

In Defence of Public Ownership: A Reply to Frye

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Socialist republicans claim public ownership of productive property can curtail economic domination. Harrison Frye makes a lucid case for doubting this conclusion.¹ Firstly, public ownership may decrease economic efficiency due to high negotiation and agency costs. When this results in fewer economic goods being available to meet people's basic needs, then they will be more vulnerable to domination. Secondly, managers can evade the accountability that would keep dominating power in check if groups with heterogeneous interests participate in economic governance, since these groups can be played off against one another, under conditions where criteria for judging managerial performance are muddled.

Frye is correct to think economic efficiency and managerial accountability are important considerations when evaluating our institutions from a republican standpoint. They join many other factors which can influence the extent of domination, including the health, education, and happiness of the citizenry, the distribution of wealth, power, and status among them, the presence of the conditions for security, solidarity, and political stability, and so on. Socialist economic prescriptions must ultimately be assessed from a republican perspective that takes the whole sweep of such factors into account. But even considered in isolation, Frye's appeals to efficiency and accountability do not tell against socialist republicanism.

Does public ownership decrease economic efficiency? Frye suggests two familiar reasons why the form of public ownership which I recommend might do so.² Negotiation costs are pushed down in investor-owned firms because shareholders tend to agree that profit matters most. When there are multiple stakeholders with heterogeneous goals, however, reaching collective decisions can be more onerous, with additional process costs reducing efficiency. Agency costs in investor-owned firms also tend to be relatively low because profitability provides a simple albeit imperfect criterion for monitoring the performance of managers to ensure they are not pursuing their interests at the expense of the owners. But if there are numerous participants in economic governance whose goals diverge, then oversight of managers becomes more difficult, with a fractured group of stakeholders being easier to exploit.

Let us suppose these theorised effects are real. There are, however, reasons to think that alternatives to investor-owned firms can bolster economic efficiency in other respects. Even among champions of the transaction cost approach which Frye draws upon, there is acknowledgement that worker-owned enterprises may benefit from higher retention of experienced staff, better communication of worker preferences, and more effective oversight of workers.³ Greater control by workers without direct worker-ownership might also increase efficiency in other ways. For example, the daily experience and expertise which workers acquire from their familiarity with the operations of their workplaces can make them better at monitoring management than distant and information-poor shareholders. Moreover, it has been argued that worker participation in economic governance will lead workers to be less alienated in their jobs and so be more productive.⁴ The abstract theory of the firm does not give us a clear-cut answer then as to the relative efficiency of alternative models of ownership and control.

Looking to the real economy might help us fare better. Frye suggests that the preponderance of shareholder-owned firms in the modern economy could be explained by the efficiency costs of alternatives. But this hypothesis needs much greater empirical support to be convincing, since there are many other factors which could account for the dominance of this form: political opposition from capitalists or workers themselves, path-dependency effects, lack of institutional support, contingent systemic biases in the wider economy, and so on.⁵ Furthermore, if we simply ask more directly whether public ownership in particular has actually been shown to be less efficient, the answer is no. As one recent wide-ranging survey of the empirical literature on economic efficiency concludes, “decades of studies have yielded no consensus as to the relative economic merits of public versus private ownership”, with many empirical assessments showing greater productivity growth and efficiency, or no significant deficits, when contrasted with investor-owned enterprises.⁶

Public ownership does not, then, appear to often impose burdensome efficiency losses. Frye is careful not to commit to the contrary conclusion – simply maintaining that efficiency ought to be taken into account. Indeed, it is to have special purchase in debates about domination, since wealth can insulate citizens from dominating power (as I myself argue).⁷ While Frye recognises distribution as well as efficiency matters if high economic output is to contribute to reducing domination, this thought is not pursued in relation to public ownership specifically. Consider two

scenarios: (i) high levels of public ownership leads to lower economic efficiency and total output, but workers have high levels of control in their workplaces and the citizenry as a whole has high levels of control over economic output; (ii) low levels of public ownership leads to higher economic efficiency and total output, but workers have little of control in their workplaces and the citizenry has lower levels of control over economic output. On the assumption that greater control for workers and citizens will lead to a more egalitarian economic distribution, and in the absence of truly precipitous efficiency declines, then the first scenario could be significantly better at shielding citizens from domination purely in terms of the money in people's pockets and the basic services readily available to them. This effect would obtain even without further redistribution through additional fiscal measures, or the introduction of a universal basic income and services. In short, the distributional effects of public ownership itself on non-domination may more than offset potential efficiency costs.

Efficiency arguments against socialist republicanism are not ultimately convincing. Potential efficiency costs of public ownership need to be weighed against potential efficiency benefits from greater worker participation and oversight of management. There is no conclusive argument to demonstrate that alternatives to investor-owned firms are currently sparse because of low efficiency. The actual empirical evidence in relation to public ownership is itself mixed, and does not give us a strong reason to think there will be prohibitive declines in efficiency. Moreover, the egalitarian distributional effects of public ownership with significant worker and citizen control are likely to outweigh efficiency costs with respect to the influence on dominating power. None of this requires us to take the further step of shifting the focus from technical and productive efficiency to consider social efficiency and the externalities that investor-owned firms impose on citizens.

Frye raises another line of objection to socialist republican remedies which – although emerging from concerns about agency costs – can, it seems to me, be articulated independently of the threat of low technical or productive efficiency under public ownership. It emphasises the difficulty of ensuring that managers are held accountable when multiple stakeholders with heterogenous interests are participants in economic governance. Let us grant that managers and some degree of managerial discretion are needed in any large-scale economic enterprise. If domination is not to result, this necessitates mechanisms for accountability in the exercise of

managerial power, because “discretion opens up the possibility of using that power in a way that does not track the interests of those over which they have power”.⁸ But the polyarchic form of public ownership which I advocate is thought to impede this accountability “by both complicating the metric of wrongdoing and allowing managers to play politics”. When there is no single simple criterion like profitability to use to judge a manager’s performance, then the business of assessing and holding them to account for wrongdoing becomes messier. Furthermore, if multiple principals with different aims and interests are tasked with monitoring an agent, then that agent can use the lack of a unified front among them to avoid oversight.

My suspicion is that a fatal equivocation has occurred here in how accountability is understood. There can indeed be difficulties in ensuring managers are accountable when multiple stakeholders with different and sometimes competing interests are tasked with governance. But the problems this introduces are primarily those of accountability to the *stakeholders* rather than accountability that tracks the interests of everyone that managerial power is held over. Take investor-ownership, where the shared profit-motive of the principals can make it easier for them to take a stand against behaviour that can hurt the bottom line: shirking, nepotism, recklessness, stealing, and other forms of financial mismanagement. The power of managers is thus more easily made to track the interests of shareholders, who are thereby less subject to the arbitrary will of management. But what about others subject to managerial power – such as workers who encounter managerial power more intimately and viscerally in their daily lives? We might hope a monomaniacal focus on profit or dividends will lead shareholders to keep in check some of the managerial excesses that harm workers – for instance, sexist or racist discrimination that would lead valuable employees to leave unnecessarily. But the accountability of managers to shareholders in investor-owned firms very often drives a rapacious and arbitrary exercise of power over workers rather than shielding them from it. If the one thing shareholders care about is profit, then managers will have free reign to use the tremendous power at their disposal to pressure, bully, exploit, and lie to workers in pursuit of these ends. How is *this* form of managerial accountability forcing their power to track the interests of the workers over whom it is held?

Similar lessons apply to arbitrary managerial power over consumers and citizens. The discretion to engage in price gouging with respect to an important medicine will not be rendered non-arbitrary by accountability to shareholders who agree that profit maximisation is the primary

metric for assessing managerial performance – at least, in the absence of sufficient reputational damage to the firm. Nor will accountability to profit-hungry shareholders be a restraint on the arbitrary power of managers to shut down a factory, supermarket, or utility which the local community relies upon. The decision-making process in these cases is indifferent to the interests of a great many of those who managerial power is held over. Workers, consumers, and citizens alike are not, then, effectively shielded from domination by managerial accountability to shareholders. Indeed, the opposite is true: this form of economic governance lets arbitrary power run wild. A narrow focus on the principal-agent relationship merely between stakeholder and manager can blind us to this fact.

Socialist republicans believe we can reduce economic domination by ensuring control of economic institutions more closely reflects those affected by their activities. That many different interests will have to be negotiated is therefore no surprise. As H  l  ne Landemore and Isabelle Ferreras tell us, “it is precisely because of the heterogeneity of interests at play that more democracy and more workers’ participation is needed.”⁹ Whatever the limitations of the investor-owned firm in stemming domination, does the multiplicity of voices under an inclusive form of public ownership nevertheless create such a cacophony that domination goes undetected and unchecked? Frye worries that such an approach will overcomplicate the metric of wrongdoing for managers, whereas I have suggested that profit alone is simply the wrong measuring stick if we care about domination. I do not deny that more democratically-responsive standards of accountability are likely to be more difficult to quantify. But Amartya Sen’s maxim for social measurement is salutary here: “it is undoubtedly more important to be vaguely right than to be precisely wrong.”¹⁰

There may be some truth to Frye’s related claim that managers or other potential dominators could play stakeholders with different interest off against one another in an attempt to escape effective monitoring and regulation. Against this should be weighed some of the possible benefits of being able to draw upon a larger and more diverse group in the oversight of potential dominators. Aristotle recognised some of these merits of collective governance when he observed that “each individual among the many has a share of excellence and practical wisdom, and when they meet together, just as they become in a manner one man, who has many feet, and hands, and senses, so too with regard to their character and thought”.¹¹ What may be lost in cohesiveness of

vision and purpose in this transformation may be gained in the expansion of capacities for scrutiny, deliberation, and action.

Nevertheless, socialist republicans should be attentive to some of the trade-offs that might be involved in pursuing an inclusive form of public ownership that seeks worker, consumer, and citizen participation, when contrasted with a more centralised and top-down ‘Morrisonian’ model of public ownership through nationalisation and state control.¹² When public ownership is polyarchic then it itself avoids placing dominating concentrations of power in hands of the few, but the lack of a single stakeholder like the state may mean that the socialist republican has to think more creatively about institutional mechanisms that could dampen the ability of other potential dominators to slip through the cracks. But this is an instance of a general tension in republican governance: a highly unified power that could quash domination – whether in the hands of private shareholders or the state – risks being overmighty enough to constitute domination. My view is that an economy based around investor-owned firms not only does not escape this tension, but succumbs to it in a particularly egregious way, since the stakeholder power it grants to a homogenous group of profit-seeking shareholders tends to accelerate rather than block domination elsewhere in the firm in addition to being directly dominating itself. In short, it is the worst of both worlds.

In conclusion, I am not convinced on grounds of efficiency or accountability that socialist republicanism would fail to curtail the economic domination rife in capitalist societies. Frye’s critique can be restated in terms of three searching questions for the form of public ownership I favour. Will it significantly reduce economic efficiency? Would such a reduction increase domination? Will a lack of managerial accountability increase domination? My answer to all three questions has been no. I have argued that neither theoretical considerations nor the empirical evidence establishes that public ownership is particularly susceptible to a decline in technical or productive efficiency. Even if we did find this effect empirically, the egalitarian distributive effects of public ownership are likely to be more decisive in ensuring that the needy are not left so economically vulnerable that they are susceptible to domination. Finally, the managerial accountability imposed by investor-owned firms takes the wrong form to shield workers, consumers, and citizens from dominating managerial power, even if it protects the financial

interests of shareholders. Frye has presented some interesting challenges – but socialist republicanism passes the test.

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¹ Harrison Frye, 'Efficiency and Domination in the Socialist Republic: A Reply to O'Shea', *Political Theory*, doi: 10.1177/0090591720903392.

² Frye follows Henry Hansmann, *The Ownership of Enterprise* (Cambridge, MA: Harvard University Press, 1996), ch. 3. For a compelling methodological critique of Hansmann's claims about efficiency, see Gregory Dow, *Governing the Firm: Workers' Control in Theory and Practice* (Cambridge: Cambridge University Press, 2003), pp. 124-6. See also Hélène Landemore and Isabelle Ferreras, 'In Defense of Workplace Democracy: Towards a Justification of the Firm-State Analogy', *Political Theory* 44:1 (2016), pp. 53-81, pp. 71-2.

³ Henry Hansmann, 'When Does Worker Ownership Work? ESOPs, Law Firms, Codetermination, and Economic Democracy', *The Yale Law Journal* 99:8 (1990), pp. 1749-1816, pp. 1761-70.

⁴ Samuel Bowles and Herbert Gintis, 'A Political and Economic Case for the Democratic Enterprise', *Economics and Philosophy* 9 (1993), pp. 75-100, p. 93.

⁵ Jon Elster, 'From Here to There: Or, If Cooperative Ownership Is So Desirable, Why Are There So Few Cooperatives?' *Social Philosophy and Policy* 6:2 (1989), pp. 93-111; Dow, *Governing the Firm*, pp. 234-59.

⁶ Thomas M. Hanna, *Our Common Wealth: The Return of Public Ownership in the United States* (Manchester: Manchester University Press, 2018), ch 2. See also Malcolm Sawyer and Kathy O'Donnell, *A Future for Public Ownership* (Leeds: Centre for Industrial Policy and Performance, 1998), ch. 3; Robert Millward, 'State Enterprise in Britain in the Twentieth Century', in *The Rise and Fall of State-Owned Enterprise in the Western World*, ed. Pier Angelo Toninelli (Cambridge: Cambridge University Press, 2000), pp. 170-3; Andrew Cumbers, *Reclaiming Public Ownership: Making Space for Economic Democracy* (London: Zed Books, 2012), p. 98.

⁷ Tom O'Shea, 'Socialist Republicanism', *Political Theory*, doi: 10.1177/0090591719876889, pp. 17-8.

⁸ Frye, 'Efficiency and Domination', p. 6.

⁹ Landemore and Ferreras, 'In Defense of Workplace Democracy', p. 71.

¹⁰ Amartya Sen, 'Development as Capability Expansion', *Journal of Development Planning* 19 (1989), pp. 41-58, reprinted in *Readings in Human Development: Concepts, Measures and Policies for a Development Paradigm*, eds. Sakiko Fukuda-Parr and A.K. Shiva Kumar (Oxford: Oxford University Press, 2003), pp. 3-16, p. 6.

¹¹ Aristotle, *Politics*, trans. Jowett/Barnes, ed. Stephen Everson (Cambridge: Cambridge University Press), bk. 3 ch. 11, 1281a.

¹² Herbert Morrison was the Labour Party minister responsible for implementing Britain's post-war nationalisation programme, which combined state ownership with arms-length but hierarchical structures of governance.