ski. The FIS was in turn a member of the self-governing Olympic Committee, that self-selects its members. Olympic sports illustrate how the self-governing insights of Ostrom can be extended from local self-governing clubs to a global authority through various levels of nested networks of autonomous organisations. They both cooperate and compete creating win-win outcomes for all stakeholders.

Polycentric governance allows the emergence of this paradoxical behaviour. Mathews notes that it is a defining feature of self-governing components described as a Holon (Mathews, 1996). Their contrary paradoxical behaviour is described as "Tensegrity" (Turnbull, 2022b). It is so ubiquitous in the structure of living things that Tensegrity is described as "The architecture of life" (Ingber, 1998). Networks or Holons are described as Holarchies that exhibit radically

different characteristics from hierarchies (Turnbull, 2022a, p. 91).

For example, Holons are autonomous but also integrated. They are centralized while at the same time decentralised. Holons can exhibit behaviour that can be both bottom-up and/or top-down, ordered and/or chaotic. The founding CEO of the polycentric self-governing VISA corporation coined the word "Chaordic" by combining the words "Chaos", and "Order" (Hock, 1999). Tensegrity allows stakeholders to obtain benefits while maintaining shareholder primacy. Unitary boards deny tensegrity to make it invisible to their researchers.

Promoting Democracies by Democratising Capitalism

Promoting democracies is consistent with the governance proposals of Larry Fink, the CEO of BlackRock. BlackRock is currently the largest fund manager in the world managing US\$15 trillion, as at the end of 2025. In a 2018 letter to the CEOs of the companies BlackRock had invested in, Fink identified "Group Think" as a problem. He wanted: "A new model of corporate governance" (Fink, 2018).

Fink named one of his executives I reported to for another investor in the UK in 2002. This was when I was commissioned by the London-based New Economics Foundation to author one of their public policy booklets on "A New Way to Govern: Organisations and Society after Enron" (Turnbull, 2002).

My policy booklet explained why Fink stated in 2018: "Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." This is only common sense.

No business can exist without stakeholders. But unitary boards promoted as “best practice” (ICGN, 2021) shut out stakeholder voices to deny Fink’s wish “to bring other critical stakeholders to be brought to the table”.

It’s time to radical reduce inequality to democratise and purify capitalism. Ecological constitutions would create self-reliant self-governing bioregional ownership and control of corporations. It would allow every citizen of the planet to participate in local self-determination of sustainable populations in each bioregion and how to best protect and nurture the environment to perpetuate biodiversity that included humans. This provides a reason for green votes to join the extreme left and right to vote for a shareholder driven richly democratic stakeholder self-governing society (Turnbull, 2000; 2021).

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