The Myth of the Private Sector

Kevin Carson

2020 / 2023

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Part I: Why Big-Small and Vertical-Horizontal Trumps "Public-Private"

Today (Oct. 28) Rachel McKinney, a friend who works as professor of philosophy, complained on Twitter that she was trying to create a midterm exam and "blackboard is complete fucking garbage. No intuitive way to break up questions into sections, can't give instructions for specific sections, can't modulate to require answers for e.g. 10 of 15 questions that students can choose." Just as I suspected, she explained when asked that the choice of software was involuntary: "the three big ones are Blackboard, Canvas, and Moodle — 'learning management software.' Institutions choose one and then all instructors have to use it. Blackboard is the oldest and clunkiest and by far the worst."

This is exactly like the charting software we used at the hospital where I used to work. Software is produced by a stovepiped corporate development bureaucracy, for sale to another corporate bureaucracy, for mandatory use by a captive clientele of employees — all with zero user feedback at any point in the process.

Rachel's experience, and mine, are typical examples of the cluelessness of institutional IT departments, choosing "productivity" software for captive clienteles with zero feedback.

As Tom Coates observed years ago, the proliferation of desktop and browser-based utilities for individual use — many of them Free and Open Source — means that the quality gap between what can be accomplished at home and what can be accomplished at work has been narrowed or completely eliminated. I'd take it a step further, and say that people are usually much more productive off the job, when they can use utilities of their own choosing, than they are when they have to use the crap forced down their throats at work.

Let's take a look at another anecdote from my experience. When I moved to my present home five years ago, the parcel of semi-rural land I live on was split off from a larger parcel. For months afterwards, the on-board GPS directions used by FedEx and UPS drivers did not reflect the change, so I constantly got notifications by email that a package was not delivered because "address does not exist."

I repeatedly called the parcel companies and explained the situation, giving whoever I talked to detailed instructions on how to find my house. Nevertheless, the failures to deliver continued because — owing to some perversity of institutional culture — the drivers preferred to trust their GPS over their own lying eyes. Finally, after this had gone on for months, I managed to talk to someone at a regional logistical node who put my directions in the computer to automatically flag the driver; since then I've gotten fairly reliable service.

From the Postal Service, on the other hand, I've gotten mostly reliable package delivery ever since I moved here. The reason is that the mail carrier is someone who lives in this town, and knows the route because he's driven it for years.

The "public sector" Post Office is better than the "private sector" UPS at making use of what Friedrich Hayek called the "distributed" or "situational knowledge" of its workers.

These examples all suggest that the distinction, stressed in right-libertarian ideology — i.e., what Americans generally think of when they hear the word "libertarian" — between "public" (gummint) and "private" (bizness) is considerably less important than differences in organizational style, when it comes to things like the operating efficiency of an institution or the relative degree of freedom felt by those interacting with it. In a genuine libertarian typology of institu-

tions, the public-private dichotomy in most cases is less useful than the dichotomy between big and small, vertical and horizontal, and self-managed vs. hierarchical.

In Paul Goodman's typology of institutions in *People or Personnel*, large authoritarian institutions like government agencies and capitalist corporations resemble each other more closely, whether nominally "public" or "private," than either resembles small self-managed organizations.

> In a centralized enterprise, the function to be performed is the goal of the organization rather than of persons.… Authority is top-down. Information is gathered from below in the field and is processed to be usable by those above; decisions are made in headquarters; and policy, schedule, and standard procedure are transmitted downward by chain of command. The enterprise as a whole is divided into departments of operation to which are assigned personnel with distinct roles, to give standard performance.… The system was devised to discipline armies; to keep records, collect taxes, and perform bureaucratic functions; and for certain kinds of mass production. It has now become pervasive.
>
> The principle of decentralism is that people are engaged in a function and the organization is how they cooperate. Authority is delegated away from the top as much as possible and there are many accommodating centers of policy-making and decision. Information is conveyed and discussed in face-to-face contacts between field and headquarters. Each person becomes increasingly aware of the whole operation and works at it in his own way according to his capacities. Groups arrange their own schedules.
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> What swell the costs in enterprises carried on in the interlocking centralized systems of society, whether commercial, official or non-profit institutional, are all the factors of organization, procedure, and motivation that are not directly determined to the function and to the desire to perform it. These are patents and rents, fixed prices, union scales, featherbedding, fringe benefits, status salaries, expense accounts, proliferating administration, paper work, permanent overhead, public relations and promotion, waste of time and skill by departmentalizing task-roles, bureaucratic thinking that is pennywise pound-foolish, inflexible procedure and tight scheduling that exaggerate contingencies and overtime.…
>
> But when enterprises can be carried autonomously by professionals, artists, and workmen intrinsically committed to the job, there are economies all along the line. People make do on means. They spend on value, not convention. They flexibly improvise procedures as opportunity presents and they step in in emergencies. They do not watch the clock. The available skills of each person are put to use. They eschew status and in a pinch accept subsistence wages. Administration and overhead are ad hoc. The task is likely to be seen in its essence rather than abstractly.

In fact the distinction between government and private business, so widely made in right-libertarian polemics, is largely meaningless.

First of all, the large corporation is part of an interlocking network of institutions that includes the state. As Power Elite sociologists like C. Wright Mills and G. William Domhoff have pointed

out, American society is governed primarily by a constellation of centralized federal agencies in the Executive Branch, a few hundred large corporations and banks, along with a comparable number of think tanks and foundations. All these institutions are led by the same pool of personnel who circulate between them; to verify this you need only look at the interlocking directorates of corporations and banks, along with the number of deputy and assistant secretaries in any federal Cabinet department and the corporations in which they've previously served as directors or vice presidents (and vice versa).

Second, the state functions primarily as a *capitalist* state, carrying out necessary support functions on behalf of big business. The profit model of big business — and to a lesser but significant extent that of capital as a whole — is directly dependent on the state. The majority of corporate profits result either from direct state subsidies or from economic rents extracted with the help of state-enforced monopolies, entry barriers, and restraints on competition. One of the primary functions of the state is socializing the operating costs and risks of big business, and subsidizing a major share of its inputs.

So generally speaking, the size and internal structure of an institution tell us a lot more about its real nature — not only its level of efficiency but its relative libertarianism or authoritarianism, and its role in the overall system of power — than whether it is nominally "public" or "private." A utility whose operations are governed on a stakeholder cooperative basis is more libertarian, from the standpoint of those using its services — regardless of nominal "public" or "private" ownership — than either a corporate-owned or state-owned utility with a traditional managerial hierarchy/bureaucracy. Likewise, a cohousing project that's self-managed by its residents is more libertarian from the standpoint of those living in it than either a traditional state-run public housing project or an apartment complex owned by a landlord.

And the self-managed alternatives, whether nominally "public" or "private," are a lot easier in practical terms to push in a libertarian or anarchist direction than either state bureaucracies or capitalist corporations.

So we need to move beyond the standard framing of debates centered on capitalist "privatization" on the right-libertarian model versus "nationalization" as advocated by the Old Left, and instead focus on decentralizing all institutions to the local level and democratizing their internal governance. No bosses, no landlords, no bureaucrats!

Part II: The Centrally Planned Global Economy

In the first installment of this series, I argued that the "public" vs. "private" distinction was in large part meaningless because the similarity in organizational style of centralized, hierarchical, and bureaucratically managed institutions outweighed their nominal ownership by the government or by private business.

But there's another sense in which the "private sector" is virtually meaningless, as well: the "competitive global marketplace" has become, to a great extent, an edifying fairy tale.

From the time of its founding shortly after WWII until its abolition in 2001, Japan's Ministry of International Trade and Industry (MITI) acted as a sort of capitalist central planning industry for their corporate economy — not to the extent of setting actual production targets, as in the former USSR, but by allocating investment and R&D funding between firms and industries. It

even allocated foreign exchange between Japanese enterprises, determining who was allowed to import foreign technologies.

In the Yugoslav economy, similarly, the principles of worker self-management and market relations between firms were limited in practice by the state bank's ability to allocate capital investment.What we have on a global level is a nominally private version of the same thing, organized through investment cartels and interlocking directorates.

And this is new only in its global scale. In 1967, Power Elite theorist G. William Domhoff argued (in *Who Rules America?*) that the capitalist class exerted control of the American corporate economy, not by family share voting blocks in individual corporations, but collectively, through "'interest groups' centered around large banks and finance houses which contained a great many of the major corporations through minority ownership and legal device" (i.e. "intermarried families and social cliques who operate through holding companies, family trusts, and family foundations"). And Marxist Paul Sweezy reported a generation earlier that eight such "interest groups" dominated the American economy.

Not long ago, in 2011, a paper by Stefania Vitali, James B. Glattfelder, and Stefano Battiston found that a core of 1,318 transnational corporations with interlocking ownerships were able to influence tens of thousands of other transnationals. These 1,318, in turn, were dominated by a "super-entity" of 147 tightly knit corporations. Of the core of 147, the top ten were all banks, insurance companies, or investment funds.

So the global corporate economy is, to a large extent, directed by "a super-entity" of interlocking corporations, which is itself dominated by a handful of FIRE (Finance, Insurance, and Real Estate) economy firms which allocate investment capital.

Against this background, layoffs in the tech sector in recent weeks start to make a lot more sense. As Josh Berkus observed on the m6n.io Mastodon instance: "Folks are treating the recent tech layoffs as something spontaneous. They were not. Apparently the current layoffs were orchestrated by hedge funds."

MarketWatch backs him up. Billionaire Christopher Hohn, manager of the TCI hedge fund (which owns a $6 billion share in Alphabet), wrote Alphabet CEO Sundar Pichai on January 20, arguing that recent layoffs of 6% of the workforce (while "a step in the right direction") were inadequate, and 20% needed to be cut. In addition, with "competition for talent" having declined, Alphabet could get away with significant cuts in pay. Hohn is far from the only hedge fund manager issuing such demands. "A number of hedge fund managers investing heavily in tech stocks have recently called for sizeable cost reductions, including job cuts."

Of course, as is usual in such cases of strip-shop capitalism, the cuts wind up being counterproductive and destroying real value. As Bernard Marr notes, hedge funds and other vulture capitalists have justified their calls for layoffs by pointing to "hiring sprees" and competitive salary offers during the first year or two of the COVID pandemic and the need to wind back such hiring policies. But on closer examination, the median level of experience for those laid off is 11. 5 years. "So, it's not necessarily true that these are all junior workers with little experience who could be quickly replaced or possibly even have their roles automated."

Marr tries to cushion the import of this fact by adding that 28% of all layoffs were from HR departments, which he argues might be justified on grounds that "if companies are laying off staff, they will also be cutting back on recruitment, and less recruitment means less need for HR staff," and some HR functions are also being automated.

But that still means 72% of laid off workers, disproportionately coming from the most experienced part of the labor force, were *not* in HR. And the representation of HR staff in layoffs was not even consistent across the industry. "While HR and talent sourcing were most affected at Microsoft and Meta, at Google and Twitter, it was software engineers who took the brunt of the cuts."So the tech industry layoffs, industry-wide, are just a somewhat less extreme version of the way Twitter has been hollowed out under the supervision of Dunning Kruger poster boy Elon Musk.

Anne Helen Peterson explains why layoffs, despite being the kneejerk prescription of investors in case of falling share values, are counterproductive.

> What *do* layoffs do? First off, they cost money: in severance packages and unemployment insurance, but also reduced productivity and innovation. They also destroy trust, as Harvard Business School professor Sandra J. Sucher and research associate Marilyn Morgan Westner point out, and increase anxiety and disengagement. "Post-layoff underperformance" is very real.

This highlights yet another way in which the idea of a competitive marketplace is more myth than reality: when all the major firms in an oligopoly industry share the same internal cultures and best practices, and their senior managers have all picked up the same erroneous assumptions at business school, they're really not competing in terms of efficiency. As Professor Jeffrey Pfeffer, a professor at the Stanford Graduate School of Business, put it, management behavior takes the form of a social contagion, spreading through a network with one company mindlessly copying what others are doing. "I've had people say to me that they know layoffs are harmful to company well-being, let alone the well-being of employees, and don't accomplish much, but everybody is doing layoffs and their board is asking why they aren't doing layoffs also."

So what we really have is an economy where most industries are dominated by a handful of firms that administer prices through a price-leader system and compete mostly in image and packaging rather than price, share the same institutional culture, and even share many of the same Directors. And they make many of their most important decisions on hiring and investment at the behest of a central core of FIRE economy corporations. And while these global corporations pretend to compete, the only real competition is between the workers who supply their labor, and the sweatshops that produce on contract for these corporations.

Meanwhile, right-libertarian polemics still justify non-existent "free trade" in obsolete terms like Ricardian "comparative advantage" — as if what they call "international trade" even *were* trade, and not simply internal transactions within global entities that are vertically integrated either through direct ownership, or indirectly through ownership of intellectual property. If libertarianism is to regain any credibility, it's time to start talking about the real world.

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Retrieved on 1 August 2023 from <c4ss.org/content/53835> (Part I) and <c4ss.org/content/58118> (Part II).
Originally published on 5 November 2020 (Part I) and 1 March 2023 (Part II).

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