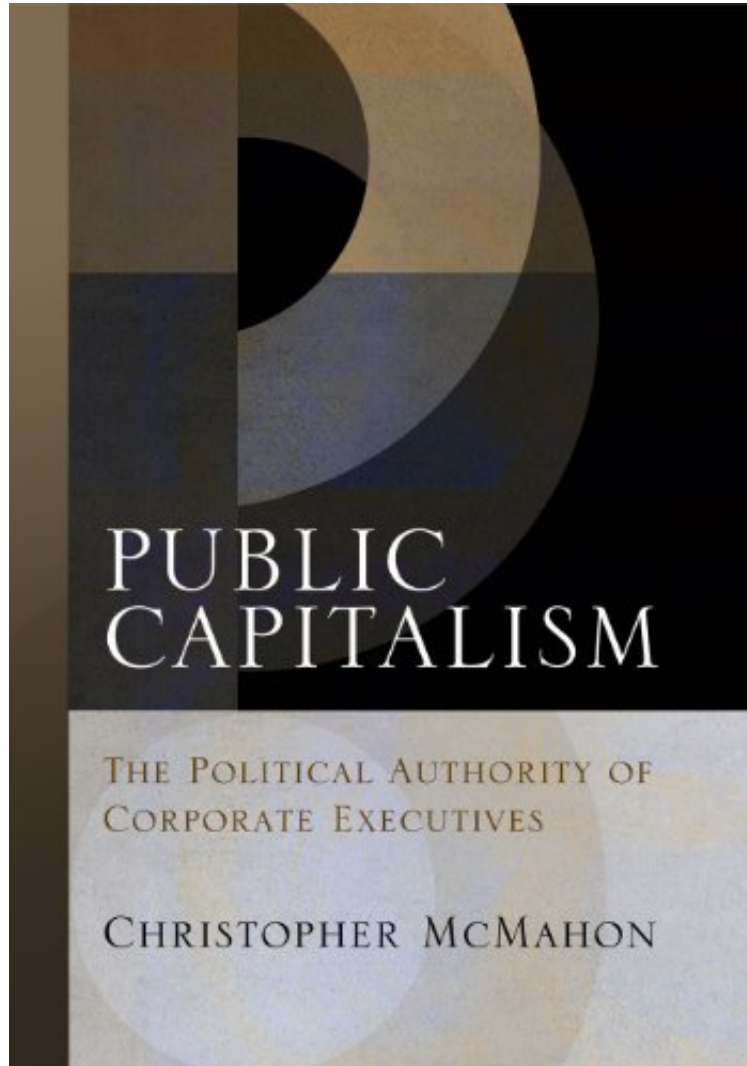


[E-BOOK] Public Capitalism: The Political Authority of Corporate Executives (Haney Foundation Series)

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Christopher McMahon

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Christopher McMahon : Public Capitalism: The Political Authority of Corporate Executives (Haney Foundation Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised Public Capitalism: The Political Authority of Corporate Executives (Haney Foundation Series):

In modern capitalist societies, the executives of large, profit-seeking corporations have the power to shape the collective life of the communities, local and global, in which they operate. Corporate executives issue directives to employees, who are normally prepared to comply with them, and impose penalties such as termination on those who

fail to comply. The decisions made by corporate executives also affect people outside the corporation: investors, customers, suppliers, the general public. What can justify authority with such a broad reach? Political philosopher Christopher McMahon argues that the social authority of corporate executives is best understood as a form of political authority. Although corporations are privately owned, they must be managed in a way that promotes the public good. Public Capitalism begins with this claim and explores its implications for issues including corporate property rights, the moral status of corporations, the permissibility of layoffs and plant closings, and the legislative role played by corporate executives. Corporate executives acquire the status of public officials of a certain kind, who can be asked to work toward social goods in addition to prosperity. Public Capitalism sketches a new framework for discussion of the moral and political issues faced by corporate executives.

"A frame-changing discussion of the conditions that would legitimize managerial authority in privately owned, publicly held corporations. McMahon opens up new questions in political theory and corporate jurisprudence, and offers fascinating responses."—Philip Pettit, Princeton University

McMahon has been successful in providing a detailed, robust defense of his conclusion. The book deftly moves between business law, management, economics and, importantly, philosophy in its line of argumentation."—Jeffery Smith, University of Redlands

About the Author
Christopher McMahon is Professor of Philosophy at the University of California, Santa Barbara, and author of *Reasonable Disagreement: A Theory of Political Morality, Collective Rationality and Collective Reasoning*, and *Authority and Democracy: A General Theory of Government and Management*. Excerpt. copy; Reprinted by permission. All rights reserved.

Introduction
In a modern capitalist society, the senior executives of large, profit-seeking corporations play an important role in shaping the collective life of the society as a whole. In this respect, they exercise social authority. Where we find social authority, we face the question of what establishes its legitimacy. This book argues that the authority exercised by corporate executives can be legitimate only if it constitutes a form of political authority. I call the species of capitalism that results public capitalism. Under public capitalism, senior corporate executives, in which group I include the members of boards of directors, possess the status of public officials of a certain kind. They occupy a subordinate position in an integrated structure of cooperation-facilitating authority that is oriented toward the promotion of the public good and is under ultimate governmental control. Corporations are privately owned, but they are managed with a view to the public good. Such management is possible because profit-seeking in competitive markets, when suitably constrained, promotes one component of the public good, social prosperity. It is customary in capitalist societies to make a distinction between the public and the private sectors. Property rights provide the basis for this distinction. The private sector of the economy uses privately owned productive resources. The public sector uses publicly owned productive resources, resources owned collectively by the members of whatever political unit is in question. The theory I present here is concerned with corporations that fall within the private sector when the public-private distinction is understood as grounded in property rights. It might be thought, however, that economic activity in a capitalist society is private in a further sense, namely, that the normative foundation for capitalist economic activity can be provided by the morality of private life. I argue that this is not the case. As a corporation grows larger, the normative framework in which it operates changes. Actions and relations that might have been accommodated within the framework of private morality when the corporation was a small business come to require a different normative basis. The legitimacy of social authority constitutes one of the main topics of political philosophy. Most discussion of this topic focuses on the authority of governments. It may be that the corporate case has received little attention because those governed, most notably the employees, appear to consent to government in a straightforward way. A fundamental thesis of this book, however, is that the authority exercised by corporate executives is just as problematic, from the standpoint of political philosophy, as the authority of governments and requires similarly careful investigation. Social authority can be understood in different ways, but in its most basic form it involves a relationship marked by the issuing of directives to people who are normally prepared to comply with them. I call this form of authority subordinating authority. In what follows, I argue that the normative apparatus of private life is not capable of establishing the legitimacy of the subordinating authority that corporate executives exercise over employees. Rather this authority must possess the same basis as the authority of legitimate governments and be exercised in concert with the authority of legitimate governments. It is possible to understand the authority of corporate executives more broadly. Nonemployees of various kinds—for example, investors, creditors, or suppliers—contribute in different ways to the activities of a corporation, and the senior executives determine the form these contributions will ultimately take, the way they will find expression in corporate actions. To the extent that nonemployee contributors can be regarded as deferring to the judgment of corporate executives concerning the way their contributions will find expression in corporate actions, there is a sense in which corporate executives exercise authority over these people as well. Moreover, in exercising this authority over nonemployee contributors, executives can be viewed as performing a public function. The theory of public capitalism encompasses this broader role as well, but the argument that corporate executives must be understood as exercising a kind of political authority takes as its point of departure the legitimacy of the subordinating authority that executives exercise over employees. The main argument has several steps and is spread over Chapters 2 and 3, but the basic idea can be

stated here. Governments issue directives, laws and regulations, that are intended to give political cooperation a certain shape. They also support these directives with coercive sanctions. Penalties are imposed on those who fail to obey the law. This gives governments what I call directive power. But we do not regard the fact that a government possesses directive power as sufficient to establish its legitimacy. Totalitarian governments possess directive power. Legitimacy requires that there be sufficient reason, independent of the directive power the government exercises over the members of a polity, for the members to comply with the government's directives. I suggest a candidate for this reason in Chapter 3. The argument concerning corporate executives is that the situation we find in large, profit-seeking corporations is analogous to the governmental situation. Corporate executives issue directives intended to give corporate cooperation a certain shape. Compliance with these directives is supported by the threat of a penalty for noncompliance, the termination of employment. Corporate executives thus possess directive power with respect to a corporation's employees, the ultimate basis of which is provided by corporate property rights. But directive power is not legitimate authority. Therefore, if we are to understand corporate executives as exercising legitimate subordinating authority over employees, we need to establish that there is sufficient reason, independent of the directive power to which employees are subject, for them to comply with the directives they receive. I argue that this reason must be of the same kind as, and integrated with, the reason that establishes the legitimacy of government. To be legitimate, the authority exercised by corporate executives must constitute a subordinate form of political authority; that is, public authority. Because legitimate authority is normatively prior to directive power, constraining the exercise of that power, corporate property rights, as defined by the law, must take a form that is compatible with these results concerning legitimacy. I also explore a second reason that the actions of corporate executives must be placed within the normative framework of public decision making. The performance of their official duties sometimes requires public officials to treat citizens in ways that private persons are not normally permitted to treat one another. Such actions are justified by the belief that they are necessary if the public good is to be effectively promoted. Thus the defense of a country may require some deception of its citizens. I argue that certain actions performed by corporate executives require an analogous justification if they are to be understood as morally permissible. The principal example is inflicting the harm that often accompanies the laying off of employees or the closing of plants in communities that depend on them. In many cases, these actions cannot be justified merely because they serve the interests of the owners or investors. Actions of this kind can also be performed by the managers of small businesses, but these actions are more socially consequential when performed by the executives of large corporations. In Chapter 1, I explain the distinction between the public and the private. I then turn to the argument that the authority exercised by the senior executives of large, profit-seeking corporations must be understood as a kind of political authority. In Chapter 2, I argue that the moral framework of private life is not capable of establishing the legitimacy of the subordinating authority exercised by the executives of large, profit-seeking corporations. In Chapter 3, I show how understanding this authority as a kind of political authority solves the problems encountered by the private model. In Chapter 4, I explore the possibility that the official duties of corporate executives can involve treating individuals in a manner that would ordinarily be morally impermissible. Finally, in Chapter 5, I trace some consequences for managerial decision making of the idea that corporate executives exercise a form of political authority. My argument uses (what I take to be) the fact that questions of political morality admit of reasonable disagreement. I defend this view in *Reasonable Disagreement: A Theory of Political Morality*. Political decision making typically resolves reasonable moral disagreement within the political unit in question. The theory of public capitalism that I present here views the executives of large corporations as making political decisions of this sort. The theory views them as resolving reasonable moral disagreement, among the members of their corporations, and also within the larger society, about the appropriate way to structure the parts of the overall system of political cooperation that are under their control. This is another respect in which they perform a public function. It should be emphasized that this book is a work of political philosophy. It uses the concepts and methods of political philosophy to construct an argument that the senior executives of large, profit-seeking corporations should be understood as exercising a form of political authority. This is not the only way to approach authority relations within corporations. A well-developed literature in economics studies how different governance structures affect economic efficiency. As formulated by Oliver Williamson, this approach is based on the idea that if we take people as they are, with their various limitations, ordinary market contracting cannot by itself achieve efficient outcomes, and consequently hierarchical governance structures are required. Such governance structures promote efficiency by economizing on transaction costs. Williamson characterizes this project as follows: "Transaction cost economics maintains the rebuttable presumption that organizational variety arises primarily in the service of transaction cost economizing. That approach is to be distinguished not merely from the technological approach to economic organization but also from power approaches, which ascribe nonstandard forms of organization to monopoly purposes or class interests." Corporate governance is also studied from a more general perspective by writers who investigate how corporations should be governed to ensure that legitimate corporate goals are achieved, where these goals are typically understood in terms of the interests of investors or a larger group of "stakeholders." A central topic in this literature is the difficulty of controlling agents who possess more knowledge than the people on whose behalf they are acting. Stephen Bainbridge's *The New*

Corporate Governance in Theory and Practice is an informative example of this approach. Focusing on the United States, where, he says, there is a legal consensus that publicly held corporations should be managed in the interest of the shareholders, Bainbridge considers who does, and who should, actually control such corporations. He advocates a view he calls "board primacy," according to which effective control should be, and increasingly is, exercised by the board of directors. This view presupposes a picture of the corporation as a nexus of explicit and implicit contracts in which the board of directors functions as the central contractor. Bainbridge thus rejects both the view that shareholders do, or should, exercise ultimate control and the view known as managerialism, which locates ultimate control in the chief executive officer and the people immediately subordinate to him or her. It is not my intention to offer a replacement for these well-developed research programs. I believe, though, that exploring the role played by corporate executives from the standpoint of political philosophy enables us to gain insight into the place of economic activity in a modern capitalist society that is not obtainable in any other way. Williamson and Bainbridge both understand corporate governance in terms of economic efficiency. For public capitalism, however, the criterion for successful corporate governance is promotion of the public good. Economic efficiency is closely associated with a particular moral value, the value of social prosperity, which is an important component of the public good. But other components are important as well. Defenders of alternative approaches to corporate governance may reply that the promotion of the public good is a task for political, in contrast to corporate, decision making. For public capitalism, however, corporate decision making is a species of political decision making. My argument in this book applies to all societies containing large, privately owned, profit-seeking corporations. The implications are doubtless most radical in countries like the United States, where corporate decision making is focused on serving the interests of shareholders and other investors. Elsewhere, corporate executives may confront a legal framework, or informal social pressures, that force them to accommodate the interests of additional stakeholders, especially employees, more fully than is the case in the United States. In those countries, the idea that corporate executives exercise a form of political authority might have greater intuitive plausibility. Nevertheless, an argument is required to establish that they do, in fact, exercise such authority. It may be helpful, finally, to expand a little on what is accomplished by approaching the issues discussed in this book from the standpoint of political philosophy. As mentioned earlier, discussions of corporate governance in management studies typically emphasize economic efficiency. Thus John Boatright ties the governance structures characteristic of profit-seeking corporations to efficient investment. The theory of public capitalism presented in this book is not concerned with corporate governance in the sense of the management studies literature. It is concerned with the social authority that corporate executives possess within the societies where their corporations are located. I term this managerial authority. The theory of public capitalism is a theory of the legitimacy of managerial authority. As is customary in political philosophy, the argument is addressed not to a particular group within the larger society but to the society as a whole. It aims to provide a way for all of us living in modern capitalist societies to think about the role that corporate decision making plays in our lives, a way that views this decision making from the standpoint of our purposes as a group of people; a society; cooperating politically to promote the public good.