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# Review of Business & Finance Studies

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# **THE SOCIAL IDENTITY DYNAMICS OF GRAMSCIAN HEGEMONY CONSTRUCTION: BUILDING PUBLIC GOODS THROUGH NATION STATE CREATION, COMMERCIALIZATION AND INSTITUTIONALIZATION OF STATUS STEREOTYPES**

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## **ABSTRACT**

*The creation of public goods is a concomitant with constructing a primary, terminal self-identity community whose authorities in the form of the government the modal citizenry grants legitimacy. Those authorities have the rhetorical and persuasive leadership capacity to create authoritative institutions and policies. The recognition of those goods as public signifies that the modal member of the public functionally views the authoritative output of the policy making process as morally acceptable. Such an observer functionally views the policy's utilitarian distribution of resources within polity and society as representing the public interest. By being functionally perceived as serving the public interest, the authorities' distribution of goods is functionally accepted as public goods. The policies are functionally or actively perceived as reinforcing the common welfare, the public interest. Public health is one of these public goods. The characterization of the political regime typifies the control relationship between the authorities and the public. Generating public goods is uniquely problematic for each polity due to their respective dynamic constellation of values, attitudes and norms that are systemically interrelated. Effective legitimation public performance requirements by state authority figures vary across polities. Acknowledgment of effective control maintenance over and mobilization of societal resources constitutes effective leadership.*

**JEL:** A13, A14, D73, E42, F5, H41

**KEYWORDS:** Corruption, Hegemony, Nationalism, Public Goods, Rule of Law, Social Identity Theory

## **INTRODUCTION**

**T**his paper outlines the socio-political psychological processes that constitute the operative development of institutionalization of state authority. It focuses on the Weberian ideal-typical nation state to create so-called legitimate government control power. Coercion as control authority relies on the belief by the target in the impending overwhelming likelihood of experiencing costly punishment for failure to conform. Rather than relying primarily on coercion, legitimate authority has its basis in public acknowledgement that the ruling elites occupy their position in accordance with moral and ethical propriety. This prevailing view among public attitudes functionally holds that the government represents the nation state's so-called common welfare in providing so-called public goods. Disobeying the government is likely to be costly, but more importantly, obeying the government is morally obligatory, i.e., the target functionally grants legitimacy to the government. In sum, the target functionally perceives the government apparatus representing the state as having the moral and ethical right to speak in the imperative voice to the domestic target. The provision of public goods is closely tied to the concept of hegemony in the literature, highlighting the intersection between global and national capitalist political economic evolution (Foot, 2020, Kochi, 2017, Skerritt, 2020). "Poststructural hegemony theory [...] is rooted in the Gramscian notion

that hegemony rests on the ability to universalize the particular interests of a group as a socioeconomic and political structure (Gramsci, 1971, p. 181)” [sic] (Wullweber, 2019, 150). This paper postulates that a hegemon is perceived as providing public goods that functionally serve to gain and support legitimacy for its dominance. This hegemonic power domestically in the ideal-typical case is the sovereign state. Internationally the regional or global hegemon provides public goods. This paper’s thesis is that international hegemony is benign if it meets the necessary (if not sufficient) requirement that it is perceived as affirming national self-determination. Benign international hegemony contributes to a supranational liberal political and economic community, e.g., the European Union. The EU’s supranational institutions constitute its political representation, with the EU not being perceived by the modal EU citizenry as a cloak for German neocolonialism (DeDominicis, 2020).

International hegemony is benign if the public goods it is functionally viewed as providing allow for social creativity strategies among the nation state member components to maintain status equality. In sum, in this ideal-typical model, the national components are different in their features and contributions but perceived as equal in status. National status hierarchy rankings are not perceived as immutable and unidimensional. National community exploitation of these social creativity opportunities permits individual social mobility into the supranational European identity of liberal cosmopolitan political and economic values. Public health is a public good and the Covid-19 pandemic illuminates the necessity of global institutional infrastructure to provide it as a global public good.

Cosmopolitan shame would stem from being perceived as a hypocrite. In sum, state leadership receives condemnation for masking one’s nationalistic, particularistic goals and aims of international preeminence maintenance in broadly appealing universal terms. These terms historically include religious or ideological symbols, i.e., human rights. Cosmopolitan hypocrisy generates disgrace, i.e., the actor’s reputational status is undermined. Shame also serves as a normative habitual and active control function. Treason is shameful just as crime is shameful. Shame is institutionalized as self-loathing by the marginalized as Fanon (1966) noted in his *Wretched of the Earth*. Social justice movements as sustained contentious politics aim to transform institutionalized attitudes. They challenge state-institutionalized perceptions of the marginalized as weak and invisible and contemptible. –Creating this ideal global public health infrastructure requires dialogue among the national and cosmopolitan constituencies constituting the international community. The existing institutional infrastructure around which confronting the pandemic coalesces provide these constituencies with utilitarian economic and participation opportunities. For example, in highlighting the challenges in developing a vaccine against the Ebola virus ravaging poorer world regions, Torres (2015, 19) quotes Surowiecki (2014, para. 7): “Economists on both the left and the right see them [economic prize awards for targeted scientific and engineering technological breakthroughs] as a useful way to spark innovation. They’re cost-effective, since you have to pay only if the product works. They’re well suited to encouraging investment in *public goods-like antibiotics and vaccines-where the benefits of an innovation aren’t reaped only by those who use it. (My family is safer if yours is vaccinated.)* They rely on existing infrastructure. And, in economic jargon, they harness market forces by “pulling” research into neglected areas” [sic] [emphasis added].

These constituencies thereby utilize state responsibility obligations and capacities to engage in social creativity. State authorities may promote coordination of national and global policies to respond to the emergencies due to global pandemics and Anthropocene climate change. The institutionalization of this transnational coordination may support the emergence and creation of utilitarian opportunity structures for engaging in national group social creativity and individual social mobility (DeDominicis, 2021c). Cottam and Cottam (2001) apply social identity theory from social psychology to analyze the political psychology driving collective group social psychology and behavior. They note that individual social actors seek to maintain a positive self-image while engaging in social comparison while concurrently forming self-identity ingroups. This paper’s additional argument is that polarization of national politics is a form of social categorization and comparison. Its strength reflects the intensity and salience of conflicting

proprietary claims to the substantive policy significance and meaning of national sovereignty within the international community. The intensity of internal political polarization correlates negatively with predisposition to accept mandates from the authorities as functional public goods, e.g., security. These public goods include Covid-19 pandemic public health protection mandates (see Tables 1, 2 and 3 below).

Social identity theory's foundational motivational principles are that 1) an innate drive of the individual is to maintain a positive self-image, 2) individuals form ingroups versus outgroups, 3) individuals comparatively evaluate the social status of their ingroups with salient outgroups, 4) individuals tend to equate the comparative status of their ingroup with their self-image. If and when individuals comparatively evaluate themselves negatively within their societal contexts, then they will respond psychologically and socially, individually and collectively. Individuals have varying intensities of self-identification with a multitude of ingroups, but self-identification with a national ingroup is prevalent among homo sapiens and social competition can lead to violence. Upon comparing one's ingroup with another and perceiving one's own status as inferior and therefore one's self-image as negative, the perceiver can respond with three psycho-behavioral strategies. One strategy is social mobility, i.e., attempt individually to join the perceived superior status group, if feasible. A second strategy is social creativity, i.e., the perceiver compensates by changing the evaluation criteria, selecting those on which the perceiver views their ingroup as superior over the outgroup. A third strategy is open intergroup conflict, i.e., social competition, in which the ingroup perceiver views the relationship with the outgroup as zero-sum. Any gain by the outgroup is perceived as coming at the cost to the ingroup. National self-determination movements, by definition, seek to break and reset the relationship upon the foundation of status equality through secession to form their own sovereign community (Cottam and Cottam, 2001).

Positively all stereotypes allow for social creativity to justify internally and externally strategies and behaviors against the shared common enemy (Cottam and Cottam, 2001). The instability of international hegemony from reliance on scapegoating a common foe makes institutionalization of a supranational community identity less likely. A gap exists between rhetorical commitment to universal human rights ethical obligations, such as providing global public health, and actual behavior. Overcoming this gap requires conceptualization of the substance and process of ethical change. This "theory of moral change" aims to illustrate key features of "change in our political and social institutions," without which such a theory would be "pointless" (Brenkert, 2019, 918, quoting Rorty, (2006)). This paper outlines the conceptualization of the development of so-called developed nation state authority. It highlights the neo-corporatist functional state authority utilization of market mechanisms to shape preferences through institutionalizing status ideal standards that the authorities appear to represent.

The first section below critiques the concept of public goods and its evolution and development from the theoretical perspective of state authority. The next section describes essential dynamics of hegemony construction in relation to commodification, consumption and control. It introduces a social psychological framework for analyzing the dynamic process of state development as a control system within the global political environment. The following section analyzes the internal social psychological dynamics driving this dialectical process of stereotyping, institutionalization and commodification in relation to political control. The data and methodology section highlights that given the community control function analyzed here, the public record of the political activity of social justice movements and state responses is most useful. The following section highlights the findings from a focus on contemporary political developments amidst the Covid-19 global pandemic, Anthropocene climate change, and global trend responses. It highlights the substance and meaning of liberal hegemony as necessary if not sufficient precondition for effective responses. The next section highlights the construction material in the form of the authority of the nation state in providing the building blocks for creating liberal global hegemony. Corruption as subjectively perceived and defined is a major challenge to this tactical objective. The final two sections explore the implications for national intermestic policy.

## LITERATURE REVIEW

### Regime Authority and Political Economy

Political economy includes the application of state capabilities to generate and regulate social competition, social mobility and social creativity capacities and opportunities within a community (DeDominicis, 2021a). The public determines the legitimacy of the authorities. This determination is dynamic in terms of the evolving prevailing views among the modal citizenry of the obligations of state authorities towards the citizenry. It is dependent on the extent that the citizenry perceives the authorities as providing adequate societal opportunity structures for engaging in salient ingroup social creativity and individual social mobility. The public’s collective perception of the relative effectiveness of the authorities in providing these opportunity structures equates with regime stabilization and authority maintenance by the ruling elite. Current US media discourse in effect labels neo-corporatist intervention to create adequate social mobility and creativity opportunities in the form of human and physical infrastructure investment (DeDominicis, 2021a). Liberal theorists acknowledged and advocated the necessity of the state authority providing infrastructure as in effect a public good (Schouten and Miklian, 2020) (see Table 1 below).

Table 1: Traditional, National Conceptualization of Public Goods versus Non-Public Goods

	Excludable	Non-excludable
<b>Rivalrous</b>	<b>Private Goods</b> Food, clothes, cars and other consumer goods	<b>Common Goods</b> Fish, timber, coal
<b>Non- Rivalrous</b>	<b>Club Goods</b> Cinemas, private parks, satellite TV	<b>Public Goods</b> air, national defense

*Source: Boyce, 2021. Table 1 is an example of a common conceptualization of public goods on a national state level. Providing for the common defense is a good that the entire public benefits from in this ideal-typical model, i.e., national citizens cannot be excluded from the benefit while market functions alone cannot provide it. Government authority intervenes to provide the good. The cost for the good varies among the different societal actors providing material resources and behavior modifications, e.g., mandatory military service. The cost of the burden is subjectively perceived. Its acceptability depends on various factors including the perceived legitimacy of the authority of the government. In polities with legitimate authorities, the politically prevailing view perceives/assumes the public good to be essential and its costs for provision legitimately allocated.*

John Locke articulated demands of the emerging British bourgeoisie. These demands functionally advocated the utilization of British sovereignty for state reform. This state authority was to defend and expand social opportunity structures in Great Britain for social mobility and creativity for the emerging middle class. “This radical transformation [i.e., commodification of societal resources] was not solely the product of economic forces but was accomplished in unison with the judiciary and intellectuals (e.g., John Locke)” [sic] (Ilc, 2021, 348). Locke’s program required nation state intervention to create public goods, e.g., the rule of law via contract enforcement to protect property rights. They functionally served to expand societal opportunity structures to empower the rising bourgeoisie. They aimed to engage dialectically in effective group national social creativity providing substantive benefits and thereby, individual social mobility vis-à-vis the traditional aristocracy (Cottam and Cottam, 2001). Table 2 (below) expands the typical conceptualization of public goods provision to include international regional and global public goods in the pre-Covid-19 global pandemic era.

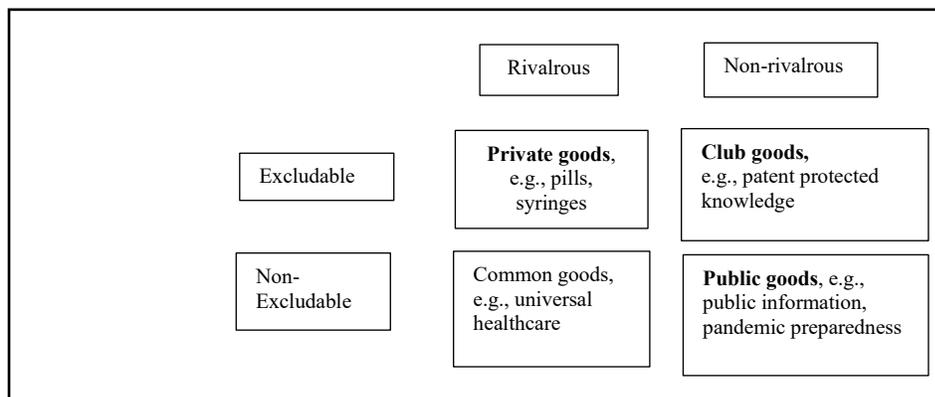
Table 2: “The Scale and Impact of Public Goods”

Local Public Goods:	National Public Goods:	Regional Public Goods:	Global Public Goods:
Street signs or Street safety	National electoral system	Early warning systems for tsunamis	Global warming
Law and order	National health system	The management of river basins	Peace and security

Source: Ersoy, 2011 Table 2 references provision of national health care as a public good as critical. It was not originally perceived as such when providing for the common defense was highlighted in the formulation of US constitution. Increasing awareness of interdependency among individual, group, national and global actors incentivizes access to health care services to become a public good. Great variation exists regarding degrees of ease of access to and quality of a critical good. The awareness of ineluctable interdependency and the need to address global warming on a global level makes climate change mitigation a critical global public good. The nuclear setting makes global peace a critical global good. Effective international cooperation, collaboration and coordination among national governments is necessary to provide these public goods.

Table 3 (below) highlights the conceptualization of pandemic preparedness as a critical public good. Effective international collaboration, coordination and cooperate requires global opportunity structures that protect nationally sovereign self-determination. It thereby requires effective global leadership via collaboration, cooperation and coordination to provide global opportunity structures. In this ideal-typical model, the respective prevailing political worldviews within these national politics is that these structures for engaging in national social creativity are substantive.

Table 3: “Categorization of Global Public Goods [Kaul, Grunberg and Stern, 1999; Moon, Röttingen and Frenk, 2017; Stein and Sridhar, 2017].”



Source: Thomas et al. 2020, 6 Pandemic control is a public good that critically incentivizes cooperation at a global level due to the salient, innate interdependency among national collective well-being and effectiveness for global containment of the pandemic. The Covid-19 pandemic illustrates that the virulence and infectiousness of the virus increases the perceived salience and intensity of the need for global cooperation to provide this national good. It requires an authoritative international level of policy making to provide the necessary international coordination to manage the pandemic to mitigate its perceived individual and national societal direct and indirect costs. The global economy clearly undergoes disruptions from the Covid-19 pandemic that generate significant national political costs, e.g., national price inflation, due to production chain disruptions.

Within this political economy, the authorities can utilize price signals as a means by which to manage societal resources through utilitarian incentives. Government agencies within capitalist market economies orient their guidance of society within this prevailing system of price signals. The need to avoid excessive commodification emerges when this excessive commodification produces perceived so-called market failures. A market failure is a subjective judgment reflecting societal receptivity to ethical rhetorical appeals. For example, lack of US universal health insurance coverage amidst the Covid-19 pandemic due to the excessive commodification of healthcare is a collective, subjective normative political judgment. Perceived market failures can threaten regime stability to the extent they functionally characterize the prevailing political view within the polity. The authorities’ functional response can be to intervene to modify societal opportunities structures. The functional aim is to limit the intensification of perception of intra-societal relations in zero-sum terms. In the latter scenario, intense polarization leads intensifying social competition both on an individual and on an intergroup level.

This paper is about “how the public good is defined and manifested” (Hazelkorn and Gibson, 2018, 268). Economists typically conceptualize public good in terms of “economic utilitarianism” (Hazelkorn and Gibson, 2018, 261). This paper outlines the dynamic construction of prevailing societal ethical norms in terms of status assignment determining what is more desirable to strive to own, to consume and to be as a citizen. The public grants legitimacy to the authorities to the extent that the authorities succeed in presiding over a societal consensus that they provide roughly equal status acquisition opportunities to the citizenry. The authorities fail or succeed through public policy. In this context, the politically prevailing view is that status shortcomings are due to responsible individual failures and inadequacies. The authorities are hegemonic. In this Weberian ideal-typical model, legitimate government authority is itself concomitantly a public good. In sum, the so-called rule of law is actively believed or habitually assumed to prevail in the community. To rephrase, the prevailing societal view is that the authorities and their laws are just. Societal change dynamics accelerate in the midst of a crisis. Examples include the perceived disproportionate racial and class impact of the Covid-19 global pandemic, generating heightened societal political polarization trends. These polarization trends impact on the subjective perception of the efficacy and morality of public policy among different polarizing national sub-group constituencies.

The functional legitimation efforts of the state authorities include normative active rhetorical/ethical appeals with a foundation upon affirmation of ingroup shared self-identification via collective action. Effective liberal polity leadership succeeds in regulating these national sub-group polarization intensification trends. These domestic control strategies can include promoting social creativity engagement opportunities by associating nationalism with pro-change values in response to progressive social movements. They require liberal state public policy societal intervention. Social creativity and mobility opportunity structure expansion includes adoption and implementation of effective political and socio-economic desegregation/social justice/welfare state programs (DeDominicis, 2021c). Coercion to repress change demands risks reinforcing social competition. Totalitarian coercion by the state authorities can disintegrate sub-group opposition into anomic individuals and small patron-client groups, i.e., focused on survival and security needs. Those individuals seeking utilitarian benefits may follow social mobility routes via cooptation into ruling state apparatuses (DeDominicis, 2022). State authorities that rely upon coercion for public control beyond a tertiary level are less effective in mobilizing all polity resources, *ceteris paribus* (Cottam and Gallucci, 1978). They display a relative weakness in generating effective external diplomatic bargaining leverage instruments because of opprobrium among international human rights constituencies. This negative appeal is desirable to avoid it if an actor has pretensions to assuming a comparatively more stable hegemonic role in international relations.

Competitive political discourse in Washington currently includes struggle over the definition of infrastructure as a public good (Brandus, 2021). The more parochial WASP conservative populist-nationalist core sees a threat from broadening the definition of infrastructure in accordance with growing recognition of international interdependency. It will support trends that function to pluralize the state in terms of authority norms. This resistance on the eve of what became the US Civil War obstructed national infrastructure development and immigration plans due to intensifying political polarization around the issue of slavery (Calomiris and Pritchett, 2016). The Biden administration repetitively refers to the need to compete with China requiring in effect the better development of America’s power potential base. These rhetorical appeals focus on integrating the polarized components because polarization undermines the mobilization base of the public within the polity. Hence, the US authorities are predisposed to continue to reference the China challenge via directing public attention towards a perceived, commonly shared challenge to mitigate domestic polarization. The so-called ally stereotype is thereby more likely to characterize national sub-group relations.

International Interdependency and Social Status

The transcension of ascription by achievement for societal status acquisition requires creation of larger salient and intense imagined self-identity ethical communities of fate (Trompenaars and Hampden-Turner, 2012, Cottam and Cottam, 2001). The ethical and legal judgment of parochial ascriptive marginalization as a crime requires ethical criteria defining membership in a superordinate community. International human rights obligations override national ascriptive systemic discrimination enshrined in law, e.g., Jim Crow laws, not to mention national custom. Globalization's interdependency generates incentives to respond favorably by those who benefit personally from the utilitarian economic and participatory status and material opportunities of globalization. The creation of greater opportunity structures can be encouraged by strategy so that efforts and incentives for social creativity are reinforced. It requires that transnational epistemic communities acquire supranational institutions, e.g., the World Health Organization, to represent supranational identities. Ascriptive national status conservative reaction must be circumvented with allies. These allies are multinational for-profit and non-profit actors. International institutions constitute a trellis around which international civil society non-governmental organizations can evolve and develop. Coordinated, collaborative state leadership can guide, coordinate and focus action by a multitude of actors.

The commodification of healthcare serves further to reinforce normative habitual ascriptive differentiation by exploiting and thereby reinforcing assumptional biases. The creation of a national political community consists of organized, "selective remembering" and "selective forgetting," to create a common past (Rigney, 2012, 611). Congruently, then, the state may also be understood or rephrased to be organized, i.e., institutionalized, selective stereotyping/archetyping. The stereotyping process is activated or intensified in the process of mobilization of state actor resources, so it is a dynamic process as well. It characterizes normative active control. From another perspective, human nature includes a collective process of organized simplification, i.e., of forgetting, in order to create and mobilize ingroups versus outgroups. -Role models amidst modernity are living symbols of higher status through achievement. Once they are institutionalized, however, they become ascriptive tools for stereotyping individuals, both self and other, in terms of how those individuals conform to the role model as perceived by others. Social creativity through progressive social movements involves mobilizing the control capacity of the state to change these archetypes and stereotypes of the ideal American man, woman etc.

Successful leadership within a social justice movement is itself a form of achievement. That leadership role can also be institutionalized so that Blacks now are under suspicion among right-wing authoritarians as being radicals, socialists, i.e., un-American. They become positive role models for others, e.g., Thurgood Marshall. Liberal role models will be undermined to the extent they are seen as utilizing their liberalism to threaten the sovereignty of the nation. The functional creation of societal Gramscian hegemonic acknowledgment of the authorities' provision of a public good is the concomitant consensus identification of an existing negative externality. The public good counteracts this perceived negative externality. Government environmental protection regulations counteract the now-perceived intolerable levels of negative externalities from unbridled private sector economic activity. The intensity of perceived challenge from national pollution emissions derives from self-identification with the perceived existence of a global community. The perception of a global community is a concomitant of the perceived ineluctably interdependent national components. Negative externalities have a subjective ontological component insofar as they assume awareness by the subject that his or her wellbeing is interdependent with the wellbeing of the community. For such an awareness to exist, the observer must recognize his or her membership within the imagined community whose collective wellbeing ultimately affects his or her own, individual wellbeing. Interdependency is ineluctable; what is changing is growing awareness of this interdependency. Awareness of interdependency is a diplomatic bargaining lever (Cottam and Gallucci, 1978). The salience of this awareness exists and changes concomitantly with self-identification with various ingroups by the subject. -Alongside family ingroup awareness exists self-identification with other various ingroup self-identifications of varying degrees of intensity and salience. Among the most intense and salient

are national ingroups, ranging from as small as Iceland to as large as China. Homo sapiens demonstrates a predisposition to associate the wellbeing of these ingroups with his or her own well-being (Cottam and Cottam, 2001). This well-being is broadly construed here to include dignity and other emotional psychological needs as well as material and security needs. The larger the ingroup with which the individual subject self-identifies indicates a predisposition to be sensitive to interdependency. It correlates with awareness of the reality of social change through human action. This sensitivity may generate hostile as well as accommodative responses, depending upon the actor. Militant supporters of Donald Trump react with greater resistance to interdependency than do global sustainable economic development activists who may rather highlight and extol it (DeDominicis, 2022). The salience and intensity of so-called negative externalities in relation to their perception and comprehension is subjective. It depends upon the salience and intensity of the subject's self-identify ingroup identifications. Comprehension and concern with them, is congruent with the salience and intensity of an individual subject's self-identification with these various so-called imagined communities.

At the international level, multinational corporations serve a function to institutionalize existing global hierarchical status relations in the products they produce and market for consumption. The more value-added production processes involved, the more complex the organizational collective perception of the international milieu. The "commodity curse" (Deaton, 1999, 34) holds that "if productivity gains are exclusively concentrated in the sector of tradable goods, then resource boom has detrimental effect on the traded sector and slows down productivity growth" [*sic*] (Iacono, 2018, 63, referencing Alberola and Benigno, 2017). Development incentivizes a shift in the direction of a globalization and self-identification with a global polity by human resources vesting their career identities functionally into global interdependency. Bureaucratic vested interests emerge around existing state foreign policies. These interests cooperate in a corporatist arrangement with for-profit sector actors to generate value along these institutionalization forms.

### Commodification, Organization and Mobilization

Capitalist advertising marketing campaigns reinforce typically unspoken assumptions of ingroup community identity. These community identity markers include implicit or explicit shared assumptions about aesthetic ideals/stereotypes. They facilitate mass marketing for consumption, including sizeism, ableism, racism, sexism and ageism. They establish evaluation markers for status acquisition in terms of actor approximation in achieving these institutionalized consensual stereotypes/archetypes. Marketing campaigns exploit and reinforce these ideal archetypes/stereotypes. These commodification stereotypes include national mythologies, e.g., the taming of the Wild West as part of Americans so-called manifest destiny. It functions as part of leisure travel services that appeal to national identity, particularly in nation states. Those marginalized communities functionally targeted for exploitation and assimilation become part of the romantic nation building mythology. Their stereotyping is systemically reinforced through profitable purveyance of these romantic stereotypes, e.g., "some travel venues have gained a legendary place in American nostalgia, despite perpetuating incorrect stereotypes. There were seven Wigwam Village Motels built between 1933 and 1950, and all three that survive are on the National Register of Historic Places. The one in Arizona has twice received grants from the National Park Service Route 66 Corridor Preservation Program" (Schwartz, 2021, para. 17). These commodified, institutionalized stereotypes can be effectively challenged by social justice movements. Their components can include "revelatory strategy of commodity activism" that unmask the obscured social justices underpinning "commodity fetishism" (Duncombe, 2012, 361). The individual may believe in his or her own autonomy while their unconsciously institutionalized stereotypical aesthetic assumptions undergo exploitation by marketers. Consumers avoid experiencing stimulation of perceptions of threat of polarizing external control because of these unspoken, internalized habitual assumptions of aesthetic propriety and desirability. Authority centers typically utilize and exploit these assumptions. Thereby, the typical consumer assumes their consumption choices stem from

their individual autonomy. Defending this belief in individual autonomy is an essential characteristic of neoliberalism (Hake, 2020, Brunkhorst, 2014, Manning, 2010).

In sum, capitalist advertising marketing campaigns also reinforce unspoken assumptions of ingroup community identity. These community identity markers include implicit or explicit shared assumptions about aesthetic ideals/stereotypes unless effectively challenged by social justice movements. Otherwise, they are the essence of normative habitual control, focusing on utilitarian economic and participation needs and satisfactions to reinforce the primary normative habitual obedience. It is most feasible in nation states, i.e., in a state with its community foundation being a national ingroup. A national ingroup collectively functionally perceives itself as sharing a common ethical system of values and norms as it displays through its citizens' collective behavioral allegiance to this ingroup (Cottam and Cottam, 2001, Trompenaars and Hampden-Turner, 2012, DeDominicis, 2021d). During times of crisis, normative active control may be activated, i.e., appeal to the defense of the national community organized as a state. The latter is an institutionalized and idealized shared cultural community delineated by territorial boundaries. Corporations function within this milieu. As David Brooks (2021) commented, somewhat cynically, regarding the 1960s' New Left social movements: "In the 1960s, left-wing radicals wanted to overthrow capitalism. We ended up with Whole Foods" (para. 3).

Commodification involves the utilization of institutionalized stereotypes. They include stigmatizations and mythologizations, to appeal to and stimulate consumption behavior in return for monetary exchange. Positive responses to these commodified stereotype appeals reinforce the institutionalization of the stereotypes. The individual's belief in their own autonomy while their unconsciously institutionalized stereotypical aesthetic assumptions undergo exploitation by marketers. Conformity with the prevailing standards for evaluating achievement to gain status is therefore useful but so also is social creativity in terms of creating a dynamic economy. Critiquing Adam Smith's political economic theoretical framework, Harris (2020, 158) emphasized that Smith's liberal reformism required effective state regulatory accommodation to a dynamically evolving status quo: "The laws required for the proper functioning of the economy, and the protection of wealth that it generated, needed simply to be imposed on most people, with the help [...] of natural habits of deference and respect." Observers highlight the importance of the rule of law in creating effective, efficient markets, i.e., effective, efficient development and allocation of potential power base resources. The most efficient capitalist economics does not emerge without a strong state, i.e., comparatively strongly institutionalized norms of norms of behavior, as articulated through law (Bugarcic, 2015). These norms are ascriptively assumed to be proper, especially legally inscribed norms.

Changing them to accommodate changing societal values that change because of social creativity is regulated through the policy making process. This process includes the legitimation outcome by which the authorities persuade the public to grant legitimacy to these policies and therefore to the authorities overseeing the process. In so-called advanced, industrialized, developed countries, development of the power potential base of the state requires greater social creativity. Expanding group social creativity opportunities serves as a dialectical vehicle for individual social mobility amidst economic social competition. Human resource motivation requires employer's provision of self-realization opportunities, i.e., social creativity opportunities that the company provides. Loyalty to the enterprise is thereby reinforced (Gross 11/2021). A prerequisite for social competition success by globalizing economic enterprises is to incorporate and mainstream gender and ethno-racial diversity throughout their institutional structures. A functional aim of this diversity is to increase the capacity of the enterprise and the globalizing national economy in general is to identify niche markets and exploit them. American elite business schools reflect these globalizing interdependency cooperative attitudes. Their evolving MBA curricula displays more emphasis on "diversity, equity and inclusion" and "environmental, social and governance" topics (Gross 8/2021, paras. 24, 6). The functional essence of a liberal political regime is one which regulates social competition effectively to reduce coercion as characterizing social relations. It maximizes opportunity structures for dialectical engagement in ingroup social creativity and individual mobility strategies.

Thereby, resort to coercion by both state agents and civil society actors is tertiary. Neo-corporatism, which encompasses Keynesianism, functionally serves to develop, regulate and stabilize these opportunity structures (DeDominicis, 2021a). Welfare state policies functionally convert citizens into commodities, i.e., human resources. This commodification occurs if only to gather aggregate statistics for comparative analysis. One prominent legal scholar advocates founding US Supreme Court judicial interpretation on the principle of “the common good.” The commentator cites aggregate indicators that US government policy is comparatively increasingly dysfunctional: “Americans’ life expectancy is now roughly five years below that of people in comparable countries” (Vermeule, 2022, para. 10). Consumers are themselves commodified, as they always have been, in selling email lists and other leads. The commodification of citizens as consumers facilitates their control and deployment by institutions. The latter are ultimately part of the polity even if the control function is outsourced to them via neoliberal ideology.

Innovation incorporates inclusion, i.e., satisfying others’ needs for social mobility and social creativity via for-profit or not-for-profit entrepreneurialism. Inclusion becomes increasingly desirable in the globalization environment. Innovation is about finding or creating niche markets. Liberal state leaderships seek to integrate the heretofore ascriptively marginalized, e.g., overcoming the legacy of segregation. The active accommodation of diversification and inclusion becomes an intensifying imperative. The utilitarian benefits that come from it must be emphasized. “Research has found organizational racial diversity to be positively associated with sales revenue, market share, and profitability (Herring, 2009)” (Williams, 2020, 52). Those who exploit those opportunities aim to include within the collective consciousness a broader, supranational conception of the identity components of the community. These cosmopolitan values include universal human rights. It includes challenging normative habitual obeisance by so-called broadening horizons. To rephrase, it emphasizes acquisition and positive evaluation of identities that extend beyond the parochial and traditional which are the foundation of utilitarian satisfaction. Global human rights treaties encourage this broadening of horizons. Commodification of culture intersects with niche market creation and exploitation. Commodification is necessary to monetize experience so that it can be more readily controlled and regulated by the community through its institutionalization and standardization. It thereby becomes part of the regime control mechanism within society. Acceptance of this process, i.e., unconsciously assuming that it is normal, associates with normative habitual control (Cottam and Cottam, 2001). Normative active control involves the romantic collective political mobilization around romantic stereotypes of the national community’s moral and ethical systems. The traditional nation state founding culture is portrayed functionally as distinct and contested with respect to the perceived challenging Other, e.g., American exceptionalism (Kitch, 2018, Ridley, 2018). Perceived challenges to it are viewed stereotypically, whether the challenge be perceived as threat (enemy) or as opportunity (degenerate) (Cottam and Cottam, 2001).

## **DATA AND METHODOLOGY**

As part of this building of national and global public goods in response to the perceived intensifying challenge of ineluctable global interdependency, this study relies upon the public record for its data. Civil society groups contribute to global media discourse dynamics advocating common human rights protection evaluation standards. They facilitate monitoring, implementation and development of these standards in collaboration with social justice movements and international organizations to promote human rights norm diffusion. To the extent that they are not perceived as dependent on or controlled by state actors to pursue ulterior political motives, the more they seem to have political credibility as evaluators. In prescribing more effective international human rights advocacy vis-à-vis North Korea, Goedde (2018, 198) concludes, “if engagement openings are to be pursued, human rights discourse must concurrently be reframed in more localized and relatable narratives for the North Korean people and government by neutral parties other than entities based in the US and South Korea.” Their public opinion pressure campaigns accordingly influence the behavior of financial and corporate for-profit actors. News media reports highlight, for example, the prominent role of nonprofit organizations in identifying forested areas in developing countries as

opportunities for multinational corporations to purchase for carbon offsets. One such NGO, Verra, certifies forested areas in Indonesia as carbon sinks that for-profit brokers then market to corporations like Microsoft to purchase and protect from deforestation (“Emission: Impossible,” 2021). Questions have been raised as to whether this corporate activity is effective. The offsets may be futile in preventing regional deforestation or carbon emissions overall as it, at best, simply shifts the same deleterious behavior elsewhere. It requires the implementation will and capacity of the state authorities to implement forest preservation policies, which is evidently quite lacking in Brazil’s Bolsonaro administration (Andreoni, 2021).

## RESULTS AND DISCUSSION

### Commodification and Self-Identity

Commodification of existing norms and values which appeal to stereotypes of self and other can reinforce marginalization. The marginalization can break down with new commodifications that ultimately reflect social movement impacts. Community normative active ingroup mobilization activates the intense self-identification with the community imagined as sharing these norms and values, thereby reinforcing them. It can include norms and values founded upon institutions that have historically employed marginalization for exploitation. Commodification and stereotyping are closely interrelated because they involve categorization and simplification that is institutionalized. Its internalization is encouraged through the individual consumer’s focus on parochial utilitarian gratification of participation and economic needs. Those orientations will contribute to assimilatory tendencies that are more pronounced among those subjectively self-perceived as culturally closest to the state’s core culture (DeDominicis, 2022). Marginalized groups may be drawn to international orientations insofar as their political participation domestic demands are more likely to be resisted. Parochiality institutionalizes to constitute the worldview of the individual into which the actor vests her affective orientation to respond to stimuli. Should those stimuli manifest a significant challenge to the parochial worldview, i.e., the Covid-19 pandemic, responses can include reaffirmation of these institutionalized parochial orientations. Cases include vaccine hesitancy and Covid-19 denial. The same tendencies explain climate change denial. It reflects the projection of the parochial self into the imagined national community.

The most intensive attitudes of parochiality that emerge from commodification involves labor provision through enslavement. It centers on the legal transformation of an entire human being in its totality into a commodity. Modern commodification approaches the control function by utilizing psychological mechanisms of status anxiety. It relies upon individual relative status perceptions regarding the evaluation of self as a totality in relation to society. In social media targeted advertising via user viewing histories, the consumer him or herself is commodified. When marketed products are offered to consumers at no charge, e.g., digital media accounts, then the offer implies that the consumer’s personal information is itself the commodity. Facebook more effectively utilizes consumers as commodities through surveillance capitalism as a “new logic of accumulation” that gathers individual data interacting with algorithms (Zuboff, 2015, 75). It reinforces parochiality via the integration of status markers with immediate consumption demands and ingroup self-affirmation satisfaction.

These social media algorithms intensify perceived ingroup versus outgroup polarization through their stereotype-based viewer attention magnification positive feedback functions. These social media algorithms heighten the vulnerability of normative habitual parochial obeisance to heretofore prevailing hegemonic attitudinal institutionalized assumptions of Self and Other. These habitual beliefs fragment concomitantly with the intensifying ingroup perceived challenge to the propriety of the polity’s foreign and domestic policy process outputs. These outputs become increasingly vulnerable to contestation as overly influenced by the participation by the stereotyped, outgroup sources of confrontation to romantically stereotyped ingroup values. In sum, the functional prevailing assumption that the national authorities provide public goods also come under question due to intensifying perceptions of perceived challenge, i.e.,

so-called corruption. “Public information” and “pandemic preparedness” from establishment authority regarding the Covid-19 pandemic becomes increasingly suspect and politicized. It undermines the functional existence of these “public goods” in Table 3 (above). To rephrase, authority hegemony is weakened. It portends a “dystopian future” for liberal democracy (Zuboff, 2021, para. 44). Corrective policy is necessary to protect individual data privacy by legally forbidding unlimited personal data generation and aggregation by social media companies for sale to advertisers.

In the case of American evangelical resistance to public health public goods, it reflects white grievance and white nationalist politics. It reflects the parochial institutionalization of white supremacy into normative habitual status that is projected onto the external environment as a worldview. This worldview can correlate with varying degrees of political attentiveness. A relatively high saliency and intensity of political motivation and hence awareness can correlate with authoritarianism, right or left (DeDominicis, 2022). The affective intensity with which such a worldview is held varies, manifested in the varying degrees of vaccine and mask hesitancy. American right-wing authoritarians will tend to be more resistant to vaccination and mask wearing. Others displaying less intense motivation to affirm this worldview can be prodded to be vaccinated by vaccine mandates. One news media report quoted “an expert on vaccine hesitancy:” “We still have a lot of people who just haven't gotten around to it or don't have huge objections, but no one's told them they have to [get vaccinated] [...] Mandates simplify things for people” (Lafraniere and Weiland, 2021, para. 22–23). “[...] [M]any [evangelical] conservatives [...] believe they must use any means to keep America from being destroyed by liberals” (Smith, 2021, para. 33).

In the case of marginalized people of color, vaccine hesitancy reflects more the habitual parochial institutionalization of avoidance of white hegemonic mandates for body commodification (Choi, 2021, reviewing Vats, 2020). The Black body has traditionally been commodified and exploited for profit. The functionally perceived threat is from systemic white racism, while for the white evangelicals the perceived threat is from transnational epistemic communities. In both cases, the institutionalization of parochiality disincentivizes the pursuit of and processing of information from scientific authorities in favor of parochial sources. They will appear disengaged and less attentive to the scientific findings mediated by news sources channeling these findings. Social media has facilitated this fragmentation. Shared myths become affective ingroup signifiers, e.g., the vaccine dose contains a tracking microchip. In communities in which institutionalized religion is disproportionately representative of forms of civil society activity, evangelical Christian nationalist parochiality will be stronger (Hoffman and Schaff, 2021).

The institutionalization of parochiality undercuts incentives for public political attentiveness to contribute to a normative habitual obedience relationship to the societal authorities. It can be utilized for political mass mobilization through activation of the heretofore latent but intense equation of the system of authority norms with the national community, i.e., normative active control. It typically includes manipulation of stereotypical-archetypical symbolic images of national self vs. other whose institutionalization provided the framework for normative habitual control. State leadership mobilizes this symbol set to defend and expand the influence of the imagined community perceived as sharing these ethical norms for evaluation of behavior. These romanticized norms include rhetorical and functional loyalty to it, generating nationalistic behavior. Defense and expansion of national sovereignty is equated with loyalty. An industrialized polity is most collectively effective in mobilizing its resources if normative habitual control prevails. Such a regime includes implicitly assuming that hierarchical status relations are normal and typical. Such an ideal-typical society is one within which normative habitual obedience to authority is the primary functional regime mechanism by which the political elite maintains its control. Inferentially, prevailing consensual beliefs include a comparatively high level of implicitly shared expectational beliefs regarding interactive societal outcomes. To rephrase, it implies a relatively high degree of societal trust.

Strong institutionalization pervasive throughout the polity will not likely occur if the authorities rely at a primary intensity level upon fear to maintain their dominance of government institutions. Authoritarian

regime authorities will tend to make themselves believe that they do not rule primarily through fear and that they are supported by the modal citizenry. Those serving authoritarian leaders are prone to process the ruling ingroup's self-identity mythologies that their superiors represent, resulting in increasingly dysfunctional policies for generating international influence.

Societies undergoing revolutionary change, e.g., interwar Germany and the USSR, and post-1989 eastern Europe, display societal dissensus on ethical behavioral attitudes and values. By definition, normative habitual obedience tends not to be a primary control mechanism; little consensus exists on the ethically proper and improper rules and roles of behavior. In conditions of privation and insecurity, ingroup loyalty versus perceived challenging outgroups would intensify. Intra-societal polarization would undermine obeisance to authority and government figures perceived as representing these challenging outgroups. The prevalence of belief in the rule of law would decline. Overall levels of societal trust would be relatively less in such societies. In a survey of the literature on societal trust, a quote from Stalin illustrates the paranoia prevailing in such societies: "I do not trust anyone; I do not even believe myself" (Davydenko, Romashkina, Andrianova and Lazutina, 2018, 139, referencing Hosking, 2014, 15).

As indicated in the Davydenko et al. (2018) societal trust typology, societies undergoing revolutionary change, while also intensely polarized, will also display trust among and between regime enthusiasts. It is conceptualized here as charismatic authority of leaders. Authoritarian populist regimes as in interwar Germany, Italy and Japan relied on enthusiastic supporters to suppressively coerce hostile, terrified dissenting minorities (Cottam and Cottam, 2001). Those enthusiastic supporters trusted their leaders who articulated appeals utilizing romanticized/stereotypical national affirmative ideal symbols of self. These symbols include those characterized as ingroup self, versus the despised outgroup other(s), both internal and external. For the majority of the public that with varying degrees of enthusiasm respond positively to these rhetorical appeals, the control relationship may be characterized as normative active. It stands in contrast to normative habitual obeisance and control. The rhetorical call to affirm loyalty to the nation and its state as represented by its governing leadership generates an affirmative response of heightened affective intensity. The overall comparative mobilizational weaknesses of such regimes lies in the coerced submission of a large component of the public unwilling to devote its full capacities to support the system. They tend to despise the authorities in this intensely polarized polity characterized also by primarily reliance upon terror for control, i.e., authoritarian populism (Cottam and Gallucci, 1978, DeDominicis, 2019).

Comparatively high levels of societal trust overall correlates with general public normative habitual acceptance of regime authority. Public opinion surveys and interviews indicate prevailing perceptions of societal relations between self and other. They reveal indicators at the individual actor level of social analysis. Aggregation of those individual worldviews into collective attitudinal behavior patterns vis-à-vis regime authorities reflects behavior at another, collective, state-level of behavioral analysis (DeDominicis, 2021d). Societies manifesting prevailing views of comparatively high levels of societal trust would also more likely demonstrate acceptance of regime authority as legitimate. In this ideal typical model, the output of the state's policy making process would be functionally perceived as providing necessarily public goods, e.g., safety, security, infrastructure and public health. So-called establishment or mainstream public intellectuals, such as economists, would articulate the provision of these public goods as such. In sum, perceived effectiveness of the state authorities in providing public goods correlates with the perceived legitimacy of those state authorities. Comparatively stable nation states may not experience revolutionary change. The governing authorities of these normative habitual obeisance-based regimes may display, during crises, the capacity to mobilize the public. This effective manipulation of symbols that generates an intensely affirmative response from the attentive public has been called the rally around the flag effect. This affirmation of support for the chief executive derives from the collective attitudinal belief that the chief executive represents the nation. Alternatively, the functional equation of the nation with the executive makes acceptance of blatant major diminution of the government's foreign influence politically difficult for the executive despite overextension (Cottam and Cottam, 2001). The political difficulty of US

administrations to extract the US military from Afghanistan illustrates this threat of negative domestic public opinion reaction to threats to American national prestige.

### Creating Public Goods

Creation of public goods includes establishing and promoting the emergence of prevailing views and attitudinal beliefs. From this cognitive perspective, societal provision of universal access to identified resources in the form of government policy is part of essential national infrastructure, e.g., access to childcare services. Elite commentary on the Warren and Sanders US presidential campaigns on the eve of the Covid-19 pandemic crisis noted that the FDR administration established a national network of childcare centers. Utilizing funds from “wartime infrastructure” legislation, it encouraged women to enter the wartime crisis labor force (Covert, 2020, para. 5). The Truman administration shut down the program after the Japanese surrender, but the concept continued to circulate leading to the Congress passing national legislation that the Nixon administration vetoed in 1971. Prominent US Congress members advocating the institutionalization of a national US childcare program point to the US military’s childcare provision system for its uniformed personnel as a “model” (Gupta, 2021, para. 8).

This cognitive perspective reflects the essential nature of institutions as consisting of evolving actor roles and behavioral rules. They exist in the social perceptions and attitudinal beliefs and expectations held among societal actors. Public goods are institutional infrastructure that societal actors utilize to seek social mobility and to engage in social creativity. Social justice and equity issues focus on human rights implementation, which includes creation, provision and promotion of public goods as institutional infrastructure. This approach to public goods utilizing the social identity dynamics of nationalism amidst complex global interdependency reflects the cognitive revolution in international relations theory. Neo-corporatist state leadership for accommodating and exploiting global interdependency emphasizes the recognition of identity in dynamically shaping the contours of bounded rationality in policy making processes (Herrmann, 1988, Hafner-Burton, Hughes and Victor, 2013). This perspective points to development of the concept of public goods in relation to nationalism’s political psychological impacts regarding the institutional evolution of a particular state. It may contribute to the elaboration of the nature of the “sociotropic preferences” that shape political behavior that the “cognitive revolution” in international relations theory has highlighted (Hafner-Burton, Haggard, Lake and Victor, 2017, S21).

The creation, provision and expansion of public goods as institutional infrastructure features the role of social justice movements. They reflect and accelerate the disintegration of prevailing formal and informal institutionalized stereotypes of self and other. These stereotypes justify hierarchical relations which determine differential access to resources, e.g., the stereotype of the male breadwinner and the female housewife/homemaker performing unpaid labor. They also include segregation and marginalization of people of color, which people of color and women had often internalized and accepted. They also include that ascriptive assumption that achievement is material, i.e., money. Thus, those individuals who are wealthy, even if they inherited the money, are higher status, even genetically superior. By bringing so-called private societal relations into the public domain, social justice movements push the state authorities to adopt and reform policies that enforce behavioral change. Changes in behavioral patterns reinforce changes in behavioral attitudes and perceptual stereotypes to expand opportunity structures for dialectical engagement in group social creativity and social mobility.

Commodification is congruent with institutionalization. Commodification is the utilization of utilitarian participation and economic incentives to control, organize and direct individuals formed into ingroups called organizations. Production of desirable commodities to generate organizational and therefore individual benefits in a socially competitive environment can lead to searches for externally appealing social creativity options. They include creation and occupation of new market niches. Success generates social mobility. Market research and marketing are in part also about expanding dynamic opportunity

structures in the market for social creativity engagement by consumers. To create these new market niches requires elaboration of the institutional structure of organizations. Organizations develop and evolve institutionally to facilitate the utilization of the most effective resources that each individual within them can potentially apply. The development of educational institutions facilitates the development of the human resources available upon which to draw by all organizations, at least at a base level. The organizations themselves also offer internships and in-house training building upon this base, e.g., literacy, numeracy, multilingual capacities. At a fundamental level, a resource, including labor, has to be commodified in order to utilize utilitarian economic and political control incentives.

Culture is defined here as norms of behavior including communication as well as preferences which are passed down to a younger generation through early socialization. These include food and other sensory preferences. Culture is shaped by the economic activity of the family which helps constitute the socio-economic environment of the family and the individuals within it. Offspring acquire their preferences from their socialization and state-wide economic structures emerge. They functionally serve to harmonize these preferences as part of economic and business activity in terms of prevailing societal attitudes. At the international level, the collective self-perception of the national ingroup as functioning as a benign hegemon providing international public goods is likely to be self-serving. It is a form of nationalistic universalism. For the national groups seeking alliance with the purported benign hegemon against the formers' perceived adversaries, their socially deviant activities may be perceived as a form of social creativity. Positive ally stereotypes allow for social creativity to justify internally and externally strategies and behaviors against the shared common enemy (Cottam and Cottam, 2001).

The European Union functionally aims to create EU-wide institutions for conflict resolution in the pursuit of status individually and collectively, i.e., the latter focusing on national status. To rephrase, national citizens pursue status in Italy according to Italian institutions. In pursuing higher status both within Italy and outside of Italy, the EU institutions play a functional role building upon the national building blocks. The standardization of institutions occurs in the sense of a shared legal or at least moral obligation of how to pursue interests that starts from the assumption of actor legal equality. This rule of law assumption is foundational in creating, for example, a market, which involves regulated social competition between firm competitors as well as individual social mobility. It is an elite phenomenon, however. A regime has to have institutions as a necessary condition to become a belief in a state's existence. The EU has made a major step in this direction with NextGenerationEU as its response to the Covid-19 global pandemic (Arnold, 2021, Pronczuk, 2021, Peltier and Pronczuk, 2021).

Effectiveness in accommodating these trends is significantly reflected in trends in comparative fiat currency valuations, i.e., trends in prices for goods and services. The provision of a currency is in effect a provision of a public good in the form of a national medium of exchange universally accepted. The provision of this universally fungible public good sets a critical parametric resource for commodification, organization and mobilization. It facilitates the regulation of societal interaction in terms of the dialectical relationships among social competition, social creativity and social mobility. Institutionalization via commodification for organized consumption and therefore value creation is the essence of normative habitual control through the habituation to ascribed status. It organizes and integrates the component actors in the polity. Relative collective effectiveness is reflected in currency value and inflation. It relies upon the institutionalization of stereotypes so that they become norms including explicit or implicit symbolic rhetorical ideals. In nation states, normative active appeals can associate with economics and consumption in terms of the power capabilities of the nation, including the wellbeing of its people. In all types of states, multiethnic, multinational and national, the coercive control apparatus may become an identity community, as in the old Soviet Union. They may become nationalistically mobilized around developing the state's capacities, but the mass public may not support them.

Insofar as a fiat currency is based on the belief of the existence of a sovereign state, the success of the EU in selling Eurobonds on financial markets is a significant development. It indicates that the belief prevails in the substantive existence of Europe. In 2021, “[n]early a year after European leaders decided to launch a massive, jointly-financed recovery program to deal with the consequences of the Covid-19 pandemic, the European Union on Tuesday finally issued the first bond of what will amount to a total EUR800 billion (\$970 billion) borrowing spree over the next five years.” Equally significant was the market demand level low price yield for the Eurobonds, indicating strong confidence in the substantive credibility of the EU as an actor: “The result didn't disappoint: Demand for the 10-year, EUR20 billion bond reached EUR142 billion, according to bankers, and it was priced at a yield of 0.086% -- compare this to the minus 0.23% yield on German bunds of the same maturity” [sic] (Briançon, 2021, para. 1-2).

The European Union's move to issue Eurobonds to stimulate the EU economies is significant. It means that EU is functionally challenging the ascription of the nation state constituting the building blocks of the international community. It utilizes these elements to construct a new belief-entity, the European Union. The cornerstone of this construction is the German nation state, while concomitantly incentivizing dialectical social creativity and mobility amidst regulated social competition to construct Europe. The results of the first Eurobonds auction sale indicates that the international financial community currently believes in the existence of Europe as an actor. Emphasizing the importance of supranational institutions in creating public goods, Montani argues that “the European experience [...] consisted mainly of building supranational institutions and supranational public goods, like the Common Market and the European Monetary Union” [sic] (Montani, 2011, 2). These supranational institutions provide the infrastructure around which supranational political participation may organize global civil society and orient its strategic direction. These initiatives are substantive social creativity-based respond to the challenge of intensifying potential for social competition amidst the heightened insecurity amidst the global Covid-19 extended crisis. Sovereign governments may run national fiscal budget deficits which contribute to national GDP. They also may attempt to avoid accelerating macroeconomic imbalances that the global finance community may indicate declining regime power capacities to meet these debt obligations in the future. The collective confidence of the global financial community in this sovereign debtor's capacity may change. This increase or decrease manifests itself in the changing interest rate on offer for the sale of its sovereign debt bonds.

### Corruption vs. Hegemony

Creation of hegemony and the de facto functional, habitual belief in the provision of public goods associates with community membership acceptance. The community exists, including its system of authority norms. According to Scholl and Schermuly:

*“The evidence in the social sciences speaks for persistent mutual influences between mental and material aspects of perceived and enacted reality. Like any other facts and formal arrangements, the functioning of institutions is shaped by cultural interpretations and vice versa (Alesina and Guiliano 2015; Berger and Luckmann 1966; MacKinnon and Heise 2010). The old wisdom of the so-called Thomas-theorem should be taken seriously: “If men define situations as real, they are real in their consequences” (Thomas and Thomas 1928, p. 572), which suggests that institutional schemes, perse, do not affect behavior, but rather an experienced institutional reality shaped by ideas and interpretations” [sic] (Scholl and Schermuly, 2020, 185-86).*

If the representatives of this system of institutionalized authority norms appear corrupt, then the situation is more or less a perceived threat by the modal citizenry. The intensity of perceived threat correlates with the intensity level of self-identification with the community. Institutions subjectively identified define this community. In this ideal-typical model, a corrupt leadership or administrator is by definition exercising authority control to which the modal citizenry does not grant legitimacy. The power and “control” exercised is therefore viewed as “restrictive” and unjust, i.e., corrupt (Scholl and Schermuly, 2020, 186). This

authority is subjectively viewed as exercised for particularistic, corrupt ends, i.e., ends that serve private gain at the expense of the public good. For Kant's categorical imperative to operate, the modal citizenry must grant legitimacy to the authorities. In sum, they must view the authorities as representing their primary intensity self-identity community, according to this Weberian ideal-typical model.

“This differentiation of promotive and restrictive control as theoretical concepts also has ethical relevance. Respecting the autonomy of the other with promotive control is in line with Kant's categorical imperative: “Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end” (Kant, 1993, 364). Restrictive control violates the autonomy of the other and is therefore incompatible with the categorical imperative. “Restrictive control” gives a more precise meaning to “Abuse of power” in Transparency International's corruption definition: as a theoretical concept, the main application here, as well as an ethical judgement, taken up in the “Limitations” section” (Scholl and Schermuly, 2020, 173).

Chiweshe and Mahiya (2021, 74) identify a gap in the literature regarding “problematizing” the conceptualization of the term, corruption. The field tends to accept the view that corruption's definition is essentially uncontested and can be understood unidirectionally by reference to a single dimension. “One popular definition of corruption—that it is the abuse of entrusted power for private gain (Transparency International, n.d.)—is rapidly becoming a de facto standard definition.” They seek to address the topic of corruption by focusing on its contextually dependent aspects in terms of its ontology. A standard introductory textbook on administrative ethics does not provide a single statement definition of corruption, but rather equates corruption with an organizational administrator acting unethically (Cooper, 2012). Hence, the emphasis in this textbook is upon explicit statements of ethical professional codes of conduct. In morally and ethnically comparatively homogenous societies, everyday acts of bending the rules, i.e., corruption, become part of the statewide set of formal and informal institutions regulating the behavior. “Kilko Ko, Sue Yeon Cho, and Jihye Lee (2012) describe such activities in the Korean context as gray corruption, conceptualized as everyday contextual actions that can be constructed as a normal way of acting within certain spaces but carrying an element of illicit exchange, such as holiday gifts (*ttokkap*), gratitude gifts (*chonji*), wedding gifts (*chukkigeum*), asking a favor from relatives for job recruitment or promotion, and rebates. Such gifts can be understood in the context of Korean society, but they are the basis for various forms of nepotism” (Chiweshe and Mahiya, 2021, 79).

Corruption is here defined as activity perceived by the modal citizenry within a polity as in effect undermining the state's provision of public goods. In phenomenological reality, it is illegitimate, i.e., immoral and unethical, self-dealing. This view of course is subjective. It may become the politically prevailing view for due to a combination of factors, e.g., vulnerability to being suspect because the authorities were imposed by foreign intervention. Normative dissonance amidst transition to a prevailing consensual emergence on an idealized set of moral and ethical behavioral norms will make perceptions of corruption pervasive. Hegemony will be vulnerable, and public goods and community self-identity consensus will be comparatively weak. “More recently, we have come to regard society as an arena within which people and groups are entitled—within limits—to make choices reflecting their own needs and desires, rather than as an organic whole with any sort of collective moral standing, with corruption seen as an individual or group transgression of some set of standards taken as defending or embodying relatively specific conceptions of the public good” (Dincer and Johnston, 2020, 221). This paper is about those conceptions of the public good are constructed and deconstructed. These public goods include identity security and belief in the rule of law. A discrepancy may build between informal, implicitly assumed norms of ascriptive status hierarchical positions among societal constituencies. It correlates with a decline in identity security and belief in the rule of law as societal interaction outcomes appear increasingly unfair and unjust. This perception emerges among community constituencies increasingly subjectively perceived as marginalized and oppressed by heretofore core hegemonic cultural groups. Even if such outcomes are perceived or assumed to be the result of legal processes, it constitutes a form of “‘legal’ corrupt practices”

[sic] in the views of the resentful populist conservative core (Maciel and Sousa, 2018, 657). Neoliberalism has encouraged globalization whereby corporate activity is omnipresent but accountable to no one anywhere. The perceived inefficacy of existing institutions to counter corporate perceived functional negative externalities contributes to perceptions of abuse of public trust. The concept of “legal corruption” encompasses the perceived threat to the public good due to the perceived negative externalities of globalization threatening the perceived public interest (Dincer and Johnston, 2020, 228).

Expectations of self-dealing by those in authority can become part of the moral and ethical prevailing view. For example, in traditional regimes members of the aristocracy are expected to perpetuate their superior status including self-enrichment, if not engage in treason. Strong parochialism will default to patron-client networks. Defaulting to patron-clientage can be a prevailing expectation in post-colonial states in which various constituencies evaluate themselves relative to Weberian ideal-typical nation statehood (DeDominicis, 2021b). If it becomes a perceived essential component building block of nation statehood, e.g., federalism, it may become idealized. Corruption is concomitant with parochiality. Corruption focuses on contingency and insecurity. Corruption exists when strong state institutions are not functionally viewed or assumed to be representative within the prevailing view of the modal citizenry. Corruption may be conceptualized as the reconciliation of achievement with parochiality. To the extent that statewide institutions are perceived to exist, then the comparative evaluation of status occurs with more collective self-confidence. To build supranational institutions for a supranational community that potentially become intense in terms of self-identification with it requires utilizing the non-corrupt nation states as building blocks. The European Union principle of the so-called pooling of the sovereignty of the member states indicates this process. Commodity smuggling due to social deviance identification/illegal customer consumption intensifies this parochiality in the form of incentivizing the creation of organized crime structures. The illegal becomes more profitable as it becomes more perilous, incentivizing the creation of informal cooperation and support networks, e.g., organized crime ingroups.

If they intersect with preceding normative habitual traditional parochial structures, they become organized crime so-called families. Given the intense profitability of successful illegal drug smuggling, in the context of rural poverty and ethno-class/de facto caste stratification, organized crime structures can become highly salient in Latin American states. In Eastern Europe, they become more like corporations as extensions of the polity (DeDominicis, 2021b). Corruption can be defined as requiring the lack of consensus on what constitutes morally and ethically right and wrong behavior. The public interest is represented by the policy output of the government which represents the state. Rule of law implies creating, implementing and enforcing the rules by which to regulate and guide dialectical social competition and social creativity strategies to achieve social mobility. Actors engaging in comparative self-evaluation include individuals and ingroups, as well as enterprises. Failure to provide regulation leads to fraud and corruption. The later can undermine coordination of the national social creativity innovation mechanism and ultimately the power potential base of the state. Investment firms that are engaging in fraudulent charades in claiming their innovations will generate large future profits to attract significant investments pocketed by executives are in effect “ponzi schemes” (Goldstein and Kelly, 2021, para. 13-14). Hence statewide institutions must emerge and exist in order to have corruption. Giving gifts to superiors is a widespread expectation if no representative body for the community that has been tasked with creating statewide institutions has declared it corrupt and illegal. The recent interest in special-purpose acquisition companies (SPACs) illustrates economic liberalism foundations in converting social deviance into social creativity and social mobility. It functions amidst market social competition (Kelly, 2021). SPACs are suspect because of their purportedly vulnerability to serve as vehicles for fraud. They also increase opportunities for market participation by new investors and for start-up firms to obtain financing. Social deviance here refers to the challenging formal and informal norms rules of behavior to achieve economic success, i.e., Merton’s social strain theory (Burnham, Jeon and Zeng, 2018, 248). This social deviance may acquire legitimation from other members of the business, national and global communities as in fact a creative innovation. Examples include cryptocurrency products and new participatory investment application such as Robinhood. They initially

received negative, not to mention skeptical, initial publicity within the business media. As they evolved, subsequent observers highlighted them as innovative business models contributing to national and global economic innovation and development. In sum, they as business models become a component of the marketplace framework public good. The social deviance has become social creativity in addition to social mobility vehicles for status advancement.

Criminal behavior is idealized as shameful behavior aside from being illegal. Engaging in criminal international trade activities, like drug smuggling, to help fund a self-determination movement is a regular behavior pattern. For example, the Taliban funded its effective resistance partly through drug smuggling. Legalizing illicit international trade and commerce, would be part of a global strategy of conflict resolution through international human rights promotion. It would require a diagnosis of the sources of the criminality in systemic oppression of marginalized groups. International criminality by its very nature exploits the opportunity structures created by the state, i.e., consumption that is illegal becomes both more dangerous and therefore more profitable. Self-determination movements engaging in smuggling to fund their struggle are utilizing the state system-created status quo.

## **A PATH FORWARD**

Regulated social competition to encourage constrained social creativity and mobility becomes increasingly globalized for those segments of society that can partake of the opportunities. Diasporas also have an advantage in this regard. A nation state's capacity to offer these opportunities to the rest of the world will constitute its soft power appeal. Little evidence of mass migration to China is available, as is evident regarding US and EU. Nation states have a soft power potential advantage because of the greater extent of shared authority norms facilitates standardization of statewide institutions. This standardization facilitates coordination and control of the power potential base resources of the community to be made available to the state authorities. It congruently facilitates commodification dialectically facilitating normative habituation to authority norms via the accommodation of profitable social deviance. Effective nation state authority institutions dynamically regulate and promote the development of group social creativity and individual social mobility opportunity structures. A core culture will emerge into which ethnic minorities will experience strong incentives to integrate and assimilate.

The state will have a soft power advantage in terms of transnational appeal of ideology to the extent in part it is seen as a development model for other developing states. Being a high-tech state that can produce, manufacture and distribute effective Covid-19 vaccines will be part of this appeal. In the nuclear setting amidst awareness of ineluctable interdependency, conflict is increasingly indirect (DeDominicis, 2019). Destabilizing of the target's regime political control system through exacerbating polarization within the target state becomes the new form of war. The Chinese totalitarian capitalist consumption model justifies itself as maintaining peaceful domestic political development amidst polarization in liberal democracies (Béja, 2019). Social media reinforcement of social competition and social creativity behavior emphasizing ingroup membership alliance affirmation by targeting scorned outgroups is a challenge in China as it is in the US (Stevenson, Chien and Li, 2021). Societally dysfunctional social creativity behavior reinforces intensifying polarization tendencies by identifying a common, shared adversary and affirmatively reinforcing this shared ingroup membership. Social media facilitates communication to form these ingroups. The focus in the US in preventing the propagation of hate speech is an issue regarding counteraction of societal polarization. Hate speech and hate crimes focus on perpetrator intent to commit a criminal act against a victim targeted for membership in particular, so-called protected group or class. This group has been to varying degrees ascriptively stereotyped and marginalized (Dewan, 2021). One problem with Facebook posts is that intent often can only be inferred. The digital originator or forwarder of hate speech may publicly deny intent to target someone for reputational or physical injury on the basis of ascribed factors such as skin color or racial category. The context provides background for inferring intent as more or less harmless or harmful. In any case, the decision on whether to censor or ban requires a

prediction of likely impact upon societal polarization. It includes analyzing the contextual factors that will lead to a post intended as an innocuous, ironic jest being perceived /misperceived as motivated by hateful intent. An area experiencing interethnic genocidal attacks may well have individuals seeing a Facebook post that playfully called for killing all men as a threat, as men are being killed and women are being raped (“Facebook’s Supreme Court,” 2021).

Part of a remedy may include revoking the immunity for social media companies for content posted on social media sites that Section 230 of the 1996 Communications Decency Act grants (Langa, 2021). Annuling this provision could conceivably empower various societal constituencies. They could seek civil suit redress for damages incurred via social media algorithmic distribution and magnification of disinformation content. It would employ a whole of polity liberal approach to authorize social constituencies to police the social media environment in protecting their perceived reputational self-interests. Civil lawsuit enforcement may deemphasize government agent enforcement of a prohibition on “algorithmic amplification” that may conflict with US Constitution First Amendment free speech rights (McCabe, 2021, para. 31). The state authorities functionally regulate social competition to develop the power capabilities of the polity, focusing on its human resources. Social competition among societal actors that a neo-corporatist strategy regulates and guides, drives the achievement collectively (DeDominicis, 2021a). It is regulated so that winners and losers do not escalate to violence, in accordance with Weber’s definition of the state. Actors therefore must acquiesce to the loss of status or they may engage in social creativity. For example, in post-colonial settler states, Caucasian members might view themselves as poor but they were prone to take psychological-affective ascriptive social identity refuge in viewing themselves as superior to people of color. The same is true for men versus women. Hence, a significant component of white grievance focuses on traditional institutionalized ascriptive assumptions regarding status. Its defenders include women who have vested their identity in this ascriptive system. It was legitimated by a religious faith institutional system consisting of parochial identity groups that come together to affirm their commitment to it. From this perspective liberalism is part of the polity’s neo-corporatist strategy for mobilizing, developing and deploying the power potential base. The government also adopts policies that then transform these resources into diplomatic bargaining leverage instruments. Social deviance can become a form of social creativity if it is legitimated by self-identification with a supranational self-identity community, including transnational and epistemic communities. This supranational self-identity community option must provide concrete benefits. Consumer commodification utilizes rhetorically authoritative medical terminology such as “trauma” to describe the effects of marginalizing behavior:

*“We also know that victims of wrongdoing tend to be perceived as more “moral” or “virtuous” than others, and that using medical language tends to give a speaker authority, each of which are likely to result in more positive feedback.”*

*“It is not a huge leap, then, to imagine that deploying the language of trauma, or of harm, or even of personal struggle, carries cultural capital.”*

*““There’s an economy in knowing that people will have a highly emotional, outsized response,” said Ms. [Shantel Garbieal] Buggs [a Florida State University sociologist]. “Because they can monetize clicks. They can monetize followers. There is clout in it.”” [emphasis added] (Bennet, 2022, paras. 21-23).*

Rhetorically authoritative influential labels for describing heretofore parochial, traditional marginalizing behavior encourages new niche market creation and exploitation. These labels and their rhetorical utilization appeal to social creativity and mobility needs of consumers in targeted niches. Construction of a European internal market regulated by progressive law can provide them to encourage and support group social creativity and therefore, dialectically, individual social mobility (DeDominicis, 2020). “Commodification of identity politics” appears to be unavoidable, e.g., “gender mainstreaming” as a form

of “career feminism” within capitalist societies (van Heerden, 2016, 7207). European integration strategy functionally serves to encourage this social creativity and by creating greater opportunity structures that are rhetorically articulated and justified in terms of Europeanization. Europeanization gains increasingly significant material and status benefits through the elaboration of the supranational EU institutional representations of the supranational European community. “[D]ue to the greater attention devoted by supranational bodies to career-related aspects of encouraging gender equality and hence, more Europeanized countries are more likely to associate having a supranational attachment with the need to support gender equality in matters of career and work-life balance” (Zapryanova and Surzhko-Harned, 2016, 562-63). Europeanization represents the regional globalization of commodification. It encourages dialectical guidance of regulated social competition of social competition to develop greater opportunity structures. These structures serve to provide social creativity opportunities for ascriptively, i.e., traditionally, habitually, systematically marginalized ingroups. Effectiveness creates opportunities for individual social mobility and assimilation, pluralizing the archetype tropes for commodification as a foundation for state institutionalization. Economic and monetary union is the pinnacle of this peace strategy in maintaining the latency of persisting mass public nationalism that is more conducive to national social competition. The provision and creation of public goods by the authorities occurs in a fundamental dialectical relationship with commodification of social relations to maintain social integration. It requires ethno-nationalism values not to be intensely salient to pool national sovereignty. It thereby aims to create a more competitive and influential regional polity model by not appearing to be a nationalistic threat. It concomitantly accommodates cosmopolitan values that are becoming increasingly salient within it. Congruently, polarization increases as conservative populism reacts to the challenge. Of course, Brexiteers still saw it as a threat, as do the prevailing views in Minsk and Moscow.

The supranational ethical community ethical system for conflict resolution has its basis in consensus and solidarity. *Hostis humani generis*, i.e., designation as international criminals, may be portrayed rhetorically as applying to those who threaten human civilization. They would include those corporate actors exacerbating and denying anthropogenic climate change due to greenhouse gas emissions. The French legislation recognizing the civil offence of “ecocide” may be a step in this direction (Alderman and Méheut 2021, para. 4). The creation of a global polity requires establishment of achievement rules on the global level. The EU is the most advanced international organization in promoting the establishment of global institutions by which to evaluate performance to save and preserve our world community. International law reflects the construction of vested interests as reflected in the assumptions of classical realism. Coercive diplomatic instruments are powerful forces shaping perceptions of ethical propriety, including loyalty to the nation. International criminality threatens those vested interests in the status quo while simultaneously reinforcing them. The militarization of border and immigration policy reflects this dynamic. To break this cycle requires efficacious global social justice movements that can then repurpose and reform these vested bureaucratic instruments. Enhancing state institutional effectiveness in monitoring compliance and implementation of international environmental treaty obligations is an objective. A policy prescription is to incorporate heretofore traditionally, ascriptively marginalized Indigenous communities. Local residential aboriginal community activists play a leading role in obstructing both legal and illegal deforestation, mining and confiscation on their ancestral territories. They have consequently been targeted for assassination, with greatest frequency in Latin America. Birss (2017) and Sieder (2017) note that most Latin American states have ratified international sustainable development treaties and incorporated these obligations into national law. This incorporation is congruent with recognition of Indigenous legal rights in nearly every case. In practice state authorities fall very short in protecting Indigenous citizens and their rights against illegal expropriation. They are historically marginalized and ascriptively assigned inferior status. Their role as global sustainable development activists could construct expanding opportunities structures for engaging in group social creativity with concrete individual social mobility benefits.

## CONCLUDING COMMENTS

Social media companies commodify their users' attention and interests through harvesting personal data that constitutes the consumers' browsing history. Social media can facilitate utilitarian economic and political control by easing communication and generation of confirmation of self-identity status through ingroup affirmation. Digital media products utilized without charge by consumers like free email and social media accounts commodify the consumer by accessing personal consumer data through usage of these products. This aggregated data is then sold to advertisers for more effective, persuasive targeted advertising. Thus, the ongoing debate regarding consumer data privacy on the internet emerges. In sum, the consumer also undergoes commodification, producing greater effectiveness in controlling consumer behavior. State policing and intelligence services may also access this data. "[I]t should worry you that access to your data and myriad inferences about you are a mere government request away" (Bensinger, 2021, para. 3).

Social media reinforces pathological tendencies within the human psyche including predilection to experience the perceptual simplification and its concomitant emotional stimulation and gratification. Individual participation in a public digital forum permits shared declaration of ingroup collective affirmation of stereotyping against perceived, despised imagined outgroups. Social media algorithms record and reinforce individual and ingroup member consumption of demagogic entertainment masquerading as news. These algorithms forward additional attractive consumables to the user on the basis of the user's record of previous social media interaction to maintain this attention. Social media data aggregators sell advertising space to purveyors. Social media is a critical part of the so-called rage machine into which much of the so-called media has evolved. It thereby enhances and intensifies pathological intra-societal polarization. These incentives drive television and radio electronic media to develop congruently. They accommodate and satisfy these preferences that social media reinforce in an intensely competitive, for-profit environment among infinite so-called news outlets. Social media is the core of this dynamic ecology of memes among respective constituencies (DeDominicis, 2019). Differing values, including particularly identity values, as well as orientations, delineate the boundaries between these constituencies. Authoritarians will tend to co-associate on social media.

Social media exploits fight or flight predispositions to engage user attention while through surveillance capitalism. They fuel these stereotype formation predispositions through positive feedback loops powered by algorithms. Surveillance capitalism polarizes society through propagating ingroup formation and reinforcement against the perceived challenging Other. It commodifies consumers by promoting ingroup versus outgroup formation and reinforcement. It thereby intensifies their attention to the medium through which to sell targeted advertising space. It creates niche markets by creating and reinforcing and enlarging ingroups. It undermines state control by predisposing the vulnerable to stereotyping and more communal orientations. These patterns undermine the capacity of the state authorities to portray their domination as legitimate which challenges the public good of social peace because it undermines their Gramscian hegemony. The algorithms in surveillance capitalism constitute the institutionalization of societal stereotypes in the form of artificial intelligence. As one academic observer noted in an interview,

*"They're getting us into fight-or-flight mode to trigger and activate our attention and our arousal, to keep us locked In, and to therefore behaviorally manipulate us. They're also feeding us into groups that are increasingly hateful and divisive. We saw that with January 6<sup>th</sup>, for example. And the mechanism, the means by which they're able to do that is by playing again with our emotions, taking us to these groups so we can recognize, falsely, that we are not alone in having particular viewpoints, that there are others with more hardcore viewpoints" [sic] (Srinivasan, 2021, para, 13).*

One remedy may be refusing to allow social media companies to collect and record personal data and viewing history. This paper introduced the notion of public goods as a form of hegemony. It explored the social identity dynamics by which this hegemony may be created while responding to global

interdependency. State neo-corporatist strategic leadership regulates social deviance to translate it into social creativity that establishes institutions for elaboration of the criteria for evaluating relative social status. It focuses on the commodification process in transnational capitalism as essential to the process of building Gramscian hegemony. It functionally aims translate this commodification into the prevailing perception of the rule of law in a nation state. This commodification process relies upon the institutionalization of stereotypes of status quo status assignments. These ascriptively assigned status designations come under challenge from social justice movements. They include national liberation struggles as well as individual-centered universal human rights demands. The paper utilized the public record to illustrate these collective trends and pointed to the European Union as the most advanced international strategy for supranational identity construction. This construction process utilizes the ascriptive status of the institutionalized nation state in striving to build transnational authority centers that are more than the sum of its nation state components.

The challenge confronting the EU as a so-called civilian superpower is to provide genuine liberal global hegemonic leadership as so perceived in Beijing, Washington and Moscow. The political incentives to circumvent political polarization through evoking and relying on scapegoating against a common enemy is a political pitfall regarding conflict resolution. The continuing perceived challenge from allied Moscow and Beijing in the Balkans results in a thrust to expand NATO and the EU membership amidst rising Euroscepticism within the EU. The resulting reconciliation of these political imperatives manifests in an intensified interest in fighting corruption in eastern Europe that Western adversaries might otherwise exploit. Global leadership is necessary to generate global public goods. These global public goods include global environment protection which requires global cooperation. The political capacities for global cooperation increased after the end of the Cold War. The fact that the Rio Earth Summit UN conference occurred in 1992 to address climate change, immediately after the USSR disintegrated, was not a coincidence. The EU aims to provide and assume global leadership in this post-Cold War world. A test as to whether or not it can do so is emerging because of increasing pressure on the EU to support the US which claims China is a global competitor. The EU needs to prevent a new Cold War between the US and China so that the international community can continue to cooperate intensively to meet the challenge of anthropogenic climate change. The EU needs to demonstrate convincingly to the respective authorities among other great powers that the EU is not the civilian soft power handmaiden of the United States.

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# **RETAIL FIREARMS SALES IN THE U.S.: EVIDENCE ON BEST PRACTICES FROM TWO FIRMS**

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## **ABSTRACT**

*This case study compares sporting goods retailers Academy Sports + Outdoors and DICK'S Sporting Goods, Inc., to identify cross-industry leadership best practices. Despite both companies operating in the same industry, Academy Sports + Outdoors earned \$6.4B in net sales in 2022, while DICK'S Sporting Goods, Inc. generated over \$12.4B in net sales in 2022. The study examines their strategies and responses to mass shootings in the United States (U.S.), revealing contrasting approaches. The analysis highlights the critical importance of aligning brand identity with customer preferences by evaluating their messaging, outcomes, and anticipated pushback. Customers today are highly attuned to corporate activities, requiring effective leadership to understand their base, consistently address issues aligned with their values, and develop strategies for potential repercussions. This study offers valuable insights into aligning brand identity with customer preferences, drawing from two companies' divergent approaches to social issues.*

**JEL:** M1, M3

**KEYWORDS:** DICK'S Sporting Goods, Academy Sports, Sporting Goods, Corporate Social Responsibility

## **INTRODUCTION**

Gun violence has caused a significant political divide in the U.S. and has been at the forefront of political policy. Throughout history, the U.S. has enacted gun control measures after specific concerns prompted Congress to act. The first gun control measure was the National Firearms Act of 1934 (Bureau of Alcohol, Tobacco, Firearms and Explosives, 2020). This legislation used taxation to curtail gang violence after high-profile incidents like the St. Valentine's Day Massacre. In 1968 the Supreme Court of the U.S. ruled portions of this law unconstitutional and rendered it unenforceable. Then in 1968, Congress passed the Gun Control Act of 1968 after the high-profile assassinations of President John Kennedy, Attorney General Robert Kennedy, and Dr. Martin Luther King, Jr (Bureau of Alcohol, Tobacco, Firearms and Explosives, 2022). With the Nation in shock after multiple high-profile assassinations and rising crime, Congress was forced to act, but it didn't come without opposition (Waxman, 2018). The National Rifle Association (NRA) expressed disappointment with the law but ultimately conceded. Over a decade later, the NRA experienced a leadership change brought on by a segment of the association that did not feel that the organization was doing enough to protect the rights of gun owners. The organization became more politically involved, and President Ronald Reagan became the first political endorsement of the NRA. President Reagan later spoke at the NRA convention, and the organization helped influence the Firearms Owners Protection Act of 1986.

In 2021 the U.S. experienced 61 active shooter incidents resulting in 103 deaths (Gramlich, 2023). According to the FBI, active shooter incidents are situations where an individual or group of individuals attempts or kills people in a populated area. Between the years 2000 to 2005, the U.S. experienced a total of 37 active shooter incidents, with an average of seven per year. In contrast, the five-year period ending in

2021 saw 192 incidents, averaging 38 per year (Gramlich, 2023). The five-year period ending in 2021 had more active shooter incidents per year than the entire five-year period experienced at the beginning of the century. Due to a legislative stalemate in the U.S., corporations have been put under a microscope for their actions, or lack thereof, after mass shootings. Two companies, DICK'S Sporting Goods, Inc. (DICK'S) and Academy Sports + Outdoors (Academy), faced backlash for their contrasting positions. In 2021 DICK'S President and CEO Lauren Hobart was reflecting on her company's decision to stop selling assault rifles and said, "The fact that we could follow all the rules and sell this guy a gun when he clearly shouldn't have had one really just was the last straw" (Harris, 2021). In the wake of the shooting at a Parkland, Florida high school, DICK'S decided to stop selling assault rifles and increase the age to purchase a gun from one of their stores. This decision was made despite knowing it could cost the company millions, putting it at the forefront of a national debate around firearms. Academy faced a lawsuit after the perpetrator of a mass shooting in Sutherland Springs, Texas, purchased an assault rifle used in the attack at one of their stores (Waller, 2021). In the aftermath, the organization promised to become one of the most responsible firearm dealers, but no changes were made to the sale of firearms (Academy Sports + Outdoors, n.d.). Both organizations, operating within the same industry, have seen success and growth despite having vastly different responses to the shootings. A common assumption is that organizations within the same industry generally follow similar paths. An example would be the trend of fast-food restaurants' more healthy alternatives. So why, when facing similar pressure, would two highly successful companies in the same industry take such a differing stance on such a controversial topic?

This case study compares Academy Sports + Outdoors and DICK'S Sporting Goods, Inc., two sporting goods retailers, regarding their financial performance and responses to mass shootings. Despite operating in the same industry, Academy Sports + Outdoors earned \$4.5B in 2019, while DICK'S Sporting Goods, Inc. generated over \$9.5B in 2020. The analysis underscores the significance of aligning brand identity with customer preferences, emphasizing the need for effective leadership in understanding and addressing customer values.

## LITERATURE REVIEW

In spirit, Environmental, Social, & Governance (ESG) programs within corporations are not new; iterations have existed since the 1980s (Peterdy, 2023). In the 1980s, Environment, Health, and Safety (EHS) programs were designed for corporations weighing how to reduce pollution and increase labor and safety standards. In 1989 the massive Exxon Valdez oil tanker spill leaked 11 million gallons of oil into the ocean off the Alaskan coast (Lubber, 2019). This was the worst oil spill in the history of the U.S., causing substantial damage to the local ecosystem. This incident caused a number of investors and environmentalists to form a coalition to re-evaluate the role companies have as stewards of the environment. The group was called the Coalition for Environmentally Responsible Economies (Ceres), and within months they established a code of conduct for companies to follow. Ceres built a global network of investors and nonprofits, enabling them to play a significant role in advocating for corporate responsibility. The creation of Ceres and the response to the Exxon Valdez spill demonstrated the beginning of a shift in the business world (Lubber, 2019).

In the 1990s, EHS evolved into Corporate Sustainability, which focused on reducing corporations' environmental impact beyond what was legally required. In 1991 activist Jeff Ballinger published a report outlining the poor working conditions and low wages of people in Indonesia who produced Nike products (Nisen, 2013). After these reports, Nike became a global symbol of abusive labor practices, and the company continued to face public outrage. Numerous protests continued to damage the company's reputation, and in 1998 Nike faced poor demand for their product. In 1998 the company facing financial pressure acknowledged its association with "slave wages, forced overtime and arbitrary abuse" (Nisen, 2013). After numerous efforts, such as raising wages, increased monitoring of human rights and labor practices, and hundreds of factory audits, human rights activists acknowledged that Nike was getting better.

Instead of denying allegations, Nike started acknowledging their errors and became a leader by publishing a list of factories they work with and detailed reports on their conditions. Nike legally could continue down their path, but due to public pressure, it decided to go above the legal requirements and set its own higher standard, much like DICK'S has done with firearms.

In the early 2000s, the next evolution was to Corporate Social Responsibility (CSR). CSR is when corporations started to get more actively involved in social causes as a form of corporate philanthropy. Starbucks has stood out over the years for several of the benefits provided to its employees. In 1988, the company took a notable step by offering health insurance to all full and part-time employees (Mohn, 2017). Moreover, they implemented a comprehensive program that included a free college tuition program for employees and a stock ownership program. These initiatives have demonstrated the company's commitment to employee welfare, professional development, and fostering a sense of ownership and loyalty among their team. The company has also made an effort to hire employees from underrepresented groups (Mohn, 2017). Starbucks' history of corporate social responsibility has become part of its identity and brand, which speaks to and engages its customers. The company did not establish itself as a value-oriented brand; their customer is willing to pay more due to the brand and its associations.

DICK'S Sporting Goods decided to govern itself when it announced that it would stop selling assault-style rifles and high-capacity magazines and increase the purchase age to twenty-one, even though no law required them to do so (Harris, 2021). DICK'S is a company that has incorporated Environmental, Social, and Governance principles into its business practices. The organization has taken public stances, not just on guns, but various issues such as environmental protection, abortion, and racial and gender inequality. DICK'S Sporting Goods is forthright with this purpose and strategy. In 2020, the company published its "2020 Purpose Playbook," which outlines several social issues its competitors do not venture into (DICK'S Sporting Goods, 2020). In the playbook, CEO Lauren Hobart outlined the company's commitment to their employees, inclusion and diversity, youth sports, the planet, and the company's sustainability strategy. The playbook outlines the company's strategy and progress on inclusion and diversity. The organization adopted goals including maintaining a median gender pay ratio of 100%, achieving 50% BIPOC and women for entry-level hires in technology by 2025, increasing black and indigenous people of color (BIPOC) representation in leadership roles by 30% by 2025, and improve the overall representation of women in store leadership to 40% by 2025 (DICK'S Sporting Goods, 2020).

The organization has outlined its commitment to zero tolerance for racism and discrimination and increasing employee representation and transparency by conducting over 100,000 hours of anti-racism and discrimination bias training (DICK'S Sporting Goods, 2020). DICK'S has also been working to ensure diversity with its suppliers and vendors. The company has prioritized suppliers owned and operated by underrepresented groups, and they plan to establish benchmarks to establish spending goals for diverse suppliers. Additionally, the organization "invested \$12.5 million in the Black Economic Development Fund (BEDF) to fuel minority lenders and anchor institutions and businesses as part of an effort to close the racial wealth gap" (DICK'S Sporting Goods, 2020). DICK'S signed the "We Are Still In" declaration stating their support for the Paris Climate Agreement (DICK'S Sporting Goods, 2020). Citing their detrimental environmental impact, the company committed to removing all single-use plastic bags from its stores by 2025. By the end of 2020, the organization had replaced single-use plastic bags with paper bags in 15% of its stores (DICK'S Sporting Goods, 2020). The company has a recycling rate of 70% for its stores and operations, and it established a "climate action goal" of reducing greenhouse gas emissions by 30% by 2030 (DICK'S Sporting Goods, 2020).

### Dick's Sporting Goods

It started with \$300. At 18, Dick Stack worked for a local Army surplus store in Binghamton, NY. Dick was an avid fisherman, and when the Army surplus store owner wanted to get into the fishing supply

business, he asked Dick what he needed (DICK’S Sporting Goods, n.d.). After Dick made his suggestions, the owner told him he was a dumb kid and didn’t know what he was doing. Dick quit the Army surplus store, and his grandmother gave him the \$300 needed to start a bait-and-tackle store in 1948. Not long after that, the product offering expanded to include work clothing, sportswear, and camping equipment, and in 1971 a second location was opened in Vestal, NY. The company continued to grow, and in 1984, Dick’s children bought the company. His son, Ed, assumed the role of Chairman and Chief Executive Officer, and subsequently, the store’s offerings continued to grow. By 1996, DICK’S had reached 50 stores in the U.S.; by 2000, DICK’S had reached its 100<sup>th</sup> store in the U.S. In 2002, DICK’S went public, and after that, it grew rapidly. By the end of 2006, DICK’S had 294 stores, and in 2012, DICK’S opened its 500<sup>th</sup> store.

### DICK’S Sporting Goods in 2022

According to DICK’S March 2022 Investor Presentation, the company operated 861 stores across 47 states by the end of 2021. 730 of these stores were traditional DICK’S locations, and the remaining 131 were specialty concept stores, which included Golf Galaxy, Field & Stream, Public Lands, and outlet stores (DICK’S Sporting Goods, 2022). In 2021, DICK’S opened two new prototype stores called DICK’S House of Sport. This new prototype “will explore the future of retail through multi-sport experiences inside and outside the store, broad integration with the community, elevated customer service that will rely on passionate and skilled employees and enhanced technology for ease of connection with the brand” (DICK’S Sporting Good’s, 2021b). DICK’S reported an increase of 28.3% in net sales from 2021 to 2022 while also increasing its market share within the sporting goods retail industry to 8%, up from 7% in 2019 (DICK’S Sporting Goods, 2022). Nearly two-thirds of the U.S. population is within a market that DICK’S serves, with 861 stores that generated \$1.52B in net income in 2021 (DICK’S Sporting Goods, 2022).

### DICK’S Mission, Business Model, and Strategy

The mission of DICK’S Sporting Goods is to “create an inclusive environment where passionate, skilled and diverse teammates thrive, create and build leading brands that serve and inspire athletes, make a lasting impact on communities through sport, and deliver shareholder value through growth and relentless improvement” (DICK’S Sporting Goods, 2022). DICK’S has tried to be at the forefront of development within the sporting goods retail space. They stand out by developing new store concepts, technology, and loyalty programs compared to their peers. DICK’S created a new prototype store called House of Sport which “features a 17,000 sq. ft. outdoor turf field and running track, a rock-climbing wall, a batting cage with HitTrax™ technology, golf hitting bays with TrackMan™ simulators, a putting green, the company’s first-ever ‘House of Cleats’ that will seasonally rotate products, a health and wellness destination to help customers with recovery and well-being, and a consolidated service area for breaking in gloves, stringing lacrosse sticks and building/repairing bikes” (DICK’S Sporting Good’s, 2021b). DICK’S engages its customers in non-traditional methods by focusing on visual presentation, enhanced service, and in-store technology that the organization hopes will strengthen and evolve its customer base.

DICK’S database had over 140M customers representing 80% of sales, and its loyalty program, “Scorecard,” had over 20M active customers representing at least 70% of sales (DICK’S Sporting Goods, 2022). Customers who participate in the loyalty program spend 1.6x more online with DICK’S than non-loyalty customers (DICK’S Sporting Goods, 2022). In addition to the ScoreCard loyalty program, DICK’S also offers the ScoreRewards credit card, which offers sign-up bonuses, and additional loyalty rewards points earned for every purchase using the ScoreRewards credit card (DICK’S Sporting Goods, n.d.). DICK’S acquired the GameChanger media in 2016, the focus of which is online scorekeeping for youth sports leagues. The application is intended to enhance the youth sports experience by handling communication, scheduling, scorekeeping, and video streaming. The application, which is highly rated on the application stores, is robust and offers various pricing levels to fit the needs of all youth sports leagues.

Additionally, DICK'S is likely to gain knowledge from the data being captured by the application and increase its customer base, as young athletes using the application are likely customers of DICK'S.

DICK'S carries a large variety of national brands. According to the DICK'S Sporting Goods (n.d.) website, the company claims that these key partners choose to invest in a partnership with DICK'S because of the reputation that the company has earned with its customers. DICK'S works directly with its partners to enhance the experience for their customers, such as launching a partnership with Nike to create a connected marketplace within the DICK'S app. DICK'S has relationships with over 1,400 vendors. Still, Nike accounts for 17% of merchandising purchases, making Nike their largest vendor, as no other vendor relationship accounts for more than 10% of purchasing (DICK'S Sporting Goods, 2021a).

A significant focus of the company is its in-house brands, referred to as vertical brands. The vertical brand focus is a crucial strategy for DICK'S, and in 2021, sales surpassed \$1.7B, with these brands offering a much higher margin in the range of 600-800 bps (DICK'S Sporting Goods, 2022). In 2021 this accounted for 14% of total sales making vertical brands DICK'S second largest vendor (DICK'S Sporting Goods, 2022). DICK'S owns several "vertical brands" and has licensing partnerships with vendors to offer exclusive products only sold at their stores. Having committed to reflecting its core values, the company designs and offers clothing that is inclusive in its sizing and reflects these values in its product offerings and marketing materials. To optimize the assortment and meet the needs of its customer base, the company monitors performance and reallocates space within the store if a category is not producing. An example of this was the hunting section, in which, after low performance, the organization reallocated this space in all but 100 DICK'S and Field and Stream stores (DICK'S Sporting Goods, n.d.).

Leveraging their over 800 stores, DICK'S can fulfill a substantial number of orders by directly shipping from their stores, with 70% of online orders being fulfilled through the store network (DICK'S Sporting Goods, 2022). A strategic focus of DICK'S has been developing its omnichannel operating model, the goal of which is an agile model that will serve its customers in various convenient ways. The organization has focused considerable resources on its omnichannel strategy and is seeing results. One-hour and in-store pickup has been added in recent years, and customers considered omnichannel athletes account for 65% of sales and spend more than twice as much as single-channel athletes (DICK'S Sporting Goods, 2022).

In 2013, ship from store was made available at all its stores, making every store in the country a distribution center, and in 2014 buy online and pick up in-store was launched in all stores (DICK'S Sporting Goods, n.d.). In 2018, DICK'S opened its fifth distribution center, and in 2019, DICK'S expanded its Conklin, NY distribution center to become the first direct-to-consumer distribution center. In 2020, DICK'S launched contactless curbside pickup. According to the 2022 Investor Presentation, 70% of eCommerce sales were fulfilled by stores, with greater than 50% mobile penetration and a total eCommerce penetration of 21% of total net sales (DICK'S Sporting Goods, 2022). The company's net income rose from 5.53% in 2020 to 12.36% in 2021, which was helped by a 9.53% decrease in distribution costs (DICK'S Sporting Goods, 2021a).

### Human Capital Management

As of January 2022, DICK'S had 17,800 full-time employees and 33,000 part-time employees (DICK'S Sporting Goods, 2021a). Like most in the retail industry, these numbers fluctuate throughout the year and hit their peak during the 4<sup>th</sup> quarter holiday season. The company's cultural promise is always striving to do the right thing. This philosophy has also impacted the human resources side of the organization, where the company has committed to equal pay for equal work. When establishing and maintaining wages, the organization "achieved 100% female-to-male unadjusted median pay ratio" with an average female pay of 97% of males (DICK'S Sporting Goods, 2021a).

### Academy Sports + Outdoors

Academy Sports + Outdoors (Academy) was established as a small family tire shop in San Antonio, Texas, in 1938. It transformed into a military surplus store before offering the sports and outdoor equipment it is known for today (Academy Sports + Outdoors, n.d.). Max Gochman started the company, and after rebranding the store to Academy Super Surplus and expanding to military surplus products, he relocated the company to Austin, Texas, and expanded to four stores. In 1948 Arthur Gochman, the son of Max purchased a surplus company in Houston, Texas, opened six additional stores, and changed their name to Academy Corp. The corporate offices were relocated to Houston in 1978, and the company moved into a 50,000 sq. ft. warehouse in 1981. Shortly afterward, Academy started adding athletic brands and opened its first big box store in 1988. By 1990 the company had grown to 28 stores across the state of Texas, and they purchased their corporate headquarters building in Katy, Texas. The early 1990s was a transformational period for the company as it expanded outside of the state of Texas and exited the military surplus business. As the company's sales surpassed \$100M, it was rebranded as Academy Sports + Outdoors, and by the year 2000, the company had opened its 50<sup>th</sup> store and was operating in seven states (Academy Sports + Outdoors, n.d.). The growth continued over the next decade with sales crossing over \$2B, the addition of multiple new stores in four additional states, the opening of the company's first 100,000 square foot store, and the opening of their second distribution facility in Georgia (Academy Sports + Outdoors, n.d.). In 2011 the company was acquired by Kohlberg Kravis Roberts & Co. L.P., a leading investment fund, and Rodney Faldyn, the first non-Gochman, was named CEO. Academy grew and added an eCommerce retail site and stores in four additional states, reaching \$4B in sales by 2014. The company surpassed 250 stores and opened its third distribution facility before completing its Initial Public Offering and becoming listed on the Nasdaq Global Select Market exchange under ASO in 2020 (Academy Sports + Outdoors, n.d.).

As of the beginning of 2022, Academy operated 268 stores in 18 states generating over \$6.8B in sales (Academy Sports + Outdoors, 2022). Academy is a “highly recognized, super-regional sporting goods and outdoor recreation retailer” (Academy Sports + Outdoors, 2022). Academy remains headquartered in Katy, Texas, and has three distribution centers in Texas, Tennessee, and Georgia. Academy operates 29% of its stores in the country's top five fastest-growing metropolitan statistical areas and has continued to grow a strong eCommerce presence, with sales growth of 153% in 2021 compared to 2019 (Academy Sports + Outdoors, 2022). Academy's mission is “Fun for All” and they outlined the following items as critical differentiators for the company (Academy Sports + Outdoors, 2021a). These characteristics are value-based, having a wide range of products, an omnichannel strategy, customer loyalty, regionally focused in the southeast, convenience for active families, significant Whitespace opportunity, and a strong financial profile. Strategically Academy is positioning itself within desirable and growing markets in the southeastern U.S. To capitalize on their growth, they focus on providing value, a wide variety of products, convenience, and a robust omnichannel strategy. The mix of assortment and value provides Academy customers with various options that can fit any budget (Academy Sports + Outdoors, n.d.).

### Merchandise Offerings

Academy owns a variety of private-label brands. Brands include Magellan, BCG, Academy, Outdoor Gourmet, O'Rageous, Game Winner, Brazos, The Original Austin Trading Co, Agame, Brava Soccer, H20 Express, Marine Raider, Monarch, Mosaic, Ozone 500, and Feely (Academy Sports + Outdoors, 2022). These brands range from sporting goods, hunting equipment, boating equipment, bicycles, clothing, and grills. Some of the organization's top-selling items have been Academy-branded items, with 20% of sales coming from an Academy-owned brand in 2021 (Academy Sports + Outdoors, 2022).

### Employment

According to the 2021 Annual Report, as of 2022, Academy had more than 22,000 employees, 50% of which were full-time (Academy Sport + Outdoors, 2021a). Racial and ethnic diversity among district and mid-level corporate management increased by 22% and 11%, respectively, since 2017 (Academy Sports + Outdoors, 2020). In 2020 the company outlined its commitment to diversity with the following statement:

At Academy Sports + Outdoors, we promote a culture of diversity, inclusion, and belonging, which should be reflected in the actions and behavior of our Team Members. Diversity is inviting all players to join the team, and inclusion and belonging is when everyone gets to play the game. Every player is key, and we are only successful when everyone has an equal opportunity to play and win (Academy Sports + Outdoors, 2021a).

### Marketing and Promotion

Academy Sports' marketing strategy is to increase target marketing and use of the Academy credit card. It has also focused on leveraging technology to increase its omnichannel penetration (Academy Sports + Outdoors, 2022). The company has invested \$230M since 2011 in its omnichannel and information technology initiatives. In 2020, they reached 6.3M households in 47 states online, with 14% of online purchases from states without an Academy store (Academy Sports + Outdoors, 2021b).

## RESULTS

Academy Sports and DICK'S are successful companies operating within the same industry, but their service segments differ. Academy Sports has no loyalty program and describes itself as providing customers with more "everyday value" and product offerings than other sporting goods retailers (Academy Sports + Outdoors, 2021b). Academy is a value-oriented company, and in investor filings, they describe the company as "the largest value-oriented sporting good and outdoor recreation retailer in the United States" (Academy Sports + Outdoors, 2021b). DICK'S positions itself as a higher-end offering, while Academy offers everyday value, and an example of this is its price match policies. DICK'S offers a price match guarantee, but Academy will beat competitors' prices by 5% (Academy Sports + Outdoors, n.d.; DICK'S Sporting Goods, n.d.). Customers will notice that sports, such as golf, are more of a focus at DICK'S, whereas Academy focuses shelf space on activities such as camping and hunting. Golfing households have a median income of \$85,000 per year compared to hunting households which have a median household income of \$57,000 per year; therefore, it is logical that Academy would position itself as a more value-oriented store than DICK'S, which offers more of a premium experience and price point (NSGA, n.d.). The differences between the organizations do not stop at core business strategy. On social issues, each organization has positioned itself differently. DICK'S has positioned itself as a more socially cautious or progressive company than Academy, which has not pivoted from its traditional approach to business and social issues. The social issue demonstrating the contrast between the two companies is their public approach to firearm sales.

### Firearms

For a long time, firearms have been a standard product at sporting goods retailers, especially those with hunting and fishing backgrounds. In 1994 Bill Clinton signed an assault weapons ban into law after a mass shooting in Stockton, California, which made assault rifles a forbidden fruit. In 2004 the federal ban on assault weapons ended, and the AR-15 reemerged in an American culture that was consuming realistic shooting-style video games for the first time (Gibbons-Neff, Ismay & Watkins, 2018). The AR-15 signified freedom and was even called America's rifle by the National Rifle Association. The name AR-15 and assault rifle is a vague phrase that captures various types of rifles. Still, the common bond between these

types of semi-automatic rifles is their connection to numerous mass shootings. According to their critics, the gun industry has tried to rebrand this weapon category into something more palatable by referring to them as modern sporting rifles. Americans' propensity to buy firearms has not decreased, as 19.9M were purchased in 2020, the second-highest amount in a year (Walsh, 2022). In 2021 the U.S. recorded highs in total gun deaths and mass shootings, registering 20,726 fatalities and 693 shootings involving four or more injuries (Walsh, 2022). In 2012 a gunman used an AR-15 to kill twenty children and six teachers at Sandy Hook Elementary School, reigniting a national debate about firearms, especially assault rifles (Bomey & Hafner, 2018). This prompted Ed Stack to remove assault rifles from the shelves of DICK'S stores across the country, but the company received backlash and would later reverse course and put assault rifles back on the shelf at their stores nationwide. In 2016, after a mass shooting in Orlando, Florida, Academy encountered protests after the store announced that it would no longer predominately display assault rifles. Still, they would continue to sell them at their stores (FOX 2, 2016). Academy issued guidance to their stores to remove weapons resembling assault-style rifles from highly visible locations, but that action alone was insufficient in the eyes of many (FOX 2, 2016).

In November 2017, a man opened fire at a church in Sutherland Springs, Texas, killing 26 people with a Model 8500 Ruger AR-556 purchased from Academy in Selma, Texas (Waller, 2021). The assailant tried to purchase a rifle from DICK'S in 2015 but was denied the purchase by the store manager because he had out-of-state identification; however, only a few months later, he was able to purchase the assault rifle used in the attack at Academy (McGaughy, 2019). The gunman would go back to that same Academy store and purchase additional magazines and ammunition for the assault rifle. Academy was sued for selling the assault rifle to the perpetrator, and after numerous appeals, the Texas Supreme Court ruled in June of 2021 that the retailer could not be held liable because it was the federal database that failed to flag the shooter's background, and that the retailer had followed all federal regulations (Waller, 2021). According to their website, Academy continued to see revenue growth despite the incident and proceeding legal battles, which had relatively little financial impact when the company completed its initial public offering in 2020 (Academy Sports + Outdoors, n.d.).

In 2018 a gunman took the lives of seventeen people at a high school in Parkland, Florida, and after finding out that the perpetrator had purchased a shotgun at one of their locations a year prior, Ed Stack made the controversial move of becoming the lone retailer to take a stance on gun sales (Thomas, 2019; Visram, 2021). The company made headlines when it decided to cease selling assault-style rifles and high-capacity magazines and increase the age to purchase a firearm from 18 to 21. In subsequent years, they completely removed guns from hundreds of their stores. Other companies would later take similar positions, but DICK'S was alone and willing to deal with the attention a decision like that would bring. Lauren Hobart continued with the momentum after she was appointed CEO. In an interview with Ainsley Harris of FastCompany, Lauren Hobart explained the organization's concerns after the shooting in Parkland. In an approach exemplifying the organization's self-governing philosophy of always striving to do the right thing, Hobart said, "the fact that we could follow all the rules and sell this guy a gun when he clearly shouldn't have had one really just was the last straw" (Harris, 2021).

This approach caused boycotts, and the National Rifle Association claimed the company was punishing law-abiding citizens, but over the long term, the move helped the organization realize that gun buyers were not their core customers (Visram, 2021). Due to the political backlash and loss of sales, DICK'S estimated it would lose \$250M (Harris, 2021). Additionally, instead of returning \$5M in assault rifles to manufacturers, Stack decided, despite the bottom line, to destroy the inventory to avoid those weapons being sold (Bates, 2019). Stack told CBS News, "If we really think these things should be off the street, we need to destroy them" and emphasized that DICK'S stance on firearms sales changed when "mass shootings began to happen more frequently" (Bates, 2019). Hobart felt that moving away from firearms helped the organization clarify its focus, which was more inclusive of women and people of color who would not have always felt like a traditional sporting goods store was the right place for them. By the end of 2020, the

company had stopped selling firearms in 340 stores (DICK'S Sporting Goods, n.d.). Year after year, revenue continued to increase, with a 10% increase in 2020, fueled by increased interest in outdoor activities during the COVID-19 pandemic and high margins on private-label brands (Visram, 2021). According to industry analyst Matt Powell, the profit margin on guns is much lower than other products DICK'S sells. Moving away from this category could allow the company to reallocate store space toward more profitable product offerings (Visram, 2021). After the mass shooting in Parkland, Walmart and DICK'S changed their firearm sales policies, limiting purchases to those over 21 years old. (Ripley, 2018). Academy faced similar public pressure but resisted and issued the following statement:

We serve a broad base of customers, and outdoor sports, including hunting and shooting sports, are an important tradition and recreational activity for many of our customers and their families. We are strongly committed to ensuring the legal, safe and responsible transfer of firearms. We follow all applicable regulations relating to the sale of firearms and regularly review our internal policies and processes to ensure our legal and responsible sale of firearms and encourage safe usage and ownership. As a Federal Firearms Licensee, we support the Fix NICS Bill to strengthen the background check system and require greater compliance with the law. (Ripley, 2018)

Academy has not pivoted from this position that firearms can be sold responsibly and continues to sell them at all its stores. In the 2020 Environmental, Social and Governance (ESG) Progress Statement, available on its website, Academy CEO Ken Hicks outlined that “our goal is to be the most responsible seller of firearms in the country” (Academy Sport + Outdoors, 2022). For Academy, firearms are integral to a sports and outdoors retailer.

### Purpose vs. Profit

Financially DICK'S and Academy are strong financial companies targeting different sporting goods retail market niches. DICK'S has a much larger footprint, with 861 stores in 47 states, compared to Academy, which has 268 stores in 18 states. (DICK'S Sporting Goods, 2022; Academy Sports + Outdoors, 2022). In 2022 DICK'S had annual net sales of \$12.4B and averaged \$14M net sales per store, roughly half of their smaller but primary competitor, Academy, which had net sales of \$6.4B and an average of \$24M in net sales per store (DICK'S Sporting Goods, 2023; Academy Sports + Outdoors, 2023). Academy has taken a far less aggressive approach to firearms than DICK'S. As outlined in this case, DICK'S has positioned itself as a socially cautious and progressive company offering products tailored to middle and upper-middle-income customers. DICK'S has a culture that strives to be at the forefront of social issues, many of which have been divisive topics in which other retailers have chosen to be less vocal or involved. DICK'S is a progressive company that goes beyond legal requirements and sets its standards and ethics, and its approach to firearm sales highlights this. Many companies, Academy Sports included, have not taken strong stances on social issues and often attempted to remain neutral to avoid alienating their customers.

There is not a clear winner from a financial perspective. DICK'S has more earnings than Academy, but that is more a factor of the size of the organizations. Both companies have seen revenue growth and continue to grow since taking public stances on firearm sales. Academy's geographic positioning and allegiance to the firearm community have favored them. Both Academy and DICK'S have identified the market segments they are looking to serve and have crafted a strategy and brand that aims to align with the customers' values within those segments. Ethically, each organization's position can be debated, but the success both achieve, with different approaches, seems to provide credence to a great ethical divide on this topic. The trajectory and outlook for both companies is strong, and both will likely continue to see increased growth, so there is no silver bullet when handling social issues. The most successful approach will depend on who the organization is trying to serve and if the messaging aligns with that group's values. Both DICK'S and Academy received pushback on their decisions involving firearms. This is a hot topic, as evidenced by the political attention this issue receives, and as with politics, having a clear direction on who you are trying to

serve is critical to success. Clearly, there is room in the market for both companies to exist and flourish, even if a segment of the population does not agree with each company's approach.

### Best Practices

Consumers have increasingly wanted businesses to be socially aware. According to a study conducted by Sprout Social, 70% of consumers feel it is important for businesses to take a stand on social issues (Sprout Social, n.d.). The potential benefit of taking a social stance may not be that high, with only 36% of consumers saying they would purchase more products from a company with which they are aligned on social issues (Sprout Social, n.d.). A majority, 66%, of consumers believe that companies can make real change, with 67% believing that companies are effective at raising awareness around social issues (Sprout Social, n.d.). Being perceived as genuine is a problem facing many companies looking to take a stand on social issues. A majority of consumers, 53%, believe that companies only take social stances for public relations or marketing purposes, so it is an uphill battle for companies looking to engage in social causes (Sprout Social, n.d.). Companies have tried and failed to take a social stance successfully and ultimately angered everyone, including their target market. In a 2017 Super Bowl ad, Pepsi ran a commercial featuring Kendall Jenner handing a can of their soft drink to a police officer watching a Black Lives Matter protest (Victor, 2017). The commercial received sharp backlash in all forms of media, and Pepsi quickly issued an apology. Even after the apology, "millennials' willingness to buy a Pepsi plummeted to its lowest level in at least eight years, according to YouGov BrandIndex" (Rainey, 2020). The public will notice if a company takes a social stand that is inconsistent with its brand or does not appear genuine. Jia Wertz (2021) noted in the article "How Social Values Drive Consumers To Brands" that "transparency coupled with authenticity resonates with consumers" and "when brands get this right while supporting causes that are important to their customers, it even further solidifies customer loyalty and trust with those brands." A company's stance on social issues needs to be genuine, or consumers will recognize that.

Being genuine is not the only hurdle, and remaining neutral may not always be an option. Companies face more pressure than ever to take a side on social issues. The days of corporate neutrality appear to be ending, as only 23% of consumers feel that brands should never take a stance on a social issue (Sprout Social, n.d.). As older generations pass, this trend will likely continue since younger demographics feel strongly about companies taking a stance on social issues, with 80% of millennials and Generation Z believing that companies should take a stand, while only 58% of Generation X agree (Sprout Social, n.d.). In an attempt to remain neutral, former Disney CEO Bob Chapek attempted to keep the company out of legislation pending in Florida. Chapek reluctantly took a stance on Florida's "Don't Say Gay" legislation after facing backlash for his inaction (Maruf, 2022). After the legislation was introduced in the Florida Legislature, Chapek elected to email Disney staff but refused to issue a public statement citing his belief that corporate stances on social issues rarely have an impact. After Disney employees staged walkouts protesting his inaction, Chapek issued a public statement against the legislation and apologized to Disney employees. The statement condemned the legislation and stated that the company would pause political contributions in Florida. This statement caught the attention of Florida Governor Ron DeSantis, who went on the defensive and labeled Disney as woke. The intense political battle continued when, in response to Disney's position, the State of Florida enacted legislation to strip Disney of its ability to operate as a quasi-government overseeing its Florida resort properties. This special designation had a significant tax advantage for Disney. After facing multiple challenges, including parks and movie theaters being closed for the COVID-19 pandemic, Disney reported losses of \$1.5B in the fourth quarter of 2022 (Maruf, 2022). This led to Chapek stepping down as CEO and former CEO Bob Iger returning as CEO, which increased Disney stock by 7% overnight after being down 38% on the year (Maruf, 2022).

DICK'S has successfully navigated a hotly debated social issue with a strong strategy. After making the decision, the company committed to it, communicating the message with conviction in media appearances, all while developing a business plan to recapture lost revenue (Hawkins, 2022). DICK'S has continued to

donate and advocate for gun control measures since taking their stance on guns, demonstrating that this was not a publicity stunt. The conviction of their message and follow-through has helped DICK'S avoid becoming a PEPSI. They also avoided falling into the trap of neutrality as Disney did. Academy has also successfully navigated this topic. Although they took an opposite stance than DICK'S, it shows that consumers are divided on the issue. Academy strongly affirmed its desire to remain in the firearms business, which is something from which the company has not wavered.

A company needs to understand its market because being neutral may not be an option. If required to take a stance, the company must take a stance that should align with its core value as a business and, ultimately, with their consumer. This is emphasized in the division among consumers. According to Sprout Social (n.d.), 55% of consumers “would boycott or discontinue shopping with brands that support public issues that don't align with their views [and] 34% of consumers will decrease their spending with a brand whose stances they disagree with”. This can be a difficult target to hit since most consumers across the political spectrum believe companies should take a stand on social issues. For consumers who identify as liberal, 79% agree with companies taking a stand compared to 67% of moderates and 65% of conservatives (Sprout Social, n.d.). With the country trending more and more towards a desire to shop at retailers with the same beliefs, this may explain the strategies of DICK'S and Academy Sports. Liberal consumers are more likely to want a company to take a stand on social issues, and DICK'S has been vocal about its positions on many left-leaning social issues. In contrast, Academy Sports has chosen to be vocal on gun rights, an essential stance for conservatives in the U.S. From a bottom-line perspective, there is neither a winner nor a loser. Both companies appear likely to achieve growth and success in the long term. They have accomplished this by firmly standing for their core values, clearly communicating them, and having a business plan to accommodate revenue losses for consumers who may not align with their values. Picking the correct side is less critical than firmly standing for your beliefs within a more socially conscious retail landscape.

## CONCLUDING COMMENTS

### A Path Forward

Corporations no longer have the luxury of being socially agnostic. Escalating public pressure has transformed the business landscape, where corporate inaction is now seen as complicity. The legal complexities surrounding firearms in the U.S. go well beyond the scope and goal of this paper. Therefore, potential political action that corporations could spur has not been examined. Instead, this research has clearly demonstrated the importance of determining a corporation's identity, defining its market, and crafting ESG principles that align with the market they intend to serve. DICK'S and Academy have grown rapidly and catered their brands to their markets. Being socially agnostic is no longer a safe alternative. Every corporation should establish ESG principles that align with its values and be transparent about where the organization stands on the issue that matters most to its customer base. Nike battled public backlash until, financially, they were forced to change, and now, they have become the model of transparency on the issue of human rights (Nisen, 2013).

This paper has several limitations, including the scope being limited to two retailers in the sporting goods industry. Other retailers could be investigated to evaluate the impact of their actions in the aftermath of mass shootings. Additionally, only publicly available data was accessible, so internal company data or perspectives were not considered, which could limit the depth or accuracy of this analysis. Additional research should be completed to understand better how cultural and regional differences play into the business decisions of DICK'S Academy and other organizations. Further evaluation of crisis management and what each company did well and not well in the aftermath of mass shootings could be studied. Research on this could provide valuable insight into crisis communication and stakeholder engagement. At the time of publication, the firearm topic continues to be a subject of intense debate, and DICK'S and Academy are

still figuring out their path forward. Future research could be conducted to incorporate additional financial performance data as the situation continues to evolve.

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# A COMPARISON OF CRYPTOCURRENCIES AND TRADITIONAL CURRENCIES

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## ABSTRACT

*This research comprehensively compares traditional currency systems and cryptocurrencies, exploring their advantages and disadvantages. Traditional currencies have enjoyed widespread acceptance due to their tangibility, simplicity, stability, and regulatory backing by governments and central banks. However, they are susceptible to inflation, counterfeiting, and high transaction fees. Cryptocurrencies offer decentralized, secure, anonymous transactions without intermediaries. However, they face challenges in cybersecurity, scalability, illicit use, environmental impact, and regulatory oversight. The study further examines cryptocurrencies' potential benefits and risks, such as stability, cost-effectiveness, and financial inclusion, while cautioning against potential cybersecurity threats and illicit activities. It underscores the role of governments and regulatory bodies in addressing these challenges and fostering the coexistence of traditional currencies and cryptocurrencies. The research aims to shed light on the transformative potential of cryptocurrencies, emphasizing the importance of prudent decision-making by investors and policymakers in navigating this dynamic financial landscape. It encourages further exploration of innovative solutions to address the drawbacks while harnessing the advantages of both currency systems for a more inclusive and secure global economy.*

**JEL:** M00, O10

**KEYWORDS:** Cryptocurrency, Traditional Currency, Blockchain, Decentralization, Advantages, Disadvantages

## INTRODUCTION

Traditional currency systems have significantly shaped the global financial landscape, wherein a central authority, like a government or central bank, plays a pivotal role in issuing and regulating the currency. This centralized control ensures careful management of the currency's supply, fostering stability and preserving its value. This well-established system's core lies in a vast network of interconnected banks and financial institutions facilitating seamless transactions. When using the traditional currency for payments, the process involves the sender's bank transmitting a financial message to the recipient's bank, swiftly crediting the recipient's account. This secure and efficient mechanism empowers individuals to conduct transactions with ease, enabling the purchase of goods and services across borders and time zones. Centralized control over the currency supply is a paramount hallmark, ensuring a coordinated approach to monetary policy and inspiring confidence in the currency's stability.

Unlike historical currencies backed by tangible assets like gold or silver, traditional currencies derive value from people's trust in the issuing authority. This fiat nature underscores the critical role of public confidence in sustaining its value and widespread acceptance. Moreover, traditional currency systems operate under government oversight and regulation, protecting the currency's integrity and enhancing trust and stability within the financial ecosystem.

The widespread global acceptance of traditional currencies contributes significantly to their ubiquity as a convenient and efficient medium of exchange. This broad acceptance reinforces international trade and facilitates economic interactions, promoting seamless commerce between regions and nations worldwide. While traditional currency systems have proven reliable in stimulating economic activity, they also face challenges. One significant challenge is their susceptibility to inflationary pressures, which can erode the currency's purchasing power. Additionally, cross-border transactions can pose logistical hurdles for individuals and businesses. Chohan (2022) noted that such dysfunction of the traditional currency systems had led many to desire newer, more democratized, innovative, and participatory elements that can address these severe weaknesses.

In recent years, innovative alternative currency systems, such as cryptocurrencies, have emerged alongside traditional currencies. These digital currencies offer advantages like decentralization and potential cost reduction. However, they also encounter unique obstacles like volatility and a lack of universal acceptance.

The future relationship between traditional currency systems and cryptocurrencies remains uncertain. Some speculate that alternative currencies may replace traditional ones, while others envision a symbiotic coexistence. The disruptive potential of alternative systems has garnered considerable attention, promising to revolutionize our understanding of money and financial transactions.

This paper aims to provide an unbiased analysis of the strengths and weaknesses of the traditional currency system and cryptocurrencies. Examining their underlying mechanisms, adoption trends, and regulatory frameworks aims to equip readers with an informed understanding of how these financial systems interact and influence each other. The paper's structure includes a section on related literature, followed by a discussion of the advantages and disadvantages of traditional currency and cryptocurrency. The final section presents the paper's results and conclusion.

## LITERATURE REVIEW

In recent years, cryptocurrencies have garnered attention as an alternative currency. In a study conducted by DeVries (2016), it was suggested that cryptocurrency could become the world's next currency. The study highlighted that South America experienced a significant surge in bitcoin transactions, increasing by 510% from 2014 to 2015. However, he also noted that cryptocurrencies are technological creations that may face numerous challenges before becoming widely used and trusted. Additionally, he criticized the use of cryptocurrencies in illicit activities.

In a study conducted by Nica, Piotrowska, and Schenk-Hoppé (2017), the risks associated with cryptocurrencies were explored in detail. The authors explained how cryptocurrencies are used in the malware trade, cyber ransomware, and even by international terrorist organizations. They also highlighted several examples of convicted cases related to cryptocurrencies.

Bunjaku, Gjorgieva-Trajkovska, and Miteva-Kacarski (2017) discussed various advantages and disadvantages of cryptocurrencies. They reported that people with libertarian views are optimistic and embrace the cryptocurrency system. Still, due to potential risks, authors, economists, and scholars are not interested in using these currencies in financial transactions.

Jafari, Vo-Huu, Jabiyev, Mera, and Farkhani (2018) delved into the illegal activities, money laundering, and government considerations associated with cryptocurrencies. Their research showed that while countries like Canada and the U.K. consider cryptocurrencies a payment method, Germany treats them as "Private Money" and taxed them at 25%. They also confirmed that Japan and Switzerland have legalized cryptocurrencies, but China and Bolivia have banned them.

Zhmai and Mamunenکو (2019) warned that without proper research and regulation, cryptocurrencies may negatively affect the modern financial system by diverting financial flows from existing institutions. On the other hand, they also highlighted two significant advantages of cryptocurrencies: they cannot be falsified, and transactions cannot be disputed. However, a study conducted by Kiruscheva, Kleschenok, Hodkova, and Turcheniuk (2020) concluded that cryptocurrency in its current form is unlikely to become an official currency due to its numerous disadvantages and risks. They argued that the existing strengths of cryptocurrencies do not necessarily meet the needs of users in a traditional currency.

Lastly, the Financial Stability Oversight Council (2020) warned that if the scale or interconnections of crypto-asset activities were to increase without proper regulation, including enforcement of the current regulatory framework, there could be potential risks to the stability of the U.S. financial system.

Overall, while there are some benefits to using cryptocurrencies, there are also numerous risks and challenges associated with them. Thus, more research and regulation are needed to ensure the safe and effective utilization of cryptocurrencies in the modern financial system.

### Traditional Currency

The traditional currency system is a well-established and widely used method of exchanging value throughout history. It is based on using physical money, such as coins and banknotes, as a medium of exchange for goods and services.

Several vital components underpin the traditional currency system. First and foremost, the creation of a traditional currency begins with a government decree. Through its central bank or monetary authority, the government officially designates a specific form of currency as the legal tender for transactions within the country. The central bank plays an important role in this system, as it is responsible for issuing and controlling the nation's currency supply. Physical banknotes and coins are created through printing and minting, and the central bank oversees their production and distribution.

Moreover, the central bank acts as the monetary authority, regulating the money supply to maintain price stability and support economic growth. It employs various monetary policies to manage interest rates, inflation, and foreign exchange rates (Cecchetti, 2021). Commercial banks also play an essential role in the traditional currency system. They facilitate the storage and transfer of money between individuals and businesses. People hold accounts with these banks, enabling them to deposit money, withdraw cash, and conduct electronic transactions using checks, debit cards, or online banking systems (Hubbard, 2022).

Coins and banknotes are tangible representations of the traditional currency. Coins, usually made of metal, come in different denominations and are used for smaller transactions due to their durability. On the other hand, banknotes are printed on paper or polymer and serve as a more convenient form of currency for larger transactions. They often feature symbols, historical figures, or landmarks representing the issuing country (Cecchetti, 2021). The concept of legal tender is central to such traditional currencies. Specific forms of money, like coins and banknotes, are designated as legal tender, which means that they must be accepted by law to settle a debt or meet a financial obligation. Historically, currencies used to be backed by physical assets like gold or silver. However, most modern fiat currencies are not directly backed by any physical commodity. Instead, they derive their value from the trust and confidence placed in the government and the economy of the issuing country. Such currencies are called "fiat" currencies (Hubbard, 2022).

It is essential to acknowledge that while the traditional currency system has long been the dominant means of currency exchange, digital forms of money, such as cryptocurrencies, have emerged in recent years, offering alternative methods of exchange and storage of value. These digital currencies operate independently of traditional banking systems and often rely on blockchain technology for security and

transparency.

### Advantages of Traditional Currency

Traditional currency systems, which have been deeply ingrained in daily life for centuries, are widely recognized and accepted as a medium of exchange. People are well acquainted with the different denominations and values of physical currencies, such as coins and banknotes. The tangibility of physical currencies contributes to their popularity, as people can see, touch, and count their physical money, making it easier to understand than digital forms. Hence, traditional currencies are widely accepted as legal tender within their respective jurisdictions, backed by governments and central banks, thereby instilling trust and confidence in their value. The broad acceptance of traditional currencies ensures seamless transactions, as people do not need to worry about whether the recipient will accept them (Denic, 2021).

The simplicity of transactions within traditional currency systems is designed to facilitate straightforward exchanges. People are accustomed to using physical cash or electronic payment methods like credit cards and checks, which are relatively simple and convenient. Such transactions require only basic arithmetic and counting skills and can be conducted by people who are not familiar with computers or the internet. Traditional currency systems are accessible to a broad range of users, which has helped to facilitate economic activity and promote financial inclusion (Hall, 2021).

The traditional currency system operates within a well-established regulatory framework overseen by governments and central banks to ensure integrity and protect users from counterfeiting and fraud. This regulatory framework provides security and stability, further bolsters people's trust and confidence in the traditional currency system. Governments and central banks are responsible for upholding currency stability and implementing monetary policies to mitigate economic shocks, maintain price stability, and foster economic growth (Hall, 2021; Denic, 2021).

A robust and extensive infrastructure underpins the stability of the traditional currency system. This infrastructure includes banking institutions, strong payment networks, and comprehensive financial regulations. Together, these elements ensure efficient, secure, and transparent transactions, contributing to the overall stability of the traditional currency system (Denic, 2021). On the other hand, traditional currencies issued by major economies are highly recognized and accepted internationally. This is due to their widespread use in international trade and their status as reserve currencies held by central banks worldwide. This global recognition enhances the stability of traditional currencies, as they are widely trusted and easily exchanged in various markets worldwide. As a result, they are less likely to experience sudden fluctuations in value, which can disrupt economic activity.

### Disadvantages of Traditional Currency

The traditional currency system is susceptible to the impact of inflation, a gradual increase in the general price level of goods and services over time. Traditional currencies can experience devaluation as prices rise in the economy. Inflation can be triggered by various factors, including an excessive money supply, rising costs of production, excess consumer demand, and global economic fluctuations (Denic 2021). The stability of traditional currencies heavily relies on the monetary policies central banks implement. Expansionary policies, such as increasing or decrease the money supply or lowering interest rates, can lead to inflation when the money supply surpasses economic growth. Other economic factors like labor costs, raw material prices, and geopolitical events also play a role in influencing inflation levels.

The consequences of inflation are significant, particularly in terms of purchasing power. As prices rise, the same amount of traditional currency can purchase fewer goods and services, affecting individuals' standard of living, financial planning, savings, and investments (Denic, 2021). People often seek protection against

the adverse effects of inflation on traditional currencies by diversifying their holdings with alternative assets like stocks, real estate, commodities, or inflation-protected securities, which have the potential to outpace inflation and act as a hedge against the loss of purchasing power. On the contrary, governments and central banks actively manage and control inflation risks within acceptable limits. They utilize tools such as adjusting monetary policies, altering interest rates, and closely monitoring economic indicators to counteract inflationary pressures. Nonetheless, the potential for inflation remains a crucial factor in evaluating the stability of traditional currency systems (Denic, 2021).

The traditional currency system faces significant risks from counterfeiting, especially with physical banknotes and coins as targets. Counterfeiters employ modern technology and sophisticated equipment to produce fake currency that closely resembles genuine notes, making detection challenging. Counterfeiting undermines the value and trust in traditional currencies, leading to financial losses and economic disruptions for individuals, businesses, and governments. Additionally, it erodes consumer confidence in the traditional currency system, affecting its acceptance as a reliable medium of exchange. To deter counterfeiters, governments and central banks actively combat counterfeiting by implementing advanced security measures, such as intricate designs, unique serial numbers, and specialized inks. Collaboration with law enforcement agencies and continuous improvement of currency designs help stay ahead of counterfeiters. Although counterfeiting remains a persistent challenge, evolving security measures work to minimize its impact. Individuals and businesses must stay vigilant and familiarize themselves with their country's currency's security features to reduce the risk.

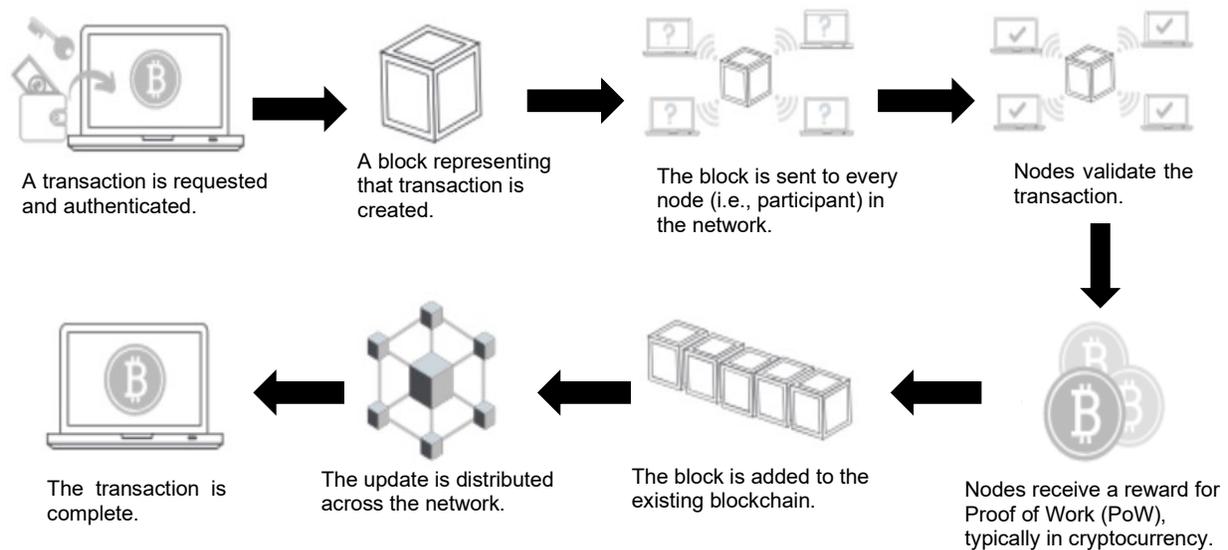
Controlling the supply of traditional currencies poses challenges for governments due to complex economic factors, unpredictable demand, and time lags in policy effects, and external influences. The underground economy and political considerations further complicate regulation efforts. Despite working closely with central banks and utilizing various tools, achieving precise control over the money supply can be difficult, making it challenging to regulate traditional currency systems effectively.

### Cryptocurrency

At its core, cryptocurrency is a digital token that is a placeholder representing a monetary unit in a financial transaction. Cryptocurrency uses a blockchain technology that records and validates all transactions in a transparent and immutable way. To assess the pros and cons of cryptocurrency, it is advantageous to first look at its origin. So much can be gleaned from the source and foundations of it to set the stage for determining what and who could benefit or be harmed by its existence. This entire form of cryptocurrency is attributed to a white paper published by an unknown person or group of people that was simply identified by the pseudonym Satoshi Nakamoto. The white paper was published in October 2008, entitled "Bitcoin: A Peer-to-Peer Electronic Cash System" (Martharu, 2019). Four months later, in January 2009, the same author released the first bitcoin, block 0 (zero). This was created using a source that is referred to as a blockchain or a blockchain database.

The blockchain itself is an immutable distributed digital ledger that records transactions. A set of transactions bundled together is the "block," as one block of transactions is added or stacked on top of previous blocks, a chain is formed, producing a blockchain in digital space (See Figure 1).

Figure 1: The Process of a Transaction on the Blockchain



The above figure shows several key steps a transaction should go through when it is added to the blockchain. Source: Euromoney Learning (2020)

This could be visualized by taking a traditional accounting ledger and blocking or boxing it up to contain it, then placing an additional ledger in a block or box and stacking it on top of the previous one. Furthermore, the blockchain is formed through a consensus mechanism that ensures that all computers on the blockchain network (i.e., nodes) agree on the contents of the ledger. In a blockchain network, no central authority controls the data. Instead, every node on the network maintains a copy of the ledger, and the network must validate any changes made to the ledger through a consensus mechanism. This consensus mechanism ensures that the data on the blockchain is immutable, transparent, and secure.

To fully comprehend blockchain technology, knowing who builds the blocks and maintains the records is essential. These individuals are called miners in a proof-of-work (PoW) blockchain or validators in a proof-of-stake (PoS) blockchain. They verify transactions and add blocks to the blockchain. In the PoW blockchain, this is not as simple as it sounds because the verification process is more of a competition between multiple miners unlike in the PoS blockchain, which selects the validator and not just an allocation of a transaction to one specific miner. When a transaction is sent through the network for the cryptocurrency exchange, it must be verified as legitimate; hence, miners are all attempting to complete at the same time for the same transaction. In order to do so, a complex solution must be reached for the computational problem that is presented with each transaction. Only one miner will verify the transaction first and move forward with recording the transaction in the block. Miners do not work for free but rather get rewarded by receiving payment in cryptocurrency. Their function is that of a type of mathematical problem solver that allows senders and receivers to interact without intermediaries brokering their exchange. Miners are needed because the blockchain is a public, accessible to anyone, available digital ledger that relies on cryptographic proof to remove the need for a third-party broker in the transaction.

Cryptography is defined as "the science by which intelligible data or information can be scrambled or concealed by using encryption techniques" (Martharu, 2019). The cryptographic protocols consist of a highly complex code system, and its main purpose is to encrypt the transfer; in the case of cryptocurrency, the transfer is data pertaining to a monetary unit. Therefore, the sender end encrypts data to make it unintelligible, and the receiver end decrypts the data. It sounds simple but it is a very advanced level of

mathematics and computer engineering that forms the foundations of the process that miners are working with to verify transactions. With this broad overview, it is now imperative to discover how cryptocurrency is advantageous as a form of monetary transaction. The global cryptocurrency market capitalization experienced significant volatility but peaked at almost \$3 trillion in 2021 (CoinMarketCap, 2023). This amount represents around 1% of the total global financial assets, which means that it is still relatively small in comparison to the overall scope of the global financial system.

### Advantages of Cryptocurrency

The advantages of cryptocurrency encompass various aspects, including its underlying technology, the financial system at large, the users, miners, and other entities affected by it. The areas that will be addressed in this analysis are foundational advantages that support all relevant parties and entities. Specifically, this paper examines cryptocurrency as an alternative to centralized monetary systems, its security and anonymity features, and the elimination of trusted third parties (TTPs) in transactions.

The timing of Bitcoin's creation and release was particularly significant as it coincided with the 2008 Financial Crisis, which profoundly impacted the global economy. This crisis eroded trust in financial institutions, their complex systems and governments, and policies permitting financial institutions to develop such destructive financial mechanisms. Bitcoin is denoted as having "its roots in Libertarian and Cypherpunk values, which aim to create social and political change by circumventing governments and large financial institutions through privacy-enhancing technologies" (Lacity, 2020).

Cryptocurrency operates outside the realm of government-issued currencies. It is a new form of digital currency that presents itself as an alternative in an open-source community. It utilizes open-source codes with monetary policies programmed into software, relying on algorithms rather than corruptible governments and financial institutions. It is worth noting that the world's 180 currencies recognized in ISO 4217, published by International Organization for Standardization, are mostly fiat or backed by governments, which have the power to trigger inflation by simply printing more paper money. In contrast, cryptocurrency is finite, deflationary, and has a predetermined final release date.

The most appealing feature of cryptocurrency is that it operates in a decentralized system that permits peer-to-peer (P2P) transactions, giving users a higher sense of control. The borderless aspect of cryptocurrency can also reduce the costs associated with international payments compared to fiat currencies. Furthermore, cryptocurrency promotes financial inclusion by eliminating the need for a bank account and offering unbanked or underbanked communities a P2P mechanism for making direct financial transactions on a blockchain (U.S. Department of Treasury, 2022). Cryptocurrency also incorporates a democratic process within the open network, enabling all users to vote for or against any block that is attempting to be added to the blockchain. Its value is derived from the consensus-based verification mechanism based on an incentive structure and from the users who believe in it, empowering them to influence its success (Sharif and Ghodoosi, 2022; Lacity, 2020)

The strength of the cryptocurrency system resides in blockchain technology. Blockchain serves as a vehicle for cryptocurrency exchange and provides security just as a Brink's truck, its security officers, and the company's processes and procedures secure physical currency. The cryptographic function embedded in the transfer process and its construction of interconnected blocks ensure the security of cryptocurrency. The cryptographic hash of each block in the blockchain is derived from the data in the block and the preceding block's hash, serving as a digital fingerprint. This digital fingerprint secures the distributed ledger containing the transaction records in each block. It makes the data in the block resistant to modification, thereby solidifying the authenticity of the transactions on record. The unalterable records of transactions confer integrity to the entire chain of linked blocks.

Moreover, the involvement of users worldwide in the validation of transactions before their inclusion

in a block enhances security. There is also a single distributed ledger, eliminating the need to reconcile different versions of the records and ensuring data consistency and security among multiple parties. Satoshi Nakamoto envisioned a world where people could safely, securely, and anonymously transfer value directly with each other (Lacity, 2020).

Anonymity on the blockchain can be attained through the use of pseudonymous addresses. These addresses are unique strings of characters that are generated using cryptographic methods and are used to conceal a user's real-world identity, thereby ensuring user privacy within the blockchain. Since the distributed ledger is also a public record of all transactions on the blockchain, anyone can view the contents of the entire blockchain, but user identities are pseudonymous and secure. This helps protect user privacy, while allowing for the transparent and secure recording of transactions.

Nakamoto's blockchain design makes it computationally and financially impractical for hackers to attack (Lacity, 2020). This is because an attacker would need to control more than fifty percent of the blockchain network's computers, which is extremely difficult and expensive to do. Even if an attacker were able to do this "51% attack", they would still need to restructure the historical data in each block, which would be a very time-consuming and difficult task. Additionally, any currency that the rest of the network would devalue the attacker obtained in this process to the point where it would not be worth anything because users would no longer trust the blockchain if they knew that it could be attacked.

Furthermore, cryptocurrency offers the advantage of eliminating trusted third parties (TTPs) involved in brokering monetary transactions pertaining to fiat currencies. TTPs are banks, firms issuing credit, money transmitters, and notaries. TTPs traditionally mitigate risks because they attest to the truth in what is being presented by all parties involved in a monetary exchange. This attestation has verified and validated ownership, identity, signatures, and asset authenticity. In addition, the primary function of TTPs has also been to ensure that projects are properly funded, that there is no double funding, and that agreements are executed properly. The downside to all they do is that high fees are associated with each transaction. TTPs are primarily focused on generating profits, and providing their services to low-income individuals is not a high-profit activity. This can lead to low-income individuals being denied access to basic financial services, which may have a negative impact on their creditworthiness and financial well-being.

Cryptocurrency revolutionizes financial access by providing a cost-effective, equitable, and open system. Cryptocurrency eliminates the need for TTPs by using computers on the decentralized network to store data and verify transactions. The cryptographic element of blockchain with the anonymity aspect through the usage of the private-public key verification validates ownership. At the same time, miners in the network community are rewarded for validating the transactions. Combining these factors makes cryptocurrency a promising alternative to traditional financial systems. Cryptocurrency could help reduce the cost of financial services, making them available to people excluded from the traditional financial system.

In summary, cryptocurrency offers a number of benefits over traditional fiat currencies. It is cost-effective, secure, anonymous, and equitable and does not require the use of TTPs. These features make it an attractive option for individuals and businesses who need to conduct transactions in a secure and efficient way.

### Disadvantages of Cryptocurrency

Cryptocurrencies offer a range of advantages, including protection against inflation, self-governance, enhanced security and privacy, swift and low-cost payment transactions, currency exchanges, and decentralization. The scarcity of cryptocurrency would protect its value during times of rising inflation, like gold, because it is limited in supply, such as in the case of Bitcoin, with only 21 million units available, the increasing demand for cryptocurrency contributes to its value appreciation, which can serve as an effective hedge against inflation. The self-governance aspect of cryptocurrencies is a crucial factor in their

development, as they rely on users' hardware for storage and offer transaction fees as rewards for maintaining transaction records. This decentralized approach ensures the integrity and security of the system. However, it is essential to acknowledge that cryptocurrency faces certain disadvantages and challenges.

Cryptocurrency security and privacy have been persistent concerns, although implementing complex mathematical puzzles in blockchain technology ensures high cryptographic security. Nonetheless, the decentralized nature of cryptocurrencies also presents a disadvantage in their potential misuse for illicit transactions, as the high security and privacy measures make it challenging for governments to trace and regulate such activities. The absence of regulation and oversight makes cryptocurrency exchanges vulnerable to hacking and fraud. In recent years, there have been a number of high-profile security breaches at cryptocurrency exchanges with billions of dollars' worth of cryptocurrencies stolen. According to the Crypto Crime Report published by Chainalysis (2023), exchanges and other platforms lost over \$3 billion worth of cryptocurrencies to hackers in 2022. The rising value of cryptocurrency has made it an attractive target for hackers. In addition, the decentralized nature of cryptocurrency makes it difficult to track and recover stolen funds.

While the blockchain itself is secure, it becomes vulnerable if the private key, which represents ownership and control of cryptocurrencies, is compromised. Cryptocurrency is often considered less safe than traditional assets because users are responsible for safeguarding their private keys, which are essential for accessing their cryptocurrencies. If hackers are able to obtain a user's private key, they can steal those cryptocurrencies (Roohparvar, 2022). Many users opt to store their private keys on their computers. Hackers typically attempt to gain access to their computers, stealing private keys and using them to log in to users' digital accounts or wallets. Some hackers exploit private keys through phishing campaigns. They'll pose as the official trading platform to trick investors into handing over their private keys or cryptocurrencies. Phishing attacks can also occur through emails containing links leading investors to a malicious website. Spear phishing, DNS hacking, phishing bots, and fake browser extensions are examples of common phishing attacks to take advantage of cryptocurrency investors (Ngrave, 2021).

The advantages of cryptocurrency include its primary use for cross-border transactions, which reduces or eliminates transaction fees typically associated with third-party intermediaries like Visa, Mastercard, or PayPal. Nevertheless, the irreversible nature of cryptocurrency transactions can be a drawback, as they cannot be reserved, tracked, or refunded once initiated. The verification requirements for cryptocurrency transactions are relatively minimal, allowing for easy accessibility. However, this also means that once a cryptocurrency transaction is recorded on a blockchain, it cannot be reversed because a distributed ledger cannot be changed. There is no third-party institution such as bank or government that protects users' cryptocurrencies. This makes getting users' money back if they are scammed or make a mistake is difficult. Such irreversibility of cryptocurrency transactions can expose users to risks. Consequently, these potential risks highlight the importance of using strong security measures when users manage cryptocurrencies.

Scalability measures how well a system can handle increasing users or transactions without sacrificing performance. Regarding of cryptocurrency, scalability refers to the measure of how well a blockchain network can process a large number of transactions without slowing down or becoming too expensive. There are a number of challenges to scaling blockchain networks. One challenge is blockchains are typically based on a proof-of-work (PoW) consensus mechanism. In PoW, miners compete to solve complex mathematical problems using powerful computers. The first miner to solve the problem is rewarded with a cryptocurrency, and their block is added to the blockchain. This process secures the blockchain and incentivizes miners to participate in the network. However, this process can be very time consuming and energy intensive. Hence, the current cryptocurrency system is not scalable to handle a large volume of transactions required for widespread adoption (Nasir, Arshad, Khan, Fatima, Salah, and Jayaraman,

2022). As a result, cryptocurrencies need to impose solutions like staking, sharding, and lighting networks to overcome the scalability issue (Boukhalfa, 2019). Nonetheless, it is important to be aware of the risks associated with these technologies before using them because there are also some security risks associated with using those solutions.

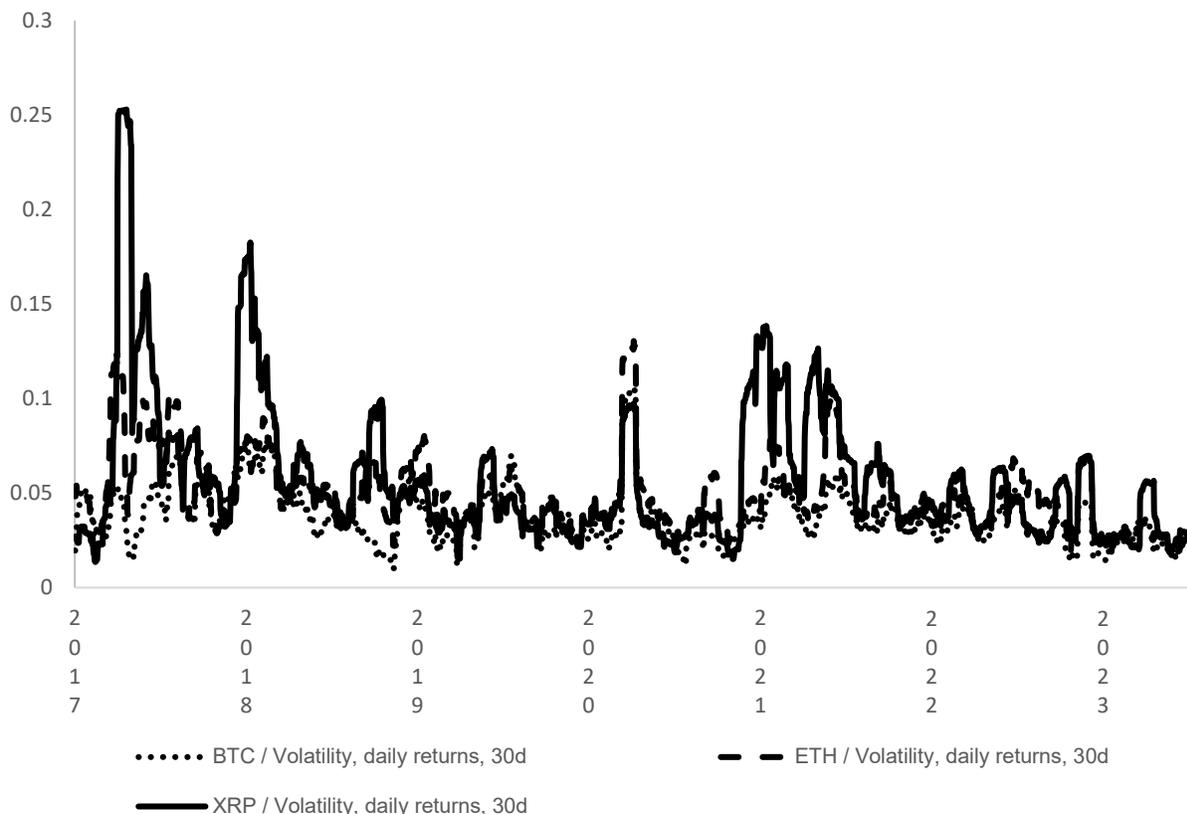
Furthermore, cryptocurrency can be used for illegal transactions because of its high level of privacy and security, which makes it difficult for governments to oversee the creation, movement, and management of cryptocurrencies and to track down abusers. For example, Bitcoin has been used by drug dealers to conduct transactions on the dark web. Additionally, cryptocurrencies can be used to launder money by converting "dirty" money into "clean" money, which makes it difficult for law enforcement to trace the source of the funds. The U.S. Government Accountability Office (GAO) report emphasizes that policymakers, regulators, and law enforcement agencies have recognized cryptocurrency, human trafficking, and drug trafficking as significant areas of concern. However, it also cautions that federal agencies may face challenges in obtaining comprehensive data for evaluating and reporting on the use of cryptocurrency in various illicit activities (Knutson, 2022).

In financial markets, liquidity is a measure of how easily an asset can be bought or sold without significantly impacting its price. Liquidity is important because it supports asset values. If an asset is illiquid, selling it for a fair price may be difficult. Cryptocurrencies are illiquid because there are fewer buyers and sellers than traditional financial markets, and the cryptocurrency market is poorly regulated. According to Singapore-based blockchain firm, TripleA, it is estimated that as of 2023, the global crypto ownership rate is around 5.2%, with about 420 million crypto users worldwide.

Bitcoin is a particularly illiquid cryptocurrency. A large portion of all Bitcoin in circulation is not available for purchase or sale. Some of this Bitcoin is held by investors who will never sell regardless of the price and other Bitcoin is stranded in wallets for which the private keys have been lost. Furthermore, only 21 million Bitcoin will ever be mined. Such illiquidity of cryptocurrency could lead to more volatile price movements, as even small changes in supply or demand could significantly impact the price (See Figure 2). Therefore, investors should be aware of the illiquidity of cryptocurrency before investing because illiquid cryptocurrency can be more difficult to sell, and it may be more volatile than other liquid assets.

In the "proof-of-work" consensus mechanism used by 64% of cryptocurrencies such as Bitcoin, Litecoin, Monero, etc., a network of computers competes to solve complex mathematical problems.

Figure 2: 30 Day Volatility of Cryptocurrencies

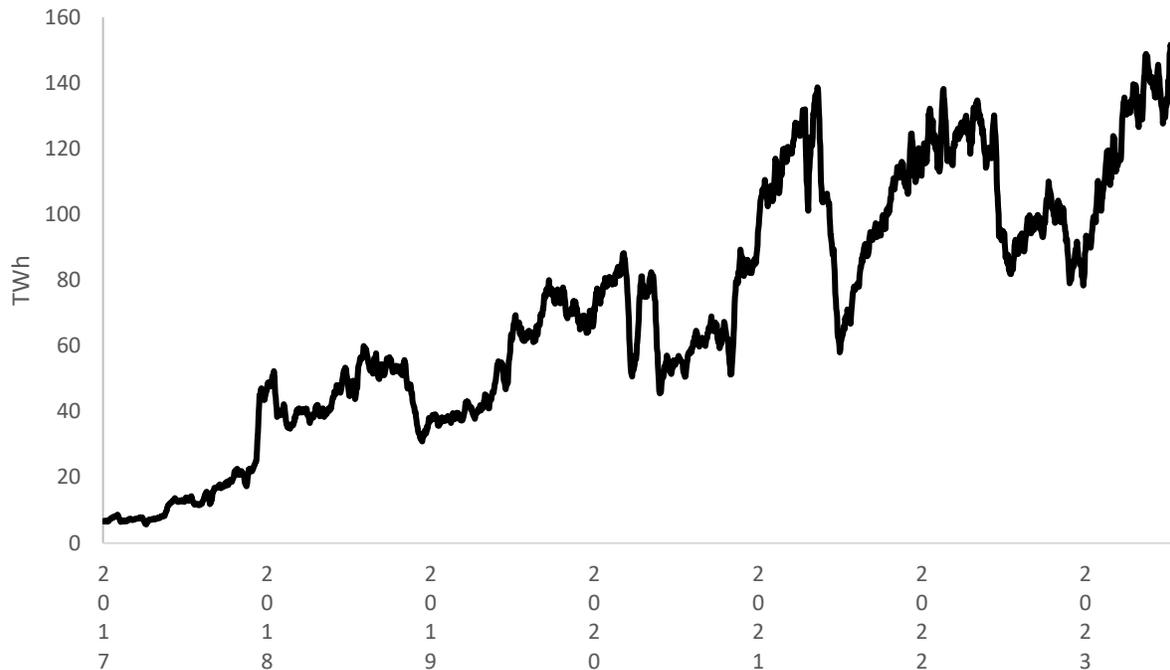


The above graph shows the 30-day volatility of major cryptocurrencies, measured as the standard deviation of the natural log of daily returns over the past 30 days. The illiquidity of cryptocurrency could lead to more volatile price movements, as even small changes in supply or demand could significantly impact the price. Source: CoinMetrics (2023)

The computer which solves a problem first is rewarded with new cryptocurrency and is given the right to add the next block of transactions to the blockchain. The more computing power a computer has, the more likely it is to solve a problem first and be rewarded. This has led to the creation of massive server farms dedicated to mining cryptocurrency, which in turn consume a large amount of energy. A 2023 study by the University of Cambridge estimated that Bitcoin mining consumed 118 terawatt-hours of electricity in 2022, more than the entire country of Argentina (See Figure 3). The environmental impact of cryptocurrency mining is particularly concerning given the fact that the vast majority of the energy used to mine cryptocurrency is derived from fossil fuels. This means that cryptocurrency mining is a major contributor to climate change.

In recent years, there have been a number of efforts to address the environmental impact of cryptocurrency mining. Some cryptocurrency developers have begun to adopt more energy-efficient mining algorithms. For example, the second-largest cryptocurrency, Ethereum, switched to a different method of creating its tokens in September 2022, called "proof-of-stake," which uses significantly less computing power. Others have begun to use renewable energy sources to power their mining operations. However, these efforts have not been enough to offset the overall environmental impact of cryptocurrency mining because Bitcoin seems to continue to use the energy-consuming "proof-of-work" algorithm. Within the decentralized Bitcoin network, no governing body could decide to switch to the energy-efficient "proof-of-stake" algorithm. If the cryptocurrency industry is to continue to grow, it must find ways to reduce its environmental impact.

Figure 3: Bitcoin Annualized Electricity Consumption, Terawatt-hours (TWh)



The above graph shows the estimate of Bitcoin's electricity consumption over the period of one year in terawatt-hours (TWh). In 2022, Bitcoin mining consumed an estimated 118 terawatt-hours of electricity, which is more than the entire country of Argentina. Source: Cambridge Bitcoin Electricity Consumption Index (2023)

In addition, policymakers are still trying to understand how cryptocurrencies work and how to regulate them effectively because cryptocurrency was first introduced in 2009, and it has only been in the mainstream for a few years. One of the key benefits of cryptocurrency is its decentralization, which means that any central authority does not control cryptocurrency. This also makes it difficult for policymakers to regulate cryptocurrencies and prevent criminal activities, as they do not have a single entity to target, and transactions can be made across borders anonymously. Such the nature of cryptocurrencies makes it difficult for uncoordinated regulatory approaches among countries to be effective. Some countries have taken a more laissez-faire approach, while others have imposed strict regulations. In fact, gaps exist where cryptocurrencies are issued, exchanged, transferred, or stored by nonbank entities and where a jurisdiction's regulatory framework does not capture cryptocurrencies based on current legal interpretations of financial services and products (Bains, Ismail, Melo, and Sugimoto, 2022).

In recent years, interlinkages between cryptocurrencies and the regulated financial system have grown, and policymakers are starting to take steps to regulate cryptocurrencies. The European Parliament ratified the Markets in Crypto-Assets (MiCA) in April 2023 and thus became the world's first regulatory framework for cryptocurrencies. MiCA aims to create a single market for cryptocurrencies in the European Union (E.U.) while ensuring that they are subject to appropriate regulation and supervision and requiring cryptocurrency service providers, such as exchanges and custodians, to be licensed and regulated by national authorities (Council of the European Union, 2023). Following the collapse of FTX in November 2022, the U.S. Securities and Exchange Commission (SEC) has taken enforcement action against many cryptocurrency companies such as Thor Tokens, CoinDeal, Gemini Earn, Nexo, Kraken, and Tron by classifying those cryptocurrencies as securities (SEC, 2023). This means that cryptocurrencies that are classified as securities will be subject to the same regulations as traditional securities. It is still too early to say how effective government regulation of cryptocurrencies will be.

However, regulation is necessary to protect investors and prevent criminals from using cryptocurrencies illegally.

## RESULTS

The traditional currency system has garnered widespread use and acceptance over the centuries due to its inherent advantages. As a widely recognized medium of exchange, traditional currency benefits from its tangible nature, providing ease of understanding. Furthermore, governments and central banks' backing of traditional currencies instills trust and confidence, enabling seamless transactions without concerns about recipient acceptance. The simplicity of transactions within this system also serves a broad range of users, including those with basic arithmetic and counting skills. Additionally, the traditional currency system operates within a well-established regulatory framework overseen by governments and central banks, ensuring financial integrity, price stability, and protection against counterfeiting and fraud. Moreover, significant economies' global recognition and acceptance of traditional currencies enhance their stability and trustworthiness in international markets.

The traditional currency system is not without its drawbacks. Vulnerability to inflation poses a significant risk, impacting purchasing power and individuals' standard of living. The risk of counterfeiting also undermines the value and trust in traditional currencies. Additionally, challenges in precisely controlling the money supply due to complex economic factors, unpredictable demand, and political considerations can make it difficult for governments to regulate the traditional currency system effectively.

In contrast, cryptocurrencies present various appealing advantages to different stakeholders. Operating independently from government-issued currencies, cryptocurrencies offer a decentralized, open-source community. They mitigate inflation risks and promote financial inclusion. Utilizing cryptographic functions in blockchain ensures high security, and pseudonymous addresses protect user privacy. Furthermore, cryptocurrencies eliminate the need for trusted third parties, enabling cost-effective and equitable peer-to-peer transactions. Nonetheless, cryptocurrencies face challenges and drawbacks, such as cybersecurity risks, vulnerability to illicit activities, and scalability issues with proof-of-work consensus mechanisms. Additionally, the lack of comprehensive regulation poses challenges in managing and preventing criminal activities, and concerns arise regarding the environmental impact of certain cryptocurrencies' energy-intensive mining processes.

Both the traditional currency and cryptocurrency exhibit their respective strengths and weaknesses. While traditional currencies benefit from widespread acceptance and trust, they are vulnerable to inflation and counterfeiting risks. On the other hand, cryptocurrencies offer innovative features such as security, anonymity, and elimination of trusted third parties, but face challenges related to cybersecurity, scalability, illicit use, lack of regulation, and environmental impact. The coexistence of both systems may depend on ongoing developments and regulatory efforts in the financial landscape.

### Path Forward

To capitalize on the strengths of traditional currency and cryptocurrency, pursuing a hybrid financial system is recommended. This path forward entails integrating digital payment systems with traditional banking infrastructure to facilitate faster, more secure, and cost-effective transactions. Governments and financial institutions should also collaborate to develop regulatory frameworks that accommodate cryptocurrencies while safeguarding consumer interests and mitigating illicit activities. Additionally, exploring advancements in blockchain technology can help address scalability and environmental concerns associated with certain cryptocurrencies. This approach would foster financial inclusion, stimulate innovation, and bolster the overall stability of the financial landscape.

## CONCLUSION

The comparison between traditional currency and cryptocurrency in this paper reveals diverse advantages and disadvantages for each system. Traditional currencies have widespread acceptance, trust, and regulatory framework, providing a stable foundation. However, they remain vulnerable to inflation and counterfeiting risks. On the other hand, cryptocurrencies offer innovative features such as security, anonymity, and disintermediation but face challenges in cybersecurity, scalability, and regulation.

This study suggests that the coexistence of both systems holds the potential to create a more robust and inclusive financial ecosystem. Embracing technological advancements while addressing the limitations of cryptocurrencies can lead to enhanced financial accessibility and efficiency. Stakeholders, including policymakers, financial institutions, and technology developers, should collaborate to strike a balance that optimizes the strengths of each system and mitigates its weaknesses. This approach would provide individuals and businesses diverse financial transaction options while maintaining stability and security.

There are some limitations to this study. For example, comparing traditional currency and cryptocurrency is based on the information available up to 2023. The dynamic nature of the financial landscape, rapid technological advancements, and regulatory changes may influence the interplay between these currencies beyond the provided analysis. The other limitation concerns that the discussion primarily focuses on major cryptocurrencies like Bitcoin and Ethereum, and the advantages and disadvantages may vary for different cryptocurrencies with distinct features and use cases.

The impact of cryptocurrencies on the global economy, financial stability, and potential implications on the traditional currency system may necessitate ongoing research and analysis. As the adoption of cryptocurrencies continues to evolve, new challenges and opportunities will emerge, necessitating further evaluation and adaptation of regulatory measures.

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# **STRATEGIC ORGANIZATIONAL DEVELOPMENT INTERVENTIONS FOR THE DEVELOPMENT OF GREEK PRIVATE ENTERPRISES**

John Theodore, JDT Management Consultants

## **ABSTRACT**

*The purpose of this article is to expose the managerial and organizational characteristics and practices of the owners-managers of Greek private enterprises and to propose several Organizational Development (OD) interventions in order to attain planned developmental changes. The author of this work proposes such interventions in the areas of reducing/eliminating resistance to change, using the services of planned change agents, induce creativity and innovation, decentralize the decision-making process and that of delegation of authority and responsibility, and create effective and efficient multi-directional communication for the benefit of the entire human resources.*

**JEL:** M16, M20

**KEYWORDS:** Organizational Development, Organizational Development Interventions, Planned Change Agents, Empowerment, Greek Owners-Managers

## **INTRODUCTION**

**T**he purpose of this article is to expose the managerial and organizational characteristics and practices of the owners-managers of Greek private enterprises and to propose a number of Organizational Development (OD) interventions in order to attain planned developmental changes.

According to Schein (1988), Organizational Development is a process conducive to planned changes from the top echelon of organizations which leads to better organizational performance. Lewin (1951) viewed OD as an Action Orientation process in which the status quo is unfreezed, a change is made through planned interventions, and the new status quo is refreezed. Furthermore, Organizational Development is leading to an increase in a person's capacity to attain the desired mission, goals, and objectives and at the same time perceive and understand the process and essence of attaining them (Griesgraber & Gunter, 1996).

Planned change agents are the people who conduct OD interventions; they have commensurate education and preparation (Bennis, 1969). Leaders who have a learning orientation encourage employees to learn new skills on the job; such leaders also seek to implement various advanced management practices in promoting employee commitment to learning (Dragoni, 2005). Developmental strategies ought to be directed towards interventions that stimulate, facilitate, and promote the capacity development of people who can undertake new combinations (Carpenter et al., 2004).

Interventions by planned change agents, mainly consultants, can face difficulties in performing their tasks because the owners-managers of private enterprises in Greece play various roles in conducting their management and organizational tasks (Theodore, 2013a). The planned change agents must rigorously demonstrate to the owners-managers the benefits of accepting Organizational Development interventions that are conducive to planned developmental changes (Cassells & Lewis, 2011). Experienced planned

change agents who conduct OD interventions can sense when their clients are protecting an insecure self if they avoid revealing personal struggles and conflicts, present views in a dogmatic or intolerant manner, manifest a pattern of denial, rationalization and blame-shifting, or if their comments remain external and superficial (Theodore, 2012).

Literature dedicated to Greek private enterprises is abundant today in Greek, English, French, and German. However, there is no literature pivoting around planned change interventions in Greek private enterprises in the areas of reducing/eliminating resistance to change, using the services of prepared change agents, create creativity and innovation, decentralize the decision-making process and that of the delegation of authority and responsibility, and create effective and efficient multi-directional communication for the benefit of the employees and managers.

This article includes new information pertinent to Greek private enterprises and it is pivoting around planned change OD interventions and it adds another new chapter in the existing literature. This article will also serve as a sequel to the author's previous article (Theodore, 2021) dedicated to the management and organizational status of such enterprises during the 1960-2010 period.

The article is divided into the following sections: Introduction, Literature Review, Data Methodology, Results and Discussion, A Path Forward, and Concluding Statements.

## LITERATURE REVIEW

The Literature Review includes references starting in the 1980s and concluding in the 2010s.

### The Identity of the Owners-managers in Greek Private Enterprises

Greek owners-managers of private enterprises have formed their identity through their management behavior and this identity is being reflected in their respective organizations that include the entire force of their human resources (Komninou & Tsamis, 2008). The owners-managers' identity pivots around their essence and it is based on their own values and from subjective perceptions as to who they are. For example, their decisions are being influenced by their psychological forces such as values, motivations, skills, and beliefs.

The size of private enterprises has been traditionally small. In the 1960s, most private enterprises (49%) employed 1-9 employees; 9.6% had 10-19 employees; 10.7% had 20-49 employees, and 30.1% had 50 or more employees. (National Statistical Service of Greece, 1964). In the 2010s, 99.5% of the Greek private enterprises were small and employed 74.3% of the labor force; .04% were medium size and employed 10.9%; and .01% were massive and employed 14.8% of the labor force (European Commission, 2012). The size of organizations is critical to their development. A small organizational size is a negative element to managerial and organizational development (Theodore, 2009).

The owners-managers' management and organizational practices are rooted in the culture of the industry (micro external environment) of their enterprises and the general culture (macro external environment) in which they live (Brewer, 1991).

The following management and organizational characteristics pivoting around the identity of the owners-managers in Greece have been detected by expert researchers, professors, consultants, and professional managers:

Resistance to developmental change and acceptance of a static status quo (Komninou & Tsamis, 2008).

Avoidance of using professional assistance, such as consultants, who can provide them with specialist knowledge regarding ways to work more efficiently and to deal with stress more effectively (Kourounakis & Katsiolouides, 2009).

Creativity and innovation are missing (Papadakis, 2006).

The decision-making process is centralized and rests on the judgment of the owners-managers (Hatzikian & Bouris, 2007); there is an absence of delegation of authority and responsibility and a lack of empowerment of employees (Psychogios & Szamosi, 2007).

The owners-managers do not communicate with their employees on elements that are pertinent to the operation of their enterprises (Psychogios & Szamosi, 2007), and they are not able to provide directions and guidance for them because such owners-managers are encircled in a limited and microscopic management model (Vlachos, 2008).

To reiterate, the characteristics of management and organizational practices of the owners-managers in Greece are pivoting around: (1) resistance to development change; (2) avoidance of using professional assistance, such as consultants; (3) creativity and innovation are missing; (4) the decision-making process is centralized, and there is lack of delegation of authority and responsibility; and (5) there is a lack of communication and reluctance to provide directions and guidance to employees.

#### Resistance to Change

There are two major types of leaders: Transactional and Transformational. Transactional leaders, such as the owners-managers of private enterprises in Greece, practice mainly top-to-bottom communication and are controlling and demotivating (Theodore, 2013b) causing less innovative behavior.

The purpose of the interventions by the planned change agents in the areas of communication and control is to change the leadership style of the owners-managers from Transactional to Transformational by using psychological empowerment which is a motivation force that will allow them to start and complete desirable actions, perform advanced managerial and organizational tasks, and also feel both intrinsic and extrinsic satisfaction for doing superior work (Thomas & Velthouse, 1990).

Transformational leaders transform and develop their subordinates by improving their work performance and values (Bass, 1999). Leaders who have a learning orientation encourage employees and managers to learn new skills on the job; such leaders also seek to implement various management practices in promoting employee commitment to learning (Dragoni, 2005).

#### Reluctance to Use Professional Assistance

Planned change agents are responsible for initiating, directing, and controlling planned changes in organizations (Burnes, 2004). In order for the planned change agents to function effectively and efficiently with the owners-managers of private enterprises in Greece, the latter must make evident their missing goals and objectives (Beckhard & Harris (1987).

Planned change agents must interact effectively, efficiently, and on a timely basis with the owners-managers. Emphasis needs to be placed upon the understanding of owners-managers and the rationale behind their desire to undergo planned changes (McLean, 2005). Without understanding the desire for planned changes, the relationship between owners-managers and change agents will be short-lasting (Schein, 1997).

The benefits of a fruitful and robust synergy between owners-managers and planned change agents are being discussed in the sections that follow in this article.

#### Lack of Creativity and Innovation

Creativity involves generating novel and useful ideas, while innovation is the successful implementation of the creative ideas generated (Hatzikian & Bouris, 2007)). In small enterprises, due to the small number of employees and the flat organizational hierarchy, the effects of the owners-managers personal characteristics on the organizational outcome are far more influential than are their impact on large organizations (Lubatkin et al., 2006).

Five phases depict the acceptance and use of innovation: *Knowledge*, potential adopters must first learn about the innovation; *Persuasion*, they must be persuaded as to the merits of the innovation; *Decision*, they must decide to adopt the innovation; *implementation*, once they adopt the innovation, they must implement; and *Confirmation*, they confirm that the decision to adopt is an appropriate decision (Rogers, 1995).

Interventions conducted by planned change agents in the area of innovation and creativity need to be focused on changing the owners-managers from being Transactional to Transformational ones.

#### Centralization of Decision-Making and Lack of Delegation

Greek enterprise owners-managers make practically all the decisions by themselves and do not ask their employees to participate in the decision-making process; they do not delegate authority and responsibility to their employees for improving their performance through empowerment (Theodore, 2021). Organizational decision-making is the rational process for selecting alternatives that are conducive to achieving desired goals (Simon, 1978) and consists of a procedure that utilizes rules of search, rules of choice, and rules of learning (Beach & Mitchell, 1978).

The planned change agents' intervention needs to be focused on the owners-managers correct decision-making process and its decentralization. Intervention also needs to be directed to empowering employees through delegation of authority and responsibility. Making employees participate is conducive to building positive employee-organization relationships, employee satisfaction, and commitment (Kim et al., 2011).

There are limits to what the single owner-manager can accomplish, whereas working with employees in a concerted manner leads to collective efficacy in decision-making that influences group motivation conducive to correct decision-making (Little & Madan, 1997). Planned change agents must demonstrate to the owners-managers that there is a strong need to make rational decisions and that the acquisition of a high degree of procedural rationality will enable such persons to make high quality decisions that meet the attainment of selected goals (Etzioni, 1998).

The movement of authority and responsibility from higher to lower hierarchal organizational levels is referred to as delegation (Hellriegel et al, 2005). The acceptance of authority and responsibility by lower echelon levels creates empowerment for the recipients and prepares them for additional responsibilities (Mills & Ungson, 2001).

Delegation means that the owners-managers will be entrusting their employees and empowering them to make decisions in harmony and synergy with the delegated authority and responsibility which they have received from the owners-managers. The owners-managers' benefits will be derived from the delegation of authority and responsibility and will concentrate on the tasks that require their attention (which are important tasks) and free them from performing tasks their employees can do, which are mainly routine tasks (DiMaggio, 2001).

Intervention by the planned change agents in the delegation of authority and responsibility is to change the owners-managers' perception and beliefs and induce them to implement advanced management and organizational principles. The reluctance of owners-managers to delegate is their unwillingness to share power with the employees, view delegation as a weakness, fear losing control of their enterprises and the idea that they are smarter and more competent than their employees (Ackoff, 1999).

Greece's job market is competitive and competition among enterprises is becoming more substantial and more critical. In order for private enterprises to maintain their competitive ability and strength, they need to have continuous developmental training in their direct tasks, technology and other related areas. The greater the number of employees engaged in this positive behavior, the most likely a work culture is created that is productive and positive (Podsakoff et al., 2009).

In addition, the effective and efficient delegation will be conducive to the training and development of employees through empowerment enrichment and enhancement of their involvement in the tasks within the organization, making concerted decisions with the owners-managers, and augmenting their confidence and trust of the owners-managers (Chiles & McMackin, 1995).

The planned change agents must ensure that once delegation of authority and responsibility is accepted and implemented by the owners-managers, the latter need to practice effective, efficient, and timely communication. Feedback must play a key role in the communication process (Gagne & Deci, 2005).

#### Lack of Communication and Directions to Employees

Organizational communication is the transfer of information (Katz & Kahn, 1966), whereas knowledge is the degree of freedom to select among patterns to be transmitted (Miller, 1965). Centralization is the degree to which communication is concentrated in a single point of the organization (Pace, 1996) which, in this work, refers to the owners-managers of private enterprises in Greece who do not like to communicate with their employees on work related elements.

The purpose of the intervention by planned change agents in the area of organizational communication is to increase the effectiveness, efficiency, quality, and the adequate coverage of the communications area of information employees receive and which pivots around their work when the tasks they perform are intertwined with a larger area of their activities (Steigenberger, 2013). Furthermore, such interventions need to be directed toward creating effective, efficient, and timely two-way vertical and horizontal communications and toward decisions made under joint efforts of those responsible for such decisions (Tourish, 2005).

Top-to-bottom only communication and the high reliance on the instructions such communication conveys are unacceptable in today's organizations. Such practice inhibits and prohibits upward communication and employee participation in the decision-making process. Shamir & Howell (1999) emphasized that superiors' high instructions and decisions exclude any type of participation and input on the part of subordinates in the decision-making process.

The environment of organizations is a function of communicative transactions among top echelons and employees, and what employees say and do and how their actions are interpreted, is the distance of the climate that permeates in the organization (Lammers & Barbour, 2006). Organizational communication entails critical behaviors, such as how instructions come from the top of the echelon, how employees interact to accomplish their goals or how complaints develop (Murphy, 2005).

Effective, efficient, and timely communication will assist the private enterprises in Greece in developing systems of meanings that the employees and other stakeholders can use to make sense of situations,

diagnosing organizational problems, selecting alternatives for action, and coordinating organizational activities (Ansoff & McDonnell, 1990). Effective communication between the top echelon and employees, satisfies the basic human needs like recognition, sense of belonging, and safety (Adler, 1989).

## DATA AND METHODOLOGY

The data incorporated in this article are secondary and emanate from the research of the present writer, Greek and non-Greek researchers specializing in Greek private enterprises, and other scholars whose work is dedicated to Organizational Development. The author has been conducting research and publishing peer-reviewed articles and books on Greek private enterprises from the late 1960s to the present time. In addition, the author is a Certified Management Consultant by the Institute of Management Consultants in Washington, D.C. and one of his specializations is Organizational Development which he has been implementing in various domestic and international organizations during the last five decades. He has also published peer-reviewed articles on OD, some of which are included in this article.

## RESULTS AND DISCUSSION

### A-Greek Managerial Style

The characteristics of management and organizational practices of the owners-managers of private enterprises in Greece are resistance to developmental change, avoidance of using professional assistance, creativity and innovation are missing, the decision-making process is centralized, there is a lack of delegation of authority and responsibility, and there is a lack of communication and reluctance to provide directions and guidance to employees.

The present author has vividly detected that a profound managerial deficiency in the style of Greek managers is the absence of delegation. Delegation means that the owners-managers are not entrusting their employees and not empowering them to make decisions in harmony and synergy with the delegated authority and responsibility which they otherwise have received from the owners-managers. The owners-managers' benefits are not derived from the delegation of authority and responsibility and do not concentrate on the tasks that require their attention (which are important tasks) and free them from performing tasks their employees can do, which are mainly routine tasks.

### B-Greek Organizational Characteristics for Private Enterprises

The organizational characteristics are resistance to developmental change and acceptance of a static status quo. Avoidance of using professional assistance, such as consultants, who can provide them with specialist knowledge regarding ways to work more efficiently and to deal with stress more effectively. Creativity and innovation are missing. The decision-making process is centralized and rests on the judgment of the owners-managers; there is an absence of delegation of authority and responsibility and a lack of empowerment of employees. The owners-managers do not communicate with their employees on elements that are pertinent to the operation of their enterprises, and they are not able to provide directions and guidance for them because such owners-managers are encircled in a limited and microscopic management model.

### C-Greek Private Enterprise Owners-Managers Practices

Greek owners-managers of private enterprises have formed their identity which is conducive to their management/organizational behavior and is being reflected in their respective business organizations that include the entire force of their human resources.

### D-Proposed Organizational Development Interventions

To change the managerial and organizational entity and the idiosyncrasy of the owners-managers, a number of Organizational Development interventions need to occur by planned change agents. Organizational Development is a process conducive to planned changes, and it emanates from the top echelon of organizations which leads to better organizational performance. The planned change agents must rigorously demonstrate to the owners-managers the benefits of accepting Organizational Development interventions that are conducive to planned developmental changes.

In the owner-managers' reluctance to developmental change, the interventions by the planned change agents must focus on the leadership style of the owners-managers and change it from Transactional to Transformational by using psychological empowerment.

In the area of the owners-managers' reluctance to use change agents, such agents must interact effectively, efficiently, and on a timely basis with the owners-managers and emphasis needs to be placed on understanding the owners-managers and their rationale behind the desire to undergo planned changes.

In the area of lack of creativity and innovation, interventions conducted by planned change agents need to be focused on changing the owners-managers from being Transactional to Transformational leaders by using psychological empowerment. In the centralization of decision-making and lack of delegation of authority and responsibility, the planned change agents' intervention needs to focus on the owners' decentralization of decision-making. Intervention in the delegation of authority and responsibility changes need to take place in the owners-managers' perception and beliefs and encourage them to implement such management and organizational principles correctly.

In the area of centralization of communication, the intervention by planned change agents is to increase the effectiveness, efficiency, quality, and adequate coverage of the communications area of the information employees receive pivoting around their work when the tasks they perform are intertwined into a larger area of their activities.

### **CONCLUDING STATEMENTS**

The purpose of this article was to expose the managerial and organizational characteristics of the owners-managers of private enterprises in Greece and propose a number of Organizational Development interventions to precipitate developmental changes. The author of this work proposed such interventions in the areas of reducing/eliminating resistance to change, using the services of planned change agents, create creativity and innovation, decentralize the decision-making process and that of delegation of authority and responsibility, and create effective and efficient multi-directional communication for the benefit of the employees and other stakeholders.

The primary findings indicate the need for planned change interventions in Greek private enterprises in order to move them from a static status quo to Action Orientation phases that entail continuous evolutionary development.

Managers-owners, the business world in general, and the overall economy of Greece and that of the European Union will benefit from such an article whose infrastructure is pointing to the attainment of a developmental level in which Greek private enterprises will be able to operate effectively and efficiently under economies of scale.

The present article can serve as an infrastructure for future research on the development of Greek private enterprises and for OD practitioners of consultancy in management and organization in Greece.

This article can be used as an infrastructure for similar works in other parts of the World. The author is using such an article for additional similar projects in Latin America. A possible limitation is the absence of references after the 2010s to 2022.

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## **BIOGRAPHY**

John Theodore is the holder of a Ph.D. degree in Administration and Latin American Studies from the University of Kansas; a Ph.D. in Management from the Aristotelian University in Greece, European Union; a D.B.A. in International Business from the University of South Africa; a Specialist Degree in Management for the University of Central Missouri; a Master's in Business Education from Western Kentucky University and a Bachelor's in Business from Vanderbilt University. He has been teaching and consulting for five decades, domestically and internationally. He is a visiting professor in various foreign universities and has consulted, taught, and lectured in a number of Latin American universities, colleges, and private organizations for several decades. He started his research on the economy and the private business organizations in El Salvador and the rest of the Central American and South American states in the 1970s and has revisited Central and South America systematically to continue such studies to the present decade. John Theodore is the president of JDT Management Consultants in Clearwater, Florida, specializing in management, organization, strategy, international business, human resources, organizational development, and educational administration. He is a certified management consultant (C.M.C.) certified by the Institute of Management Consultants in Washington, D.C. He has published three books and a large number of peer-reviewed articles in the areas of the organization, management, and international business.



# CAUSES OF INSUFFICIENT REVENUES IN HISPANIC CHURCHES IN SOUTH FLORIDA

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## ABSTRACT

*Churches in the United States are currently facing an attendance crisis. With the decrease in membership comes a reduction in funds. This negative impact on the organization's finances can directly influence the church's operations. This article aims to evaluate and suggest a funding strategy for Hispanic Churches in South Florida, to raise sufficient funds for their effective and efficient operations. As a result, faith-based organizations need robust financial management to achieve economic sustainment. Church leaders must focus on external and internal factors, financial planning, and develop and maintain partnerships with external entities to expand their finances.*

**JEL:** M1, M12

**KEYWORDS:** Personnel, Personnel Management, Management, Nonprofit, Hispanic Churches, Faith Based Organizations, Funding Strategies

## INTRODUCTION

This article examines the causes of insufficient revenues in Hispanic Churches in South Florida. In 2017, the author entered a doctoral program at the School of Business Management in the United States and received a Ph.D. in Business Management in October 2021. His focus and dissertation are centered on how faith-based organizations can achieve financial independence. Some of his work is scholarly work is referenced in this article. There is an abundance of literature dedicated to the increase of funding and attendance for faith-based institutions. However, there is little information available for Hispanic Churches in South Florida. Most of the literature is dedicated to those in leadership and management positions within English-speaking churches. However, the research is limited to Hispanic churches, and no literature describes and evaluates the funding strategies for Hispanic Churches in South Florida. Currently, churches in the United States are suffering a decline in attendance. Corley (2018) states that Churches in America are seeking strategies to retain their active members. Many places of worship are battling to gain new congregations participants (Corley, 2018)—the latter results in an effect on the church's funding. Leadership and managers at these struggling congregations must develop a funding strategy to increase attendance and positively impact their faith organizations.

A lack of funding strategies has impacted many faith-based organizations in the United States (Salmon, 2016). Included with the latter, many other similar organizations failed to adopt a current funding strategy with the times. It is important to note that the problem affects English-speaking and Hispanic churches in the United States. Hispanics represent about 17 percent of the U.S. population (Pierce, 2017). This results in several Hispanic churches that are available to serve these communities. Pérez-Bullard (2019) states that another obstacle for Hispanic churches is the lack of knowledge and experience many leaders and managers have in raising sufficient funds for their operations. Many Hispanic leaders and managers are unaware of the funding resources that are available to them. Others do not have the tools or the training to develop a strategic plan or a funding strategy (Vale, 2019). Many leaders and managers are reluctant to change or be

innovative (Kang & Jaskyte, 2011). These impediments may lead to a lack of membership, which will correlate with a decline in the congregation's finances.

According to Hill (2019), a society must be self-sufficient, and the early Church understood the need to achieve this level of financial and economic stability. However, not having a financial strategy or economic system could be a factor that contributes to the congregations' decline in resources and attendance (Vale, 2019). The church's primary focus is to produce an encouraging environment for new attendees to have a positive experience (Johnson, 2018). However, if the Church is not successfully developing a funding strategy that could positively impact its economy, the chances of creating such an environment could be non-existent. The article is organized as follows: Introduction, Literature Review, Data Methodology, Results and Discussion, and Concluding Statements.

## LITERATURE REVIEW

Nonprofit organizations are essential to society (Daft, Benson, & Henry, 2020). These companies provide services to a specific market; their main goal is generating social impact or a "civic virtue" (Neumayr, Schneider, & Meyer, 2015). The nonprofit organization is managed very similarly to its for-profit counterparts. Planning, organizing, leading, and controlling functions apply to nonprofits just as to for-profit business organizations (Daft, Benson, & Henry, 2015). The characteristics and needs of nonprofit organizations present a unique challenge for managers. According to Lorena (2020), nonprofit organizations raise funds for their operations from several sources. Financial resources typically come from government appropriations, grants, and donations rather than sales of products or services to customers (Daft, Benson, & Henry, 2020). On average, some 31% of nonprofits' total income in the United States and about 45% of European organizations stems from the State (Neumayr, Schneider, & Meyer, 2015). Federal, State, and local governments use a range of policy and funding instruments to support nonprofits in their work (Shea & Wang, 2016).

### The Economy of Southeast Florida

Florida is one of the top destinations for many world travelers (Walton, 2020). Florida depends heavily on global trade, farming, aerospace and aviation, and life sciences (Walton, 2020). According to the Bureau of Economic Analysis (2020), The State of Florida had the fourth-largest economy in the nation behind California, Texas, and New York. Furthermore, the Florida Senate (2019) noted in their FY 2019-2020 General Appropriations Act that the Sunshine State has a GDP of \$1.1 trillion and a \$91.1 billion budget. Recently, South Florida has risen to global importance as a critical market for tech entrepreneurship. The rapid growth in startup ventures has outpaced institutional capital in the region (PR Newswire, 2021). These figures provide a panoramic view of Florida as a whole. However, a lack of direct economic data was noted while investigating the Southeast regions of Florida's economy. Due to this lack of data, different areas in the region that would impact the economy were researched. The goal is to provide a gross domestic product (GDP) for the State's Southeast region.

Southeast Florida is situated in what is typically considered South Florida; hence, Southeast Florida and South Florida are both in the same area. Finding the exact limits of this region is challenging, as different sources have different region limits for this area. For example, Ng et al. (2021) noted that the South Florida region starts in Palm Beach County and ends in Miami-Dade County before entering the Florida Keys. On the contrary, the American Red Cross (2020) has South Florida starting in Indian River County, moving west to Lee County, and ending in Miami-Dade County. For this study, the focus will be on the Tri-county area as proposed by Ng et al. (2021). This regional area consists of Palm Beach, Broward, and Miami-Dade counties. According to the United States Census Bureau (2019), Miami-Dade, Broward, and Palm Beach counties currently have a population of 6,158,825, which ranks the Tri-county area 8th in the United States by population size. The metropolitan statistical area (MSA) suggests that international migration has

increased by 508 percent since 2010 (United States Census Bureau, 2019). The same study states that Miami is the second city to increase the migrant population, New York City being the first. The latter suggests that the Tri-county area's economy may differ from the other surrounding counties in the South Florida region. As stated above, the GDP of the Tri-county area would provide an economic overview of the region.

### Poverty

Recent research suggests that high-poverty neighborhoods within the United States are associated with concentrations of African Americans and Latinos (Walker & Brisson, 2017). Poverty affected 38.1 million Americans in 2018, 11.8 percent of the US population (Poverty USA, 2020). In contrast, 26 million families, representing 10.8 percent, were impoverished in 2010 (Kayitsinga, 2015). Between 1993 and 2000, this trend among families and individuals reflects decreased poverty levels and increased rates between 2000 and 2010 (Kayitsinga, 2015). Hispanics show a decline in poverty levels, representing a decrease of 5.4 percent between 2002 and 2006 (Kayitsinga, 2015). Nonetheless, an increase in poverty was noted in 2007 and 2010 (Kayitsinga, 2015). The latter represents an increase of 23.3 percent. The rate for non-Hispanic whites increased by 19 percent in 2002 and 2006 (Kayitsinga, 2015). Additional data was also noted in 2007 and 2010 for the same demographics, representing a 21.9 percent increase (Kayitsinga, 2015). African Americans also increased by 0.6 percent between 2002 and 2006 and 11.7 percent between 2002 and 2010 (Kayitsinga, 2015). Lastly, Asians represent an increase of 18.7 percent between 2007 and 2010 (Kayitsinga, 2015). Families with children under 18 have a higher poverty rate than those with children 18 or older (Gennetian et al., 2019). Families headed by females with children under 18 have a disproportionately higher poverty rate than married couples and males heading the family with no spouse. The poverty rate for Hispanic families headed by females with no husband and having children under the age of 18 was 53 percent, males as head of the family with no wife present were 28 percent, and married couples were 16 Percent for married couples as head of the family (Kayitsinga, 2015).

The poverty rate for Hispanic families with children under five years and between 5 and 17 years of age is higher (Kayitsinga, 2015). In 2019, the poverty rates were down for all communities but remained high for Hispanics. Wilson (2020) noted a 1.9 percent decrease in Hispanic poverty rates in the United States. In 2019, more than one-quarter of Hispanic children faced the highest poverty rates. Also, Hispanics under 18 lived at or below the poverty level in 2019 (Wilson, 2020). Wilson (2020) noted that the Supplemental Poverty Measure provides accurate measurements for poverty rates. The official poverty rate only captures the before-tax income, while the Supplemental Poverty Measure captures several noncash credits or benefits. Also, the Supplemental Poverty Measure allows for geographic changeability in poverty based on the differential cost of living. Wilson (2020) stated that the SPM poverty measurement for Hispanics in 2019 was 18.9 percent, and the official poverty measurement was 15.7 percent.

### Income

Regarding income, the median Hispanic household in the US is \$40,483 between 2009 and 2011 (Kayitsinga, 2015). Compared to other groups, non-Hispanic Whites and Asians had the highest median annual income. African Americans represented the lowest income, \$34,625, and Hispanics represented an estimated \$15,395 per capita (Flores, 2017). According to Wilson (2020), in the 2019 Census Bureau report on income and poverty, despite Hispanic population growth, an income gap persists. Wilson (2020) noted that Hispanics' median household income increased by 7.1 percent. The latter represents an increase of \$52,382 to \$56,113. In the same year, the median Hispanic household earned 74 cents for every dollar income a white household earned. The latter has been unchanged since 2018 (Kochhar, 2019; Wilson, 2020). The Economic Policy Institute compared household incomes in 2007 and median household incomes in 2019. The Hispanic community reflected a 21.1 percent increase; however, due to the current COVID-19 pandemic, Hispanics have experienced a massive job loss (Noe-Bustamante et al., 2021).

## Employment Status

Between 2009 and 2011, 65 percent of the employed civilian population was 16 or older (Kayitsinga, 2015). Hispanics represented 68 percent of the labor force. Also, 59 percent were used within the Hispanic population, and 12 percent were unemployed (Kayitsinga, 2015). African Americans and Native Americans represented the lowest unemployment rates. As of 2019, the Hispanic unemployment rate had a downward projection from 5.8 percent to 4.3 percent. The latter represents a period between 2017 and 2019 (Kochhar & Krigstad, 2017; Asante-Muhammad & Hernandez, 2019). The national average unemployment rate gradually decreases to 3.7 percent (Kayitsinga, 2015). The Hispanic community reflects a lack of valued resources. These include income, education, health, and employment status. Hispanics also face higher poverty rates when compared to other demographics. According to Kayitsinga (2015), low levels of poverty, high unemployment rate, and low income are rooted in the structural conditions of labor markets, particularly the restructuring of the economy. Lastly, a college degree is a critical path towards more excellent economic stability in today's economy. However, obtaining or creating an educational approach is challenging for the Hispanic community.

## **DATA METHODOLOGY**

The decision to use an explanatory case study design was because one can better understand the perception of managers and leaders of the faith-based organization with other designs. The descriptive case study will be used if investigators seek to answer a question that explains the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies. In evaluation language, the explanations link program implementation with program effects (Yin, 2018). The investigator collected and analyzed information from both Mision Vida Church officials and interviewed (2) A New Covenant of Love Ministry Church officials. The data and interviews were collected between 2019 and 2020. Data for the 2020 census was unavailable at the time of the data collection.

## **RESULTS AND DISCUSSION**

Based on the research finding, the following recommendations are proposed:

Church leaders should focus on financial planning during a downturn in attendance. This will safeguard financial security if there is a decrease in donations. The finding suggested that one of the challenges is developing membership ownership and consistency with attendance. The most substantial source of income for the church has been donations. As stated above, Faith-based organizations rely on donations and may use this funding model to achieve this financial objective. Members of these nonprofit organizations donate money because the latter is an integral part of their life, and it is an action that many would consider beneficial to the organization (Christiansen et al., 2009). Due to the latter, churches must focus on financial planning to thrive in their finances. Nonprofit organizations are managed similarly to their for-profit counterparts. The following functions apply equally to nonprofit and for-profit business organizations: planning, organizing, and leading or controlling financial planning (Daft et al., 2015). Due to the constant changes in the socioeconomic environment, church leaders must be aware of any internal and external factors that may impact their financial strategies. According to the Bureau of Economic Analysis (2020), The State of Florida had the fourth-largest economy in the nation, behind California, Texas, and New York. Furthermore, the Florida Senate (2019) noted in their FY 2019-2020 General Appropriations Act that the Sunshine State has a GDP of \$1.1 trillion and a \$91.1 billion budget. The finding indicates that church leaders understand building trust within the community but may fail to develop a system sustaining internal or external factors. The latter is consistent with the literature regarding fluctuations within a nonprofit organization (Powell & Bromley, 2020).

Church leaders should develop partnerships with external entities and their members to expand their financial prospects. The study's results established information on the role of management within the church in various ways. For example, management is always searching for ways to build member loyalty while searching for business opportunities within the community. It is essential to note that Mision Vida Church services the Hispanic population. The median income for a Hispanic household in the U.S. is \$40,483 (Kayitsinga, 2015). In addition, Kayitsinga (2015) explains how poverty and employment status have affected the Hispanic community within the U.S. The church is aware of this socioeconomic factor, and for these reasons, they are actively seeking ways to create member loyalty and seek new opportunities for their operations. Creating and maintaining partnerships may result in 1) providing additional services to their members and 2) creating multiple giving channels. A nonprofit organization should consider activities that may increase donations (Chang & Chen, 2019).

## CONCLUDING COMMENTS

This article is aimed to evaluate the causes of insufficient revenues in Hispanic Churches in South Florida. The correct funding strategy may positively impact church membership, resulting in adequate funds to provide additional services and improve overall organizational functioning. The author emphasized the importance of churches consistently evaluating their internal and external environments to enhance their financial strategies and recognize and implement an appropriate financial plan to improve efficiency and reduce operating costs. These organizations must also appreciate the value of their resources and services to the community and use them comprehensively to achieve financial sustainment. However, there is a necessity for additional investigations to increase or expand the understanding of the dynamics of how resource insufficiency impacts economic sustainment for churches. Lastly, churches need a robust financial management plan to achieve economic sustainment. Hence, church leaders must consider internal and external factors impacting their financial strategies. Church leaders should also focus on the financial planning for their organization to safeguard financial security during a lack of attendance, which may result in a decrease in donations. Finally, church leaders should generate and maintain partnerships with external entities and their followers to expand their financial prospects.

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## **BIOGRAPHY**

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# WIDOW'S PENSION BENEFITS FOR COMMON-LAW PARTNERS OR SPOUSES AFTER THE REPEAL OF MEXICO SOCIAL SECURITY LAW ARTICLE 130, SECOND PARAGRAPH

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## ABSTRACT

*The objective of this research is to evaluate the repeal of paragraph 2, Article 130 of the Social Security Law in Mexico. Our research shows that its repeal will make it easier for the common-law partner or widowed spouse to apply for a pension. This is under the assumption that the wife contributed during her working life to the social security system so that her family can receive a future benefit to guarantee a stable economic situation for her common-law partner or husband. On the other hand, it is illegal to set requirements based on gender when applying for a pension. A question arises: will the common-law partner be able to obtain a pension? The problem occurs when the common-law partner is denied a pension because he can't prove economic dependence, as established in Article 130 of the Social Security Law. By imposing additional gender-based requirements on the husband or common-law partner to qualify for the pension, compared to those required of a wife, Article 120 paragraph two violates the fundamental rights to equality and non-discrimination to social security. The treatment is unjustified. We conclude due the repeal of Article 130 paragraph two widowers will be able obtain a pension provided that his wife contributed to the pension system.*

**JEL:** J33, J32, K34

**KEYWORDS:** Pension, Benefits, Common-Law, Spouse, Repeal, Mexico

## INTRODUCTION

The central idea is for common-law or spouse to receive a pension when his wife dies. According to the law of the Mexican Social Security Institute, valid until 2022, to obtain the pension, it was necessary to demonstrate or prove economic dependence before this institution. In Article 130 of the Social Security Law, it established verbatim: “that only the wife will be entitled to the widow's pension, and directly excluded the husband except for when the husband demonstrates economic dependence (LSS, Diputados, 2021). Due to lack of knowledge, men did not request a pension when their spouse died even if she was affiliated with the IMSS (Mexico Social Security System).

As of June 2023, the second paragraph of Article 130 of the Social Security Law (IMSS) was reformed or repealed, which establishes that: a spouse or common-law partner may obtain the widow's pension, in the absence of this, he or she may receive a disability pension (LSS, DOF, 2023). With this modification or repeal, widowers who were denied a pension will now be able to apply because it is considered an acquired right. The rest of this research is organized as follows: in the literature review section, the conceptualization of pensions is presented, the meaning of repealing, as well as historical background, Political Constitution

of the United Mexican States, Fundamental Rights, Social Security Law, Labor Law o Federal Labor Law with the idea of substantiating its legality. Next, we present methodology, results and conclusion sections.

The general objective of this research is *to* analyze repeal of the second paragraph of Article 130 so that spouses or common-law partners can request a pension. The specific goals are first, to analyze the repeal of the second paragraph of Article 130 LIMSS (Ley Instituto Mexicano del Seguro Social), so that common-law partner can obtain the pension without proving economic dependence. Second, to identify which subjects or common-law partners will have the right to request the widow's pension. We wish to identify why the economic dependency requirement was repealed for widowed spouse or widowed common-law partners? Second, widowed spouses or widowed common-law partners will have the right to request a pension in accordance with the repeal of the second paragraph of Article 130 LIMSS.

### Problem

When an insured worker dies, the widowed wife or common-law partner will have the right, according to the second paragraph of Article 130 LIMSS, to claim pension as a widowed spouse (LIMSS, 2023). This benefit is also available to other public entities such as Mexican Institute for Social Security and Services for State Workers or Civil Service Social Security (ISSSTE) or Institute for Social Security for the Armed Forces, including army, air force and navy (ISSFAM).

Compared to other public entities, the same right is bestowed upon the widowed or common-law beneficiary, widow or common-law partner, when the deceased worker belongs to the IMSS and other public entity such a (ISSSTE) or (ISSFAM) for active members, or retired from the army, air force or navy.

The requirements to access the benefit for widow's pension are not the same for men and women. In the case of a female widow or female common-law partner, proof of economic dependence is not required. Literally, the woman is not required to prove her total physical or mental inability to perform a job. Of the three institutes indicated in the previous paragraph, only the Mexican Social Security Insurance Law maintains these gender discriminatory conditions. This breaks the principle of generality.

This research argues, if spouse worked and paid the same contributions to secure a future pension for himself, herself or for the spouse or common-law partner, and if IMSS received the revenue, the spouse or common-law partner cannot be denied the benefit of a pension.

## **LITERATURE REVIEW**

### Pensions

A pension is an amount paid to someone for their own merits or services or monetary compensation given to a public worker or employee for his/her years of working or for suffering an accident or for suffering from some systematic disability. The pension is not a free or generous concession from the state or the employer. Rather, a pension is a benefit paid and earned by the worker. The right is acquired by the worker with his/her contributions and based on the number of years of productive work. These contributions have been deducted from the employers. The worker's spouse, if he or she is over fifty-five years of age or is incapable of working, will also have the right (Jurídico, 1999). With these characteristics, a right to common-law partner is acquired.

Within legal analysis the term common-law partner in the Civil Code Article 291 Bis. establishes that it is “the union of a man and a woman, free of marriage, who for more than two years have a marital life without being united in marriage with each other, as long as they have no legal impediments to contracting it” ( Civil Code Article 291 Bis) . It is not required to comply with the aforementioned period when they have

common descendants (Villalobos, 2021). However, article 1635 establishes that common-law partners have the right to inherit reciprocally, applying the provisions relating to the succession of the spouse, provided that they have lived together if they were spouses during the five years preceding their death or when they have had children in common. (Villalobos, 2021). There is a discrepancy in years but at least two years must be legally demonstrated.

### Repeal

Leaving without legal effect an article, a paragraph, a subsection, this may be in a law, regulation, code, or in a provision that can be annulled or revoked in accordance with the legislation. The legislator considers the harmony that exists in the laws, that they do not contradict each other, meaning that there is subsumption.

There are two types of abrogation: 1) express, which refers to the textual definition, and 2. Tacit, which refers to the abrogation of a law by virtue of incompatibility (Gobernacion, 2023). This concept is considered so that readers identify the change in the second paragraph of Article 130 of the Law of the Mexican Social Security Institute, which is considered an abrogation because this section was left without legal effect, meaning this restriction for the common-law partner is no longer in the legislation.

### Background

Because of the Covid-19 pandemic, widow's pensions doubled in the Mexican Social Security Institute, reaching \$12 Billion pesos per year. According to IMSS, pensions granted went from 61 thousand pensions in 2019 to 114,000 pensions in 2021. However, their statistics also mention that 102 thousand widow's pension applications were rejected (Vitela, 2022).

The number of rejections gives us an idea of how many lawsuits are needed to restore the widow's pension to men with equal requirements and without discrimination, in accordance with the unconstitutionality of Art.130 LSS. It is also important to consider budgetary impacts the Institute may have due to the increase in the number of pensions granted to widows and common-law partners as a result of the release of these discriminatory requirements (Amparo, 2009).

### Political Constitution of the United Mexican States

Article 123, section A, section XXIX, (CPEUM) Fundamental right to protect citizens and their family in the event of a fatal event that results in an acquired right to a pension. In this environment, it includes the beneficiaries or family in which they must be equal without restriction, that is, as much right as the spouse, common-law partner or family has (Amparo Seguro Social, 2009). It is a transgressor of the fundamental human rights of equality, non-discrimination, and Social Security, of Articles 1, 4, and 123 section XXIX, of the CPEUM due to a gender issue toward a beneficiary and deceased insured worker (Viudez del Art. 130, 2010).

### Fundamental Rights

Imprescriptible is a right that will never lose validity and denying this benefit violates the guarantee of subsistence, attention to basic health expenses and threatens the life of the family. Once the second paragraph of Article 130 of the LIMSS has been repealed, as of June 20, 2023 by decree of the Presidency of the Republic, it reclassifies any widowed or common-law beneficiary who has received a refusal based on the failure to prove the economic dependence of the deceased insured or pensioner. The Institute will be in a position to demand replacement of the widow's pension payment (Pension a trabajador de acuerdo a articulo 130 fraccion II LIMSS, 1999).

An Acquired Right is an integral part and cannot be taken away from a governed person. Therefore, the restriction on getting married or entering into common-law relationship to suspend pension payments is repealed. Article 133 establishes that a pension from the death of an insured spouse will cease when the beneficiary dies or remarries. She or he will receive three years of pension. However, the pension is not suspended when beneficiary performs paid work and contributed to the retirement program. (Pension a trabajador de acuerdo a articulo 130 fraccion II LIMSS, 1999).

Mexican Social Security Institute

On January 19, 1943, the IMSS Law was born, which was published DOF. President Ávila Camacho created this public entity to guarantee comprehensive access for workers, with the general objective of guaranteeing the right to health, medical care, protection among others, it began its activities in January 1944, which was reflected in the Magna Carta of 1917, in its Article 123 section XXIX (Garcia Tellez, 1943).

According to the second paragraph, Article 130 the wife of the pensioner or the disability pensioner will have the right to the widow's pension. If the wife is missing, the common-law partner, or the wife, will have the right to receive the pension. This occurs when she lived for five years as if he were her husband, or with whom she had children. If he dies and has several common-law partners, none of them will have the right (LSS, Diputados, 2021). Table 1 presents the requirements to obtain a widow's pension.

Table 1: Requirements to Obtain a Widow's Pension from the IMSS

1	The “deceased” should have 150 weeks of contributions”, except if the death was due to risk (LSS, Diputados, 2021).	4	“You must prove the marriage bond, or the common-law partnership”
2	Your rights must be current.	5	Common-law partner must prove economic dependence on the spouse
3	If the death is due to an occupational hazard, a "ST-3 Permanent Disability or Death Due to an Occupational Hazard" a report is required.	6	If a common-law partner wants his 1973 pension: He must prove his total disability, with "ST-6 Disabled Beneficiary Opinion". 7

*This table presents the requirements that the spouse must meet to obtain the pension, before the Mexican Institute of Social Security IMSS, in accordance with law until June 19, 2023. It still appears that the common-law partner must prove the economic dependence (LSS, Diputados, 2021).*

To summarize the modification to the multi-cited Law (LSS), we point out how the right to obtain a widow's pension is defined in its Article 64 Section II. This provision states that both the deceased dependent beneficiary man and woman have the right to financial benefit. But it excludes, distinguishes, and discriminates by requiring that the person be incapacitated and financially dependent on the spouse (LSS, Diputados, 2021).

The refusal of the Mexican Social Security Institute to modify the articles that contain the distinction between beneficiaries seeks to prevent its budget from being affected. However, it must be remembered that insured workers made the payments corresponding to their contribution. There is no direct relationship between maintaining a paid job or being unable to work, with the right to obtain a pension as a result of the death of the insured or pensioner.

In accordance with Article 295 of the IMSS, discrepancy between the insured, or beneficiaries, and the IMSS, the benefits that this Law provides, “must be processed before the Federal Courts in labor matters, while those presented between the Institute and employers, will be processed before the Federal Court of Administrative Justice” (LSS, Diputados, 2021). The current IMSS law establishes that for a man to receive a widow's pension, he must have been financially dependent on the worker, a precept that since 2018 was indicated by CONAPRED as discriminatory (CONAPRED, 2018).

### Labor law

This law states in its Article 56 that there should be no restriction based on race, nationality, sex, among others. In this section, we deal with discrimination based on gender. If work is the same for women and men, the rights and benefits arising from that employment relationship should be the same. If contributions are made to the IMSS under equal conditions, without distinction of gender of the insured or pensioner, the same rights and benefits must be generated when accessing a pension (Garcia, 2005). This article is very clear to define the acquired right.

The courts, through various jurisprudential theses, have declared that widowers have the right to a pension simply because they are the husband of the worker. Claiming a pension is an inextinguishable right. Yes, you can do it or claim it when you become widowed, in accordance with the thesis: I.6°. T.61 L (10th.), 2013. The courts rule that those who meet the requirements established in the laws can claim the pension.

### **METHODOLOGY**

We use a qualitative and procedural approach to conduct this research. The study was conducted in 2023, in the city of Monclova, Coahuila. For our procedural and legal foundation, we used the Social Security Law, Federal Labor Law, Fundamental Rights, and Political Constitution of the United Mexican States, among other that help to identify how to analyze the right to obtain a spouse's pension? Table 2 provides a comparison of the repeal of the second paragraph of Article 130. The repeal came in effect on June 20, 2023. With a methodological procedure, it is possible to demonstrate to the authority that as of June 2023, common-law partners may request a widow's pension when their spouse dies, without the spouse or common-law partner having to prove their economic dependence. And this repeal goes further, common-law partners who were denied the pension in previous years for not being able to prove financial solvency, now that the second paragraph of the article 130 has been repealed, this means that they will be able to request the pension to obtain this acquired right.

### **RESULTS**

We provide two descriptive tables to demonstrate to implications of repealing Article 130 second paragraph. In Table 2, we provide a comparison of the legislation of the Mexican Social Security Institute valid until June 19, 2023, where the economic dependence of the common-law partner is established in the second paragraph. Current law repealed economic dependence which was a triumph for common-law partners. In Table 3: Article 64 section II the restriction for the widower to demonstrate economic dependence appears and in the new law of June 20, 2023, the aforementioned restriction appears repealed.

Table 2: Comparison of Security Legislation from 2022 to 2023

Basis	Social Security Law to 2022	LIMSS Reform June 20, 2023
Article 130, second paragraph	Right to pension for the wife of the insured person or the disability pensioner, or the woman who lived for five years or with whom he had children, who both have been “free from marriage during concubinage. If when the insured person or disability retired wife died, he had several concubines, none of them will have the right to receive the pension (LSS, Diputados, 2021).	Right to a widow's pension for the spouse of the insured person or the invalidity pensioner z. In the absence of a spouse, the concubine or common-law partner of the insured person or disability pensioner, who has lived for five years preceding his or her death, or who has had children, who both have remained free from marriage during concubinage, or the person who has entered into a civil union with the insured or the pensioner. If when the insured person died due to disability, he had several concubines or common-law partners, none of them will have the right to receive the pension (LIMSS, 2023).
	“The same pension will correspond to the widower or common-law partner who was economically dependent on the insured worker or pensioner due to disability (LSS, Diputados, 2021).”	Abrogated (LIMSS, 2023)

*This table presents a comparison of the law of 2022 and 2023. In the first column, which corresponds to the year 2022, it establishes in the second paragraph that the common-law partner must prove economic solvency and in the event that he does not have elements to prove dependency. According to the law, the common-law partner was denied economic benefits. As of June 20, 2023, this second paragraph was repealed, therefore he will have the right to request the pension according to the year in which it came into force.*

Table 3: Comparison of the IMSS Law for Year 2022 and Year 2023

Basis	Social Security Law to 2022	LIMSS Reform June 20, 2023	Proposal
third paragraph, Section II Art. 64.	Section II. The widow will be granted a pension equivalent to forty percent of what would have corresponded to him, in the case of permanent disability. Same pension to the widower who <u>would have been financially dependent on the insured</u> . The amount of this pension may not be less than the minimum amount corresponding to the widow's pension from disability and life insurance (LSS, Diputados, 2021).	“ Fraction II. <u>The widow or widower of the insured, the common-law wife or partner who survives him or her</u> , or anyone who has entered into a civil union with the insured, will be granted a pension equal to forty percent of that which would have corresponded to the insured, in the case of total permanent disability. The amount of this benefit may not be less than the minimum amount corresponding to the widow's pension from disability and life insurance” (LIMSS, 2023).	Repealed text to modify (LIMSS, 2023)

*This table presents a comparison of the validity of the laws. In this case, Article 64, section II, of the IMSS Law, in which the economic solvency appears until the year 2022, but on June 20 it was repealed and eliminated the term of economic dependence on the spouse so this beneficiary will be able to request the pension without having to prove this requirement.*

There may be different scenarios, which are taken as a precedent to request the pension. For example: who is granted a pension? Some interesting cases occur such as the husband of a deceased woman who was never divorced, or to the common-law partner of the deceased who lived with the woman at the time of her death. The answer must be with the one who was legally married to her, but if the common-law partner legally proves that he lived with her as husband and wife in the last two years, the IMSS will withdraw the husband's pension, and neither the husband nor the common-law partner will receive a pension. In addition, authorities may consider the action fraudulent and request the return of the pension plus surcharges. The repeal of Article 130 second paragraph is a triumph for the common-law partners because they have an acquired right, and they will no longer have demonstrated economic dependency to obtain a pension.

## CONCLUSIONS

The objective of this research is to evaluate the repeal of paragraph 2, Article 130 of the Social Security Law in Mexico. Our research shows that its repeal will make it easier for common-law partners or widowed

spouse to apply for a pension. With the repeal of Article 130 Paragraph 2, common-law partners don't have to demonstrate economic dependence and it is clearly established that they have an acquired right. In addition, beneficiaries who were denied a pension may apply for the benefit. The beneficiary subjects of this repeal will be able to directly obtain the widow's pension as of June 20, 2023 without retroactive effect. This remains an achievement and a benefit to obtain this right. However, for the taxpayer or government entities it will be a significant expense because pension expenses will increase.

We use a qualitative and procedural approach to conduct this research. The study was conducted in 2023, in the city of Monclova, Coahuila. For our procedural and legal foundation, we used the Social Security Law, Federal Labor Law, Fundamental Rights, and Political Constitution of the United Mexican States among others to support how the spouse or common-law partner can obtain a pension when the wife dies.

Results show how widowers or common-law partners will be able to receive the pension directly with the repeal of Article 130, paragraph II of the Social Security law and in accordance with Tables 2 and 3. It is limited to obtaining the pension by supporting with the multi-cited repeal of the Mexican Social Security Institute. From a legal point of view, Mexican Social Security Law Article 130 second paragraph lacks fundamental elements, constitutional principles, equity, legality, certainty, among others. It even passed through interpretations, trials and protections.

In the 1940s, women's predominant function was to be housewives. There were few working wives contributing to social security. Thus, Article 130 second paragraph made sense to legislators. We are in a changing world, there are more antidiscrimination laws in place. As the number of women in the workplace increases, more widows or common-law partners will become and will be able to obtain the pension directly as equals. Likewise, common-law partners who were denied the pension can request their pension. It is a right acquired from the repeal of the second paragraph of Article 130 LIMSS. Widowed spouses or common-law partners have the law on their side and an acquired right to a pension.

The authority does not publicize these benefits that common-law partners can obtain directly. It is common for widowers to spread the word, consult an expert and request a pension. Future research is needed to compare this law from 1973 with 1997 to know the effect on retirees and government funding.

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