

# Constructing the Democratic Public Enterprise

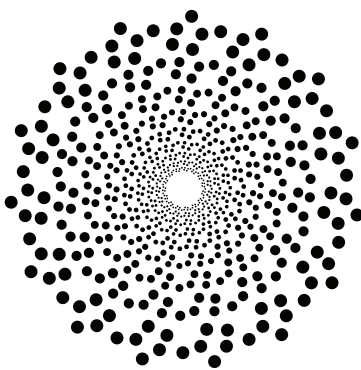
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## A Response to the Labour Party's Consultation on Democratic Public Ownership

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Public ownership is making a comeback around the world because of its utility in addressing critical public policy questions. The prevailing model of private sector-led and market-driven approaches, dominant across much of the world since the 1980s, has been found wanting in addressing key challenges, notably economic inequality and climate change. The lesson emerging is that forms of public ownership and management are essential not only for the kinds of patient, long-term, and strategic investment needed to deliver accessible and affordable public goods and services, but also to ensure a more equitable, democratic, and sustainable economic system. From the global remunicipalisation movement, to the Green New Deal, to the international quest for public banking, activists and politicians alike are rediscovering the power and potential of public ownership to address the many real and escalating economic, social, and environmental challenges we now face.



**DEMOCRACY  
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In the past, many publicly owned enterprises have tended to be overly top-down, managerial, opaque, and unaccountable (although this is equally the case with many private enterprises). Whether through older forms of state ownership, or recent forms of privatisation, public services have conventionally been managed and run by elite groups who are often far removed from the circumstances and consequences of their decisions. This means that they are divorced from the very people who are supposed to have ownership: the public writ large. This is not only undemocratic but also inefficient; excluding the public comes at the cost of harnessing varied forms of “on the ground” knowledge that employees and users possess through their everyday interactions with public services. It also limits the ability of publicly owned enterprises to build up a constituency of support among its employees, local residents, and community interest groups, making them easier to privatise when political winds shift.

As the Labour Party commits itself to reintroducing public ownership in such key sectors as transportation, communications, banking, energy, and water, what is required is a new and more democratic approach in order to avoid the mistakes and missed opportunities of the past. There is a great opportunity to develop forms of organisation, governance, and regulation that stimulate public participation, increase accountability, and empower communities and individuals that have traditionally been excluded from economic decision-making in publicly owned enterprises and services.

Such an approach needs to be integrated fully into the Labour Party's broad programme of public ownership. Democratic public ownership represents not only a paradigm shift in how publicly owned enterprises and services (of which there are millions around the world) are structured and governed, but also offers the opportunity to shift the distribution of economic power in our society, moving it from the hands of the few to the many.

In this response to the Labour Party's consultation on democratic public ownership, we set out the key features of what existing research and experience tells us works for creating democratic forms of public enterprise. Our response is provided in two sections: 1) core components of democratic public ownership and 2) indicative structures of organisation and the underlying value systems that we believe should inform a new generation of public enterprise.

## PRINCIPLES AND COMPONENTS OF DEMOCRATIC PUBLIC OWNERSHIP FOR THE 21ST CENTURY

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While it is important that we move away from the top-down, over-centralised, and undemocratic forms of public ownership that have been the tradition in the UK and much of the rest of the world in the 20th century, it is also important to acknowledge that there is no one size fits all or "off the shelf" model of democratic public ownership that can be applied in all places and all times. The forms taken by democratic

public ownership will diverge according to the social needs and technical requirements of different places, activities, and sectors.

In turn, we should also expect public ownership to change over time as human society, the economy, and the relationship of both to the natural environment, develops.<sup>1</sup> To use the example of energy transition, moving towards a post-carbon and climate-safe energy system needs much more diverse and decentralised forms of public ownership to harness renewables than the centralised coal, gas, oil, and nuclear system that dominated production and supply in the 20th century. Put more positively, it offers the opportunity to provide more local autonomy and decision-making power to towns, cities, and rural communities. But local autonomy should not be at the expense of a broader commitment to commonly agreed goals and principles at national and international levels. There will also still be a requirement for higher level strategic planning and integration of public services, particularly with regard to infrastructure and grid networks in areas as diverse as transport, energy, water, and health care.

In this spirit, we suggest seven key components that should inform the governance structure and operation of democratic public ownership.

### *Subsidiarity and decentralisation*

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**First** are the interconnected principles of **subsidiarity** and **decentralisation**, meaning that as much as possible decisions should be taken at the lowest level of governance and enterprises organised at smaller scales (both internally and externally) as a means of making sure that democracy is embedded in local communities and stakeholders can access various decision-making processes.<sup>2</sup> Political scientist Robert Dilger provides more detail, stating:

Advocates of decentralization argue that active state and local governments promote a sense of

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state and community responsibility and self-reliance, that state and local governments are closer to the people and better able to adapt public programs to state and local needs and conditions, that they encourage participation and civic responsibility by allowing more people to become involved in public questions, and that they encourage experimentation and innovation in public policy.<sup>3</sup>

While such judgements are often made about political institutions, they are no less applicable to public enterprises. There are indications from the United States and elsewhere that local publicly owned enterprises, especially in the energy sector, are indeed more responsive to resident concerns and desires (including around clean energy) than larger institutions.

### *Higher level coordination*

**Second** is that there is a countervailing requirement for higher level coordination to realise broader societal aims and goals such that local autonomy does not become disconnected from broader shared principles of social and ecological justice. While smaller scale publicly owned enterprises are generally preferable, for these reasons, and also for strategic and technical coordination and in some cases minimum efficient scales, larger scale organisation is necessary in some sectors.

Table 1, right, indicates the relationship between different forms and scales of non-private collective ownership—following a broader definition of public ownership as including state and non-state forms—and suggests the continued importance of state ownership at higher scales in achieving more systemic change in, for example, tackling climate change, as well as securing more universal economic and social rights. While the shift to a post-carbon energy system can facilitate greater decentralisation and democratisation, there will still be the need for larger public entities and higher level coordination of key infrastructure and

Objective	Form of ownership	Rating
Securing public control of the economy's strategic sectors ("commanding heights")	FSO	++
	RSO	+
	PSO	+
	LMO	+
	PC	=
	CC	-
	EO	-
Achieving greater local community control over decision-making	FSO	-
	RSO	+
	PSO	-
	LMO	++
	PC	+
	CC	+
	EO	+
Achieving distributional justice (equal and fair provision across a national/regional territory)	FSO	++
	RSO	+
	PSO	+
	LMO	+
	PC	-
	CC	+
	EO	-
Achieving environmental sustainability and tackling climate change	FSO	++
	RSO	++
	PSO	+
	LMO	++
	PC	=
	CC	=
	EO	=
Developing greater participation in decision-making	FSO	=
	RSO	+
	PSO	=
	LMO	+
	PC	++
	CC	++
	EO	++

**TABLE 1: EVALUATING EFFECTIVENESS OF PUBLIC OWNERSHIP FORMS**

**KEY**

+ positive effect  
 - negative  
 = neutral  
 FSO = full state ownership  
 RSO = regional state ownership  
 PSO = partial state ownership

LMO = local/municipal state ownership  
 PC = producer cooperative  
 CC = consumer cooperative  
 EO = employee ownership

Source: Cumbers, Reclaiming Public Ownership, 2012, 165.

assets—notably the National Grid and perhaps even international bodies. In addition to ensuring universal access and mitigating against the post-code lottery of uneven provision, such higher scales in energy are essential in enabling the mix and distribution of different forms of renewables over a space large enough to ensure security and continuity of supplies irrespective of weather conditions. Sub-national regional forms of public ownership could, however, play a greater role in balancing democratic participation, universal provision, and strategic coordination in many sectors.

In practice, realising and reconciling these two components requires attention to what political geographers refer to as multi-scalar governance in the way a broader system of public ownership is organised: any one form of ownership at any one scale should be “nested” within broader multi-scalar relations, and in dialogue with forms of institution and governance at other scales. Mechanisms and institutions will be required to negotiate and resolve conflict between public ownership at different scales, including particular legislative, regulatory, and constitutional arrangements involving different layers of government.

One example of this is in the US electric utility sector where small, local publicly owned utilities come together in various regional groupings to operate at scale. The most prominent example is that of joint action agencies (JAAs). JAAs own and operate electric facilities and infrastructure, such as transmission lines and power plants, that help with the generation and distribution of electricity for its member utilities. They also pool the buying power of the smaller publicly owned entities so they can purchase at a lower cost from wholesalers and energy markets.<sup>4</sup> There are also larger wholesale publicly owned utilities that sell their power to smaller municipally owned utilities and other customers. These include the Tennessee Valley Authority (TVA) and the New York Power Authority (NYPA). Unlike JAAs, these utilities operate independently but were designed via state and federal mandates to operate at a scale that would be hard to re-create at the municipal level.

These larger, publicly owned entities can also be linked to smaller publicly owned enterprises in other sectors. NYPA, for instance (which is largely supplied by hydropower near Niagara Falls), directly sells its electric power to more than 100 public enterprises and agencies in New York (as well as dozens of cooperatives and nonprofit organisations), including New York City’s publicly owned transit system (the Metropolitan Transportation Authority).<sup>5</sup> It also provides electrical engineering consulting services for the MTA. These types of “public-public partnerships” are emerging in a variety of other sectors as well—specifically with regards to water. In Michigan, municipalities are contracting with other municipalities to upgrade infrastructure and provide services rather than with private companies, thus saving local taxpayers money. In Nashville, Tennessee and Miami-Dade County, Florida the local municipality has partnered with employees and their unions to cut costs and increase efficiency. In the Miami-Dade case, the effort saved \$35.5 million between 1998 and 2010 and led to increased service quality throughout the system.<sup>6</sup>

### *Affected interest*

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A **third** component is to ensure that all affected groups and individuals have forms of democratic representation in the governance structures of public enterprises that allow their input into strategic decision-making and their active say in the choices made about the use of common resources and assets. Once again, given the unique conditions and circumstances that operate across sectors, and the varying coordination and management issues at different geographical scales, this will inevitably take different forms.

A key element of this is **employee participation in the running of an enterprise or service**. This is one of the cornerstones of democratic public ownership (and economic democracy more generally). “If democracy is justified in governing the state,” political theorist Robert Dahl famously wrote, “then it must *also* be justified

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in governing economic enterprises.”<sup>7</sup> One of the most remarkable yet understated anomalies in liberal democratic practice, especially in the United States and United Kingdom, is the assumed rights of employers or owners to run their businesses without the consultation or democratic engagement of their employees.

In some parts of the world, particularly Western Europe and the Nordic states, these rights are to an extent recognised. Here, a degree of employee participation is provided through “codetermination” approaches, often in conjunction with trade unions, whereby employees are provided with representation on the boards of enterprises. This practice varies widely, dependent on a range of factors such as type of company (public or private), size, or sector. While employee representation on boards is an important component of democratic public ownership (and will be discussed further below), genuine employee participation ought to be more robust and expansive if the workforce is to realise a fuller sense of democratic engagement.

In addition to representation on boards, works councils or assemblies provide opportunities for employees to participate in managing enterprises. In Austria, for instance, elected works councils can inspect company employment records (including regarding remuneration), demand meetings with ownership representatives to discuss the business, help manage employee trainings and benefits, participate in hiring, transfer, promotion, discipline, termination, and other personnel matters, and engage strategically on issues such as mergers and acquisitions, relocation, downsizing, and changes to business purpose.<sup>8</sup> The works council is also a vehicle by which employees can (in certain companies) elect representatives to the company’s board of supervisors.

From the Basque region of Spain, the highly successful Mondragón cooperative network, comprising around 80,000 workers in total, offers important lessons in employee participation across multiple levels and structures of an organisation. Generally, employee owners in each cooperative hold a general assembly at

least once a year which reviews the operations of the business on the basis of one member, one vote. The assembly elects a governing council (a board of directors) that in turn hires a general manager to run the enterprise.<sup>9</sup> Each cooperative also includes a monitoring commission (an audit committee) as well as an elected social council, tasked with a concern for working conditions and other social issues.<sup>10</sup>

There are interesting examples of other forms of employee engagement from outside Europe as well. In China, for instance, state-owned enterprises have elected employee congresses with various rights—including participating in welfare and housing decisions, holding veto power over management decisions on wages and bonuses, providing input on strategic business decisions, and either nominating managers (which then has to be approved by the government supervisory agency) or approving (or rejecting) managers appointed by the government supervisory agency.<sup>11</sup>

Going even further is the example of Banco Popular in Costa Rica (BPDC), the country’s third largest bank. Formed by the government to support economic development more than 40 years ago, BPDC is now a hybrid publicly owned enterprise and cooperative. The bank has a democratic assembly made up of 290 representatives selected (on the basis of representing workers in various economic and social sectors) from among the bank’s member-owners. Any member holding a savings account for over a year receives an ownership share. The assembly, in turn, advises on the bank’s strategic direction and selects four of the company’s board members, with another three appointed by the government. The bank also requires 50 percent of board members to be women, and directs a portion of revenues to social projects through its Social Bank subsidiary.<sup>12</sup>

However, employees are just one group with an affected interest. Another key element is **inclusive and expansive governance structures**. Publicly owned enterprises make economic decisions that impact on a

wider community of social groups, including the users and consumers of public goods and services, local residents, employees in other industries, employees working in supply chains, and representatives of the natural world, to name the most obvious.<sup>13</sup> These groups also have the democratic right to have a say in economic decisions that affect them, and this can be facilitated by “multi-stakeholder” processes.

A few examples of existing practice from around the world illustrate various forms that could be used in a new generation of democratic public enterprise in the UK. In the United States, there are around 1,000 community action agencies (public or private not-for-profit organisations) that provide services and administer grant and loan programs in poverty-stricken areas.<sup>14</sup> By law, these organisations must have a multi-stakeholder governing board made up of one-third public officials, one-third low income community members who are democratically selected (through either elections, open meetings, or designation by fellow low-income peers), and one-third members from other sectors prominent in the local community (such as businesspeople, union members, teachers, religious leaders, etc.).<sup>15</sup>

Similar democratic governance structures exist in both cooperatives and community land trusts (CLTs) in the United States. In the former, multi-stakeholder cooperatives (which are prominent across the border in Quebec) are beginning to emerge in which employees, consumers, and other stakeholders share ownership and or management rights and responsibilities.<sup>16</sup> For instance, Fifth Season Cooperative in rural Wisconsin—based out of a closed factory in Viroqua—has six member groups with full voting rights: producers, producer groups, processors, distributors, buyers, and employees. While individuals in the community cannot become full members, they can purchase Class B Stock, which entitles them to a vote on certain major issues (such as mergers and acquisitions or dissolution).<sup>17</sup>

In the latter, the classic governance structure of community land trusts (nonprofit entities that

acquire land and hold it to ensure long-term housing affordability) usually includes one-third homeowners or renters within the CLT, one-third representatives of the surrounding community, and one third representatives of local government, philanthropic organisations, or other nonprofits.<sup>18</sup>

In Paris, where water privatisation was overturned in 2010 to create a new publicly owned water utility (Eau de Paris), a multi-stakeholder board was created that includes city councillors, employee representatives, and civil society representatives (including from a citizen participation body and environmental and consumer groups).<sup>19</sup> “Eau de Paris is the only water operator that has its staff, users and civic associations represented on the Board, with full voting rights,” former President Anne Le Strat states. “It is a democratic breakthrough that has inspired others.”<sup>20</sup>

The multi-stakeholder principle has been applied more broadly as well. In 2010 in Uruguay, for instance, the government launched a series of industrial councils that brought employees, government officials, trade unions, and business groups together around more democratic forms of industrial planning and decision-making.<sup>21</sup> And the concept of consulting with community councils of patients has been discussed at various points within the NHS.<sup>22</sup>

### *Democratic and participatory planning*

Multi-stakeholder processes should also form the basis for the **fourth** component, democratic and participatory planning—whereby the different stakeholder groups are able to have an active input into the goals, methods, and practices of the enterprise. An important element here is that there be some **degree of deliberative process by a broadly representative body** capable of both holding the enterprise’s management to account and setting broader strategies and priorities on behalf of the public. This is essential to avoid the narrow capture of an enterprise’s strategic purpose and mission by vested interests and ensure

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that decision-making processes are driven by a sense of the common good.

Once again, there are various ways in which this can happen. In Cádiz, Spain, a participatory planning process (The Roundtable on the Energy Transition in Cádiz) concerning the renewable energy transition has been set up, and involves the publicly owned utility, residents, politicians, employees, businesspeople, and other groups. It has led to the utility striving towards 100 percent renewable energy, a “social discount” for poorer residents, new economic development, public-public partnerships with neighboring municipalities, an online database of energy consumption patterns (in order to reduce waste), and popular education around energy issues.<sup>23</sup>

As part of its commitment to democracy and good governance in the Eau de Paris water utility, Paris established a Paris Water Observatory as a “space for citizen oversight and information, and to make the elected representatives of the City of Paris, its administration and the employees of Eau de Paris accountable to citizens.” The observatory is organised as an extra-municipal committee of the local government and elects a member to serve on the board of Eau de Paris. As such, Le Strat explains, “the Observatory is not just another so-called citizen committee that only rubberstamps decisions already made...citizens’ views are taken into account and, perhaps more importantly, all the information is made available in an accessible way.”<sup>24</sup> At the national level, Banco Popular, referred to earlier, conducts a countrywide popular consultative process regarding its strategic direction. As a result of this planning process, the bank has also become a leading financier of ecological sustainability in the country in conjunction with its “triple-bottom-line” approach seeking economic, social, and environmental returns.<sup>25</sup>

Lessons can also be drawn from the widely documented adoption of participatory budgeting (PB). Originating in Porto Alegre, Brazil, PB allocates a proportion of state finances to citizen bodies and as-

semblies to decide what spending priorities should be and how they should be implemented. As an exemplar of direct democracy in practice, PB has spread throughout Brazil and the rest of the world with hundreds of examples in the US alone (with New York and Chicago being prominent cases).<sup>26</sup> The evidence from these examples is not only that people can effectively participate, but that there is also a desire and hunger to do so.<sup>27</sup>

Notably, PB techniques have also been used to enhance participatory planning in publicly owned enterprises in Porto Alegre. For instance, local residents use a participatory process to vote on how the water utility’s (DMAE) annual 15 to 25 per cent surplus is invested. Residents are also represented on a citizen oversight board which monitors the water utility and its contractors. As a result of this democratic engagement and planning, the water utility has significantly expanded its service to all areas of the city (whereas before it primarily only served wealthy neighbourhoods).<sup>28</sup>

### *Professional management and effective organisation*

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A **fifth** component is the need for professional management and insulation from day-to-day interference (from either politicians or interest groups) to ensure the effective running of the enterprise. These two principles (participatory planning and professional management) can be reconciled by, on the one hand, establishing democratic and participatory governance structures responsible for long-term strategic planning, setting clear goals and performance metrics, and exerting oversight over management bodies; and on the other, establishing professional management structures with independence and autonomy regarding day-to-day operational matters and how the goals and strategic plans set by the organisation are met.

In general, an organisation (and sector as a whole) needs to be **run by the people who have the experience, skills, knowledge, and competence** to

do so. However, this is always a collective learning process and is done best where the considerable diverse knowledge of the workforce is included in decision-making processes alongside those of senior management. This requires not just appointing the best specialists and experts to manage and work in public enterprises, but dedicated and sustained education and training programmes that invest resources in meeting the labour, management, and governance needs of the organisation and the sector, both for the present and the future. All public enterprises should have a regulatory **commitment to ongoing training and education** of managers and employees, including dedicated apprenticeship and graduate training schemes. A key failing of privatisation everywhere is the cutback in training and a broader lack of investment in human resources. Not only does privatisation fail to deliver in the present, but its inherent short-term culture has no vision of the future common good.

However, while specialist and codified knowledge reflected in formal educational and professional qualifications are critical, user groups and customers also have their own tacit knowledge from their own direct experiences, which can be critical to improving service functions. As with human resource management (HRM) practice, most of the more successful firms try to incorporate and enlist this knowledge into their own practices through feedback, market research, and other mechanisms. But as various public policy theorists have now recognised, a more effective solution is to involve the public themselves in forms of collaborative governance.<sup>29</sup> Once again, there is considerable evidence to suggest that a greater degree of co-production of public services does produce beneficial effects in terms of performance and making public services more accountable to citizens as well as enhancing people's sense of ownership and support.<sup>30</sup>

As previously mentioned, many of the employee-owned cooperatives in the Mondragón network have both democratic governance structures (General As-

sembly and Governing Council) as well as appointed professional management responsible for the day-to-day running of the enterprise. These managers can be hired from outside of the Mondragón network on the basis of suitability for the job and also do not have to be cooperative members. Mondragón also operates robust training and support programs for employees who are moving into governance or managerial roles.

An important element here is ensuring a **mix of direct and representative approaches to participation and agency** within an enterprise. As much as possible, each individual employee or community member should be given the opportunity to directly participate (through voting or other mechanisms) on matters that affect them. This can be done through open general assemblies, referendums, or participatory planning processes. However, not every decision can, or should, be made by all people in an open forum or vote. Such processes are cumbersome, not well suited to large organisations, and susceptible to various problems (such as a tyranny of the majority and depressed participation). It also requires heavy investment in knowledge building and democratic training. Some decisions should be made by representative bodies made up of elected or appointed representatives and some decisions reserved for the professional managers hired to run the enterprise.

Another element is **strong collective bargaining rights for labour**. While recognising that employees represent one among many public interests in the governance of public enterprises, they should nonetheless have access to strong collective bargaining rights, progressive and enabling employment and training conditions (including clear career pathways and promotion opportunities), and a decision-making voice in the management and organisation of work within their own organisations.

As with any organisational structure, there will arise inevitable tensions and problems in reconciling democratic participation and engagement with



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operational effectiveness. These are not unique to public enterprises. A central area of concern in the HRM literature has been with the relationship between business performance and employee engagement and empowerment, with an ongoing debate about the virtues of more hierarchical forms of management against flatter forms that provide employees with more autonomy and control.<sup>31</sup> Although these debates continue, there is now widespread agreement that organisations tend to perform better where employees feel a sense of engagement and empowerment over their work, not least because of the tacit knowledge (discussed earlier) that they bring to dealing with organisational problems. There is also considerable evidence that organisations where employees have some degree of ownership, particularly producer and worker cooperatives, also perform better than those without.<sup>32</sup>

More broadly, knowledge creation, learning, and innovation does not happen through “heroic individuals,” charismatic leaders, or change managers (although these things are important) operating in laissez-faire markets, but is always a collective achievement that needs appropriate governance, regulatory mechanisms, and institutional arrangements. Many management and organisational failures in the public and private sectors have occurred because one person or group developed a myopic and tunnelled-vision view around ends and means (e.g. profitability and shareholder dividends via narrow cost accounting metrics) rather than exposing ideas and strategy to different perspectives, values, and viewpoints. This is as true of macroeconomic governance failures such as the financial crisis as it is of the ongoing crisis of rail governance that has marked the UK rail network since its privatisation in 1996.

### *Transparency and accountability*

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A **sixth** component is increasing transparency and accountability. These are goals that are broadly shared by many mainstream proposals to “reform”

the governance structure of public enterprise—but goes beyond the simple call for better oversight and reporting standards (and rejects efforts to corporatize public enterprises and run them purely on commercial lines). While democratisation and mainstream market-based reforms share a concern over political interference in the day-to-day running of public enterprises, the latter often suggests that the solution is isolating it from self-seeking politicians and the democratic process, while the former proposes to embed democracy within the enterprise rather than retreat from it. The solution, we believe, is to extend citizen engagement by holding elected politicians more accountable and putting in place greater public participation and deliberation rather than relying too much on representational forms of democracy.

One place to start is the open meetings and open records laws that govern most public enterprises and agencies in the United States. The former usually requires meetings to be advertised in advance, open to the public and journalists, and documented, while the latter requires documents (including meeting minutes, plans, and financial information) to be made public and accessible. Additionally, in some jurisdictions, residents can impose heightened transparency requirements (such as limiting the use of “executive sessions” whereby public enterprises and agencies can close meetings to discuss certain topics) via public referenda.

In addition to publicly available documents, online engagement—such as democratic forums to propose, discuss, and decide priorities for the enterprise, as well online referendum and voting processes—should be implemented and expanded to enhance participation and democratic accountability. Such efforts to improve the transparency and accountability of public services, agencies, and enterprises using new online and digital tools (including social media, citizen journalism, database aggregators, etc.) are being experimented with around the world.<sup>33</sup> For instance, in Mexico nonprofit organisations and the oil industry regulator have come together to propose new ways of

monitoring petroleum contracts assigned to the large state-owned oil company Pemex.<sup>34</sup>

### *Different values*

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The **seventh** component, but perhaps one of the most important, is the need for a **different set of values** beyond the commercial values that have conventionally underpinned the governance of public enterprises. Although we subscribe to the principle of subsidiarity, that does not mean that publicly owned organisations should set their own goals, independent of broader social objectives and targets. While it is critical that local public entities have autonomy and genuine control in their operations and decision-making, they should at the same time be beholden to a broader set of commonly accepted values and norms. In other words, local and particular actors should recognise their broader global responsibilities to promote democratic and sustainable societies. It is useful to understand our “common” shared interests in this respect as looking after—in a sustainable way—resources and assets that are essential for all of us to lead decent and flourishing lives. An important argument for public over private ownership in this sense is securing the common good against selfish vested interests.

This raises a series of important questions. Who gets to decide what is the common good? And will democratic solutions necessarily lead to progressive outcomes that protect the common good rather than lead some times to authoritarian outcomes or the rule by an expert or technocratic elite on behalf of the rest of us? As philosophers from Plato to Hegel and Dewey to Ranciere recognise, there are no easy answers, but what is critical is a commitment to democratic processes and institutions that try to offset any tendency for decision-making power to concentrate in few hands.

This also has implications for intergenerational democracy and equity. While we would ascribe to Thomas Paine’s famous injunction that each generation should not be beholden to previous generations, it

is critical also that present generations develop strategies that are responsible to the needs of future generations and their abilities to live decent and flourishing lives on a planet with finite resources.

The most obvious place to start in terms of what has been agreed “in common” as critical for the future development of human society and the planet are the 17 sustainable development goals agreed by the 193 countries of the United Nations (of which the then Conservative government of the UK was a signatory). These goals commit the UK, among other things, to addressing climate change, tackling poverty and inequality, providing sustainable production and consumption, promoting peace and justice, and promoting gender equality.<sup>35</sup> Given that these values have broad global consensus, publicly owned enterprises should provide annual reports which address how their strategies are realising these values. Being explicit about what the new values for public ownership are (beyond easily observable financial measures), and having broad public support for those values, is critical. The efficiency and effectiveness of public ownership will (and should) be measured according to how well (or poorly) it fares delivering on those values. Poorly articulated or supported values run the risk of opening the door to privatisation.

Table 2, on the following page, is a summary of these seven components and their critical elements:

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Components	Critical Elements
Subsidiarity and decentralisation	<ul style="list-style-type: none"> <li>• Decisions should be taken at the lowest possible level of governance.</li> <li>• Enterprises should be organised at the smallest appropriate scale.</li> </ul>
Higher-level coordination	<ul style="list-style-type: none"> <li>• Local autonomy should not be disconnected from broader societal goals.</li> <li>• Larger-scale organisation is necessary in some sectors for reasons of efficiency and coordination.</li> <li>• Ownership should be nested within broader multi-scalar relations.</li> </ul>
Affected interest	<ul style="list-style-type: none"> <li>• All groups and individuals affected by an enterprise should have forms of representation and participation in the governance of that enterprise.</li> <li>• Employees should participate in governance structures at various levels.</li> <li>• Publicly owned enterprises should have inclusive and expansive governance structures that involve not only employees, but also other groups (such as consumers and residents) in a multi-stakeholder approach.</li> </ul>
Democratic and participatory planning	<ul style="list-style-type: none"> <li>• Stakeholder groups and individuals should be able to have an active input into the goals, methods, and practices of the enterprise.</li> <li>• A deliberative body that is broadly representative should be established to hold the enterprise's management accountable and set long-term strategies and priorities.</li> </ul>
Professional management and effective organisation	<ul style="list-style-type: none"> <li>• Enterprises should be run by the people who have the experience, skills, knowledge, and competence to do so.</li> <li>• Enterprises should be insulated from the day-to-day interference of politicians.</li> <li>• Enterprises should have a commitment to the ongoing training of managers and employees in how to manage and govern effectively.</li> <li>• A mix of direct and representative approaches to participation and agency should be deployed.</li> <li>• Strong rights for labour should be established.</li> </ul>
Transparency & Accountability	<ul style="list-style-type: none"> <li>• Democracy should be embedded within enterprises and the public should be able to exercise oversight over the enterprise.</li> <li>• Open meetings and records laws should be enhanced, and new technologies utilised to enhance participation and oversight.</li> </ul>
Different values	<ul style="list-style-type: none"> <li>• Enterprises should not set their own goals, independent of broader social objectives and targets.</li> <li>• Enterprises should recognise their broader global responsibilities to promote democratic and sustainable societies.</li> <li>• The UN sustainable development goals are one place to start in determining common or shared goals</li> </ul>

**TABLE 2: PRINCIPLES AND COMPONENTS OF DEMOCRATIC PUBLIC OWNERSHIP**

## A PROPOSED GOVERNANCE STRUCTURE FOR DEMOCRATIC PUBLIC OWNERSHIP

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Developing a governance structure to address these different issues is no easy task, but it is worth reminding ourselves that public and private corporations currently have a wide diversity of governance, organisational, and reporting structures that in their own terms attempt to address the complex realities of the contemporary economy. While the precise configuration will vary—as already noted—by sector and scale of operation, the following basic structure is suggested for democratic and participatory governance of publicly owned enterprises.

- All publicly owned enterprises over 100 employees should have a four-tiered governance structure composed of: 1) a governing and largely democratic assembly; 2) an operating or management board; 3) a works council; and 4) an audit committee.
- The **Governing Assembly** will be a multi-stakeholder deliberation and decision-making forum that sets strategic priorities for the organisation with mechanisms in place to ensure it reflects equality and diversity (e.g. gender balance but also as far as possible, representation of ethnic, class, and geographical diversity). These should meet every year and when necessary in special circumstances, and (i) set clearly agreed values and mission statements; (ii) establish short and long-term plans (e.g. three, five, and 10 years) and accompanying strategies; (iii) establish benchmarks and indicators for success (especially those that go beyond pure financial measures such as profits); (iv) review progress towards implementing the plans and meeting benchmarks; (v) review and approve financial documents such as budgets; (vi) hire, evaluate, and or terminate the chief executive officer; (vi) give final approval to major decisions such as mergers, acquisitions, and facility relocations/closures. The Governing Assembly will have a multi-stakeholder structure with a mix of appointed and democratically elected representatives:
  - one-quarter will be elected or appointed by user, consumer, and environmental groups with appropriate gender, race, income, and geographic breakdown according to context and scale;
  - one-quarter will be directly elected by the internal workforce;
  - one-quarter will be directly elected by residents within the enterprises' predominant service area;
  - one-quarter will be appointed by representative governing bodies in the enterprises' predominant service area (local city councils or mayors; provincial assemblies or elected executives; or national parliaments or elected executives).
- The **Operating Board** will typically consist of five to 10 professionals: the chief executive officer (CEO), who is hired by the Governing Assembly for a five-year term, and then a team that the CEO appoints including, for instance, a chief operating officer, an operations manager, a consumer relations/sales director, and a human resources director; one representative appointed by the relevant council or parliament with remit “to safeguard common good”; one elected employee representative; and one elected consumer representative. In principle, there should not be a financial director represented at operating board level but rather a finance and accounting department that reports to the CEO.
- All public enterprises should have rights for collective bargaining, and space and time for trade unions to organise and represent members. All public enterprises above 100 should also have an elected **Works Council** that becomes the main decision-making forum for organising work and training practices within the enterprise. At larger enterprises, mini-works councils should exist in

## WHITE PAPER: Constructing the Democratic Public Enterprise

each facility or division and elect representatives to an enterprise-wide Works Council.

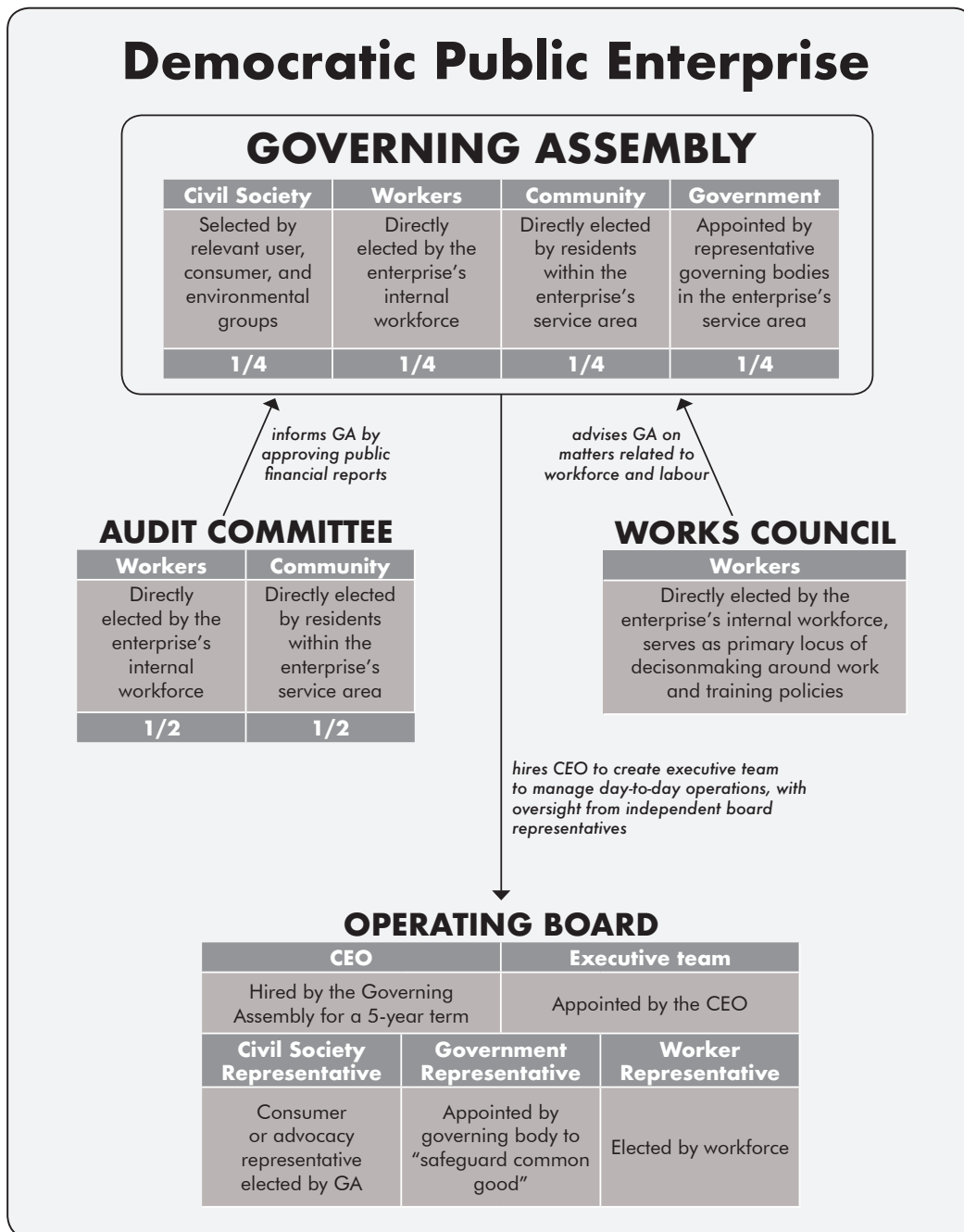
- An independent resident-employee **Audit Committee** should be established and be comprised of one half elected employee representatives and one half directly elected representatives from the local population. The Audit Committee should review and approve financial information, including audits performed by professional independent outside auditors. Their findings should be made public and used by the Governing Assembly to inform their decision-making.
- Although elected representatives to the Governing Assembly should be able to serve two five-year terms, all other elected representatives and appointees to the three boards should only serve for one term of five years. The CEO and the appointed management team can be rehired for an indefinite number of five-year terms, but can also be terminated by a democratic vote of the Governing Assembly at any time.
- All meetings of the Governing Assembly should be completely open and transparent, and available for online viewing in the ways that currently exists for parliaments, city councils, and democratic assemblies around the world. All meetings should be publicly announced with as much warning as possible. All meeting minutes and documents should be made available online within one week of the meeting.
- For the Operating Board and Works Council(s), all minutes and annual reports should be made publicly available via dedicated websites. The Operating Board and Works Council(s) will be allowed to use closed executive sessions to discuss certain issues related to finance, business strategy, and human resources. The use and limits of executive session will be specified in the enterprise's articles of incorporation (see next column).
- At least once every five years, the Governing Assembly should, using appropriate technologies and methods, undertake a popular consultative/planning process to determine the priorities, needs, and concerns of local residents, consumers, and employees. The results of this process should be made public and used by the General Assembly to inform its short and long term plans and accompanying strategies.
- A robust and comprehensive management training program should be established within each enterprise to train elected and appointed representatives to the Governing Assembly, the Operating Board, and the Audit Committee. Methods for ensuring that all people can participate and be elected/appointed as representatives should be established, including financial compensation, child-care services, transportation allowances, etc.
- At the first meeting(s) of the Governing Assembly, a legally binding **Articles of Incorporation** document will be drafted. This document will: (i) codify the governance and management structure of the organisation (including roles and responsibilities); (ii) establish precise mechanisms for election and appointment to the various boards and committees (including for instance, limitations on campaign spending and requirements that elections be nonpartisan); (iii) formalise procedures and voting thresholds for decision-making; (iv) delineate the types of decisions to be made at various levels of the organisation; and (v) set up a procedure for amending the Articles of Incorporation. Relevant state bodies, as well as NGOs, will provide representatives to the Governing Assembly to advise on legal, regulatory, and economic considerations when it comes to the drafting the Articles of Incorporation. Following the drafting of the enterprise's Articles of Incorporation, the document will be put to a one-time public vote (unless the Articles themselves specify that certain future decisions of amendments to the articles should be made by referendum) of all eligible voters within

the enterprise’s service area with approval or rejection to be made by simple majority. If rejected, the Governing Assembly will be required to make amendments and resubmit to a vote.

- Organisations under 100 employees should have more simplified arrangements but at a minimum include: (i) democratically elected representation of employees, residents, and user groups which combined represent at least 40 per cent of the main board; (ii) some form of collective bargaining and

economic democracy in the organisation of work; (iii) works councils for those companies with over 30 employees and some form of committee involving employee representatives below this level; and (iv) formal and codified transparency, auditing, and accountability procedures.

Table 3 is a diagram of the basic proposed governance structure:



### CONCLUSION

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As a contribution to the policymaking process within the Labour Party on democratic public ownership, as well as the wider societal discussion on the subject, we have set out here some of the key foundations, elements, and structures that might help in the creation of publicly owned enterprises capable of delivering genuine democracy and participation, while also delivering greater effectiveness and accountability. Going beyond older, more top-down models of public ownership, we have emphasised the importance of a diverse and pluralistic approach to organising new forms of public ownership in order to deliver on the Labour Party's historic and contemporary commitments to democracy, equality, and sustainability.

If public ownership is to have economic democracy at its heart, as we believe it must, it is critical that there be forms of governance that can deliver genuine employee and citizen engagement in the planning and decision-making processes that shape the longer-term strategy and everyday operations of public enterprises. Throughout this paper, we have suggested various ways in which this can be achieved in diverse operational contexts—including multistakeholder governance structures and democratic/participatory planning. We have also maintained that the principle of subsidiarity—devolving decision-making to the lowest possible level—is an important element in democratic and community engagement; however, this will also need to be balanced by efficiency, higher level strategic planning, and the commitment to universal values and principles.

Another critical departure for democratic public ownership, compared to both for-profit corporations and more conventional top-down forms of state ownership, is the commitment to embracing noncommercial ethics and principles that are informed by social and environmental values. Efficient and effective management and organisation can be harnessed to an ethos of public value rather than a narrow business framing.

Finally, the blueprint offered here is firmly grounded in existing practice from around the world, offering best practice examples that already work well in delivering democratic participation and engagement alongside efficiency and effectiveness. We believe that this demonstrates that democratic publicly ownership—if carefully and consciously constructed—can balance the tensions between democracy, accountability, and effectiveness and deliver better, fairer, and more efficient public goods and services to replace the manifest failings of privatisation in the years ahead.

# Notes

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- 1 As Erik Olin Wright and Archon Fung write, “in the past, the political Left in capitalist democracies vigorously defended the affirmative state...In its most radical form, revolutionary socialists argued that public ownership of the principle means of production combined with centralized state planning offered the best hope for a just, humane, and egalitarian society.’ However, these arguments are fading and no longer sufficient. Now, ‘a fundamental challenge for the Left is to develop transformative democratic strategies that can advance our traditional values - egalitarian social justice, individual liberty combined with popular control over collective decisions, community and solidarity, and the flourishing of individuals in ways that enable them to realize their potentials.” See: Archon Fung and Erik Olin Wright, “Deepening Democracy: Innovations in Empowered Participatory Governance,” *Politics & Society*, vol. 29, no. 1 (March 2001).
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- 13 “Democratic decision-making must be extended beyond the political sphere to which classical political theory had assigned it,” Carol Gould writes. “From the principle presented here, it follows that individuals have a right to co-determine all social decisions that affect them, whether these are in the domain of politics, economics, culture, or social or community life more generally.” See: Carol Gould, “Socialism and democracy,” *Praxis International*, vol. 1, no. 1 (1981): 52.
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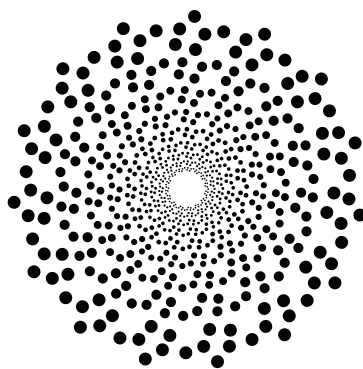
## About The Democracy Collaborative

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The Democracy Collaborative is a research and development lab for the democratic economy.

At The Democracy Collaborative, we believe that a new design, grounded in new institutions and new patterns of ownership, is needed for an economy capable of delivering the dramatically better outcomes we want: equity, justice, democracy, and sustainability. We work across the spectrum from theory to action, identifying and focusing on key points of leverage and scalable impact. In this way we help catalyze the kind of transformative change we seek, creating the actionable models and pathways that can unlock and unleash a new sense of hope and possibility.

Working collaboratively through strategic institutional partnerships and networks of innovation and engagement, The Democracy Collaborative is an action-oriented think tank helping to envision and build a next system in which wealth itself is democratized, reknitting the economic fabric of community and mutual prosperity without which our democracy cannot survive.



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