Efficiency and Domination in the Socialist Republic: A Reply to O'Shea

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Abstract

In a recent paper in this journal, Tom O'Shea defends *socialist republicanism*, marrying the value of freedom as non-domination to public ownership of the means of production. In this reply, I argue that the efficiency costs that often attach to public ownership may undercut the ability of the socialist republic to combat domination by public agents. This is for two reasons. First, the economic gains provided by efficiency can insulate individuals from the discretionary power of other agents. Put briefly, the more wealth you have, the less that discretionary power threatens your basic interests. Second, the efficiency costs of public ownership also make it more difficult to hold accountable the managers of economic organizations. This shortcoming of O'Shea's argument reveals a point hitherto neglected in the republican literature: caring about non-domination implies caring about efficiency.

Keywords

Domination – Freedom – Republicanism – Socialism – Work

I.

In a recent paper in this journal, Tom O'Shea defends *socialist republicanism*, marrying the value of freedom as non-domination to public ownership of the means of production.[1] The basic idea is that the modern economy subjects citizens to unacceptable levels of arbitrary power. According to O'Shea, the best solution to domination in the economy is through public ownership of the means of production.

Along the way, O'Shea rejects more moderate solutions, such as Elizabeth Anderson's push for worker participation in corporate governance.[2] However, O'Shea fails to consider *why* Anderson does not go all the way to total public ownership or even workplace democracy. Roughly, Anderson claims that these other forms of ownership will tend to be relatively inefficient. The natural question to ask is: Why should efficiency matter to the socialist republican?

In this reply, I will argue that the efficiency costs that often attach to public ownership may undercut the ability of the socialist republic to combat domination by public agents. This is for two reasons. First, the economic gains provided by efficiency can insulate individuals from the discretionary power of other agents. Put briefly, the more wealth you have, the less that discretionary power threatens your basic interests. Second, the efficiency costs of public ownership can make it more difficult to hold accountable the managers of economic organizations. This shortcoming of O'Shea's argument reveals a point hitherto neglected in the republican literature: caring about non-domination implies caring about efficiency.[3]

To be clear: my claim is not that efficiency is *sufficient* for non-domination – distribution matters as well. Nor is my claim that public ownership is *necessarily* inefficient. My claim is only that inefficiencies in the management of production can set back the cause of non-domination, and that any republican approach to the economy ought to have answers to these concerns. Prior to defending this claim, it is first important to understand O'Shea's argument for socialist republicanism.

II.

As O'Shea notes in his treatment of the history of radical republican thought, the idea that the economy is a site of domination is not a new one.[4] The radical tradition has long observed that the modern capitalist firm involves hierarchical relations of authority. Mainstream economic theory caught up to the radicals through Ronald Coase's insight in the first half of the 20th century that this authority distinguishes the firm from the market.[5] In a firm, rather than contracting everything through the market, managers decide how the various elements of the firm are put to use, including labor. This prerogative gives managers wide latitude in how they direct their subordinates. Because workers have to work in order to satisfy their basic interests, such managerial discretion threatens workers with domination.[6] Thus far, republicans are in agreement. Where disagreement enters is in regard to how best to respond to this domination.

Some, such as Robert Taylor, believe that a competitive labor market supplemented with various state policies best mitigates the potential domination of workers.[7] For others, this is not enough. As noted, Elizabeth Anderson argues we ought to give workers voice in how their firms are run by requiring worker representation in corporate governance.[8] Such voice would help render managers accountable to those they rule over. This would be analogous to the co-determination scheme found in Germany.

O'Shea, however, does not think Anderson's proposal is sufficient to combat economic domination on two levels. First, O'Shea points out that shareholders retain majority decision-making power in co-determination.[9] Even if workers have a say, workers can be over-ruled by shareholders. Second, and more seriously, co-determination does nothing to address the domination of *non-workers*. O'Shea rightfully points out that caring about the discretion of managers over workers implies caring about how that discretion impacts *potential* workers in addition to other stakeholders such as consumers.[10] For example, consumers have as much say over how Walmart is run as the people who work there do. Thus, O'Shea claims, non-domination in the economy requires granting *all* stakeholder groups power over economic decision-making.[11]

III.

Anderson *does* consider more radical solutions to workplace domination such as worker cooperatives. However, she briefly notes, "While much could be done to devise laws more accommodating of this structure, some of its costs may be difficult to surmount. In particular, the costs of negotiating among workers with asymmetrical interests appear[…] to be high."[12] Anderson herself does not explain this point and its relation to republicanism. But Anderson is right to be concerned about the efficiency of various ownership schemes. In this section, I will describe how who owns the firm can affect efficiency.[13] In the next, I will explain why this matters for O'Shea.

A common way to think of the firm is as involving four stakeholder groups: lenders (capital), workers (labor), suppliers (inputs), and customers (outputs). It is possible for any one or more of these groups to "own" the firm – to be entitled to whatever revenue is left over after all contractual obligations are paid as well as exercise formal control through electing members to the board of directors. Indeed, there are examples of a variety of corporate governance structures that exist today in our non-socialist world from worker co-ops (Mondragon) to consumer co-ops (REI) to supplier co-ops (Land O'Lakes). It is a complicated story as to why, despite it being possible to organize ownership in a variety of ways, shareholder-owned firms tend to dominate the modern economy. One potential part of the story relates to how shareholder-owned firms may be more efficient than alternatives on average. This could be for two reasons.

The first relates to what Anderson hints at above: *negotiation costs*.[14] When owners exert formal control, they have to come to a collective decision over what to do. The ease with which a group of people comes to a decision depends in part on how much their interests coincide. In a heterogeneous group where interests are at odds with one another, decisions become quite difficult. Should your local grocery focus on keeping the cost to the consumer as low as possible, or paying their suppliers as much as possible, or paying their workers as much as possible, or making sure their lenders receive a good deal? You cannot do it all, and so reaching any collective decision will be a difficult, laborious process. Even *within* many of these stakeholder groups, there tend to be conflicts of interests (e.g. high-skill labor has different interests than low-skill labor). In a relatively homogenous group, decision-making will be easier. Consider shareholders as group. Yes, there is variance among shareholders (negotiation is not costless), but for the most part what shareholders care about is profit. No profit, no dividends. Why does reducing negotiation costs matter? Because it can be the difference between revenues meeting (and even exceeding) costs and bankruptcy.

The second relates to the *agency costs* raised by different ownership schemes. Regardless of who owns the firm, someone still needs to manage the day-to-day affairs of the firm. This is where managers come in. The problem is that managers have their *own* interests, and these interests are not the same as those who own the firm. Even if most managers do not engage in any wrongdoing, being a manager presents the opportunity for exploiting the owners of the firm. To mitigate principal-agent problems, it is important for owners to be able to hold managers accountable.

What does this have to do with firm ownership? To hold someone accountable you have to know whether or not that person has failed to do what they said they would. For shareholders, this is relatively easy.[15] Either profits go up or they go down. This is a clear, though imperfect, measure of managerial performance. Including multiple principals, like other stakeholder groups, can muddy the waters.[16] Managers can play various stakeholders against each other. Or, managers can use one stakeholder group's interests as a self-serving excuse for setting back another group's interests for personal gain. Thus, shareholder ownership tends to minimize agency costs for the very same reason it tends to minimize negotiation costs: shareholders present as a relatively homogenous group amongst stakeholders.

To be clear, these are only theoretical reasons suggesting how shareholder-owned firms might be more efficient than the alternatives. Even if empirical work bears out these claims, this does not establish that alternative ownership schemes are *necessarily* less efficient. But that is not my point. My point is only to illustrate the possible costs of various ownership schemes and that these costs can make an important difference.

IV.

O'Shea could grant that public ownership will oftentimes (but not always!) be less efficient than private ownership but nonetheless respond that this talk of efficiency is a non-sequitur. After all, republicans are dedicated to non-domination, not efficiency.

This response is fine as far as it goes, but it fails to see how efficiency aids non-domination. This is particularly true in the socialist republic. To see this, consider how O'Shea responds to worries about *public* domination, or domination by agents of the state.

O'Shea has a two-pronged response to the problem of public domination.[17] The first prong involves "unconditional access to an economic minimum."[18] This guarantees goods such as health care, housing, education, income, and so on to each citizen. If basic interests are fulfilled, then the discretionary power of public agents is less worrisome.

You having discretion over, say, what brand of toothpaste I use is less worrisome than you having discretion over whether or not I am able to put food on the table.

I agree with O'Shea that fulfilling basic interests blunts the ability of would-be dominators. The problem with O'Shea's response is that meeting people's needs depends on the availability of *wealth* at any given time. This is in part a function of the efficiency of production. Let me make things harder for myself by assuming that O'Shea's political guarantees will not decrease productivity.[19] There still remains loss created by the negotiation costs among various stakeholders. This means that customers who would have had access to a good in the absence of these costs now do not have access to that good. If the good in question is, say, medicine or food or housing, this can matter quite a bit to a person's basic interests. It is important to stress what exactly economic inefficiency means in concrete terms: It means that some will go home empty handed that otherwise could have gone home with that good.

At this point, O'Shea might lean heavily on the second prong of his solution to public domination: stakeholder governance in a variety of forms.[20] O'Shea might argue that, even if publicly owned firms are unable to provide enough wealth to satisfy a guarantee of meeting basic interests, democratic control of economic units will limit domination at the hands of managers. By giving stakeholders a voice in how decision-making is made throughout the economy, this allows these stakeholders to ensure managers use their power in a way that tracks stakeholder interests (to put it in Pettit-esque terms).[21]

At this point, this is where the relatively high agency costs of stakeholder governance bites. In any serious economic enterprise, there will be managers that oversee day-to-day operations. This means managers will have some discretion in how they use this power. Such discretion opens up the possibility of using that power in a way that does not track the interests of those they have power over. This is, by definition, domination. To keep in check this power, organizations need to be able to hold managers accountable. But, as noted in the previous section, accountability requires being able to know when a manager has done something wrong. Including all stakeholders in corporate governance makes this very difficult by both complicating the metric of wrongdoing as well as allowing managers to play politics. Ironically, increasing stakeholder participation can sometimes *reduce* accountability. Because of this, public ownership can *increase* the domination suffered at the hands of managers by making it harder to discipline them for abusing their power.

Thus, we see the efficiency of economic organization matters doubly for non-domination in the socialist republic. First, wealth production aids the task of adequately resourcing people so that the discretionary power they do face does not threaten their basic interests. Second, efficiency in ownership helps keep managers accountable.

V.

I have argued that O'Shea's case for socialist republicanism fails to consider the possible efficiency costs involved in publicly owned firms. These efficiency costs matter because they undermine the ability of the socialist republic to combat the threat of domination posed by increasing the power of public agents. This is not to say that the socialist republican cannot allay these concerns – only that the socialist republican has not yet done so.

Let me stress that this lesson is not just important for socialist republicans. The more general point is that republicans of all stripes ought to care about efficiency. This is not only because wealth, when appropriately distributed, insulates individuals from the discretionary power of others, but also because efficiency in organization makes it easier to keep managerial power in check. In particular, not thinking about agency costs presents opportunities for managers to impose their will on all of us with impunity. Any republican approach to the economy will have to engage these issues.

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[1] Tom O'Shea, "Socialist Republicanism," *Political Theory* Online First. https://doi.org/10.1177/0090591719876889 (First Published September 20, 2019).

[2] Elizabeth Anderson, *Private Government* (Princeton: Princeton University Press, 2017), 69-71.

[3] Taylor in his criticism of labor republicanism discusses the relative inefficiency of worker co-ops but does not link inefficiency to domination. Robert S. Taylor, "Delaboring Republicanism" *Public Affairs Quarterly* 26, No. 4 (October 2019): 441-462.

[4] O'Shea, "Socialist Republicanism," 6-8. See also Alex Gourevitch, "Labor Republicanism and the Transformation of Work," *Political Theory* 41, No. 4 (2013): 591-617.

[5] Ronald Coase, "The Nature of the Firm," *Economica* 4, No. 6 (November 1937): 386-405. For an excellent summary of this intellectual history, see Abraham A. Singer, *The Form of the Firm* (New York: Oxford University Press, 2019), 39-72.

[6] On the link between domination and basic interests, see Ian Shapiro, "On Non-domination," *University of Toronto Law Journal* 62, No. 3 (Summer 2012): 294

[7] Robert S. Taylor, *Exit Left* (Oxford: Oxford University Press, 2017), 46-65.

[8] Anderson, *Private Government*, 69-71.

[9] O'Shea, "Socialist Republicanism," 11-12.

[10] O'Shea, "Socialist Republicanism," 12.

[11] O'Shea, "Socialist Republicanism," 12-14.

[12] Anderson, *Private Government,* 69.

[13] The observations in this section are indebted to Joseph Heath, *Economics without Illusions* (New York: Broadway Books, 2010), 176-199.

[14] Henry Hansmann, *The Ownership of Enterprise* (Cambridge: Harvard University Press, 1996).

[15] *Relatively* easy. Some of the most infamous cases of white-collar crime involve executives fleecing shareholders.

[16] Joseph Heath and Wayne Norman, "Stakeholder Theory, Corporate Governance and Public Management: What Can the History of State-Run Enterprises Teach Us in the Post-Enron Era?" *Journal of Business Ethics* 53, no. 3 (September 2004): 259-261.

[17] O'Shea, "Socialist Republicanism," 17-18.

[18] O'Shea, "Socialist Republicanism," 17.

[19] Cf. David Schmidtz, "Guarantees," *Social Philosophy and Policy* 14, no. 2 (Summer 1997): 1-19.

[20] "[T]hese socialists often recommend forms of nationalization that combine democratic governance by the workforce, the users of the service, and the citizen body as a whole." O'Shea, "Socialist Republicanism," 17.

[21] Philip Pettit, *On The People's Terms* (Cambridge: Cambridge University Press, 2012).