The Corporate Power Trilemma

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Authors critical of corporate power focus almost exclusively on one solution: bringing it under democratic control. However important this is, there are at least two other options, which are rarely discussed: reducing powerful firms' size and influence, or accepting corporate power as a necessary evil. This article provides a comparative perspective for evaluating all three options. It argues that the trade-offs we face in responding to corporate power have a trilemmatic structure. The pure strategies of accepting powerful firms, breaking them up, or rendering them more accountable are each incompatible with one of three important values: power balance, economies of scale, and minimizing agency costs, respectively. While the latter two concepts are purely economic and efficiency-based, the value of power balance can be grounded in a variety of reasons. Different normative interpretations of power balance are discussed, along with their implications for policy choices within the trilemma.

In the wake of the global financial crisis, accounting scandals, revelations about tax evasion and other incidents, public debate about the problematic exercise of corporate power has intensified. The concerns of modern critics about corporate power in a democracy are reminiscent of the way exceptionally powerful aristocrats like Simon de Montfort and John of Gaunt were viewed as "overmighty subjects" in a medieval monarchy. However, specifying the exact nature of these concerns is more difficult.

This article does two things. First, we argue that we face a trilemmatic trade-off in deciding how to respond to corporate power. Second, we demonstrate how the appropriate choice within this space depends not only on descriptive beliefs, but on the weight we attach to different moral values.

In academic debate, a small but growing literature on the "political theory of the firm" has emerged around the question of corporate power.[1] However, authors critical of corporate power focus almost exclusively on one solution: bringing corporations under democratic control through enhanced accountability mechanisms. Important though this is, there are at least two other options. One is to reduce corporate power by encouraging market competition. This was the vision of the original antitrust movement in the late nineteenth century United States. In contemporary political theory, if this option is mentioned at all it is only so it can be discarded.[2] For example, Eric Orts argues that given the economies of scale made possible by modern firms, "returning to a world dominated by many small, lightly capitalized firms . . . is quite unlikely and perhaps impossible," and hence "retrogressive from an historical point of view" (2013). A third option, hiding in plain sight, is to leave things as they are: accepting corporate power as a necessary evil. To motivate this option, one might point to drawbacks of both accountability mechanisms and of reducing corporate power by encouraging competition. Accountability mechanisms increase the costs of transacting within the firm and so ultimately raise costs for consumers. Reducing corporate power by encouraging competition, as Orts points out, may also raise costs by forgoing economies of scale. Ideas along these lines lay behind Chicago-school revisions to US antitrust practice in the late twentieth century (Crouch 2011, 33–62).

Because existing contributions to the debate about corporate power do not usually discuss this full menu of options,

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1. Key works include Anderson (2017), Ciepley (2013), Ferreras (2017), Herzog (2018), McMahon (2012), and Singer (2019).
2. An exception is the work of Robert Taylor (2013, 2017); see also Lovett (2009, 820). This way of thinking can also be found among economists (Munger and Vlllarreal-Diaz 2019; Zingales 2012).

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they do not enable us to evaluate the trade-offs between them.[3] We argue that trade-offs in responding to corporate power have a trilemmatic structure. The pure strategies of accepting powerful firms, breaking them up, or rendering them more accountable are each incompatible with one of three important goals: maintaining a power balance, profiting from economies of scale, and minimizing agency costs, respectively. Compromises between these pure strategies are compromises between these three goals. In focusing on accountability and competition, we largely bracket more familiar kinds of rule-based external regulation such as health and safety or environmental law, although we return to this topic in the final section. In our analysis, economies of scale and minimizing agency costs are valuable as contributors to economic efficiency. What we call power balance, however, is subject to different moral interpretations. Power balance is another contributor to economic efficiency. But it also contributes to greater distributive equality. And power balance can also be intrinsically valuable according to other perspectives such as relational egalitarianism, republicanism, and democratic theory. How we should respond to corporate power depends both on factual beliefs about the relative contributions these goals make to economic efficiency, and on normative beliefs about the relative importance of economic efficiency, distributive equality, and power equality. Throughout we focus on the choice as it presents itself to a state. Of course, here as in many other areas of public policy, an effective response may require coordination at a supranational level.

While we do not take a stance ourselves on which option is preferable, we map out the territory to clarify both the practical implications of normative views and the normative commitments of different practical proposals. This we see as our first contribution to the debate. We hope the trilemma will help theorists realize that—once again—there is no such thing as a free lunch. In the process, our analysis integrates the economic and political dimensions of corporate power. This we see as a second contribution of our framework. Since the analysis of both dimensions traditionally takes place in different disciplines (political science/theory, and economics), most analyses offer a one-sided picture.[4] This is especially true for the topic of *power*, which is conspicuously absent from most economic discussions.[5]

Since this term will be crucial for what follows, it may help to briefly explain the modes of corporate power we will be concerned with. We work from two basic types of power in the context of the firm. Although we do not claim these to be exhaustive, they are among the most obvious and important forms of power that corporations exercise.

First is what we call *market power*. Market power needs to be distinguished from what we can call *economic power*, more generally: all the ways that firms influence others in the course of their normal business activities.[6] Firms decide what to produce, where, how much, and how. Firms have power to contract with customers, suppliers, and workers, and to command its contracted workers. All firms have such economic power by their very nature. However, they do not always have a lot of discretion about how to use it. In idealized economic models of "perfect competition," firms face perfectly elastic demand and supply curves, and thus have no discretion about how to operate while still turning a profit. By contrast, firms in imperfect competition face downward-sloping demand curves or upward-sloping supply curves, and can change the way they operate to some extent (canonically, they can change prices) without going out of business. In our terms, imperfect competitors have discretion about how to exercise their economic power. Economists refer to this degree of slack or discretion as market power. So market power and economic power in our terms are not equivalent. Market power is economic power exercised with discretion; market power is the economic power of a firm that is not countervailed by market competition. Economic power in our sense is something that all firms have. Whether firms have market power depends on the structure of the market.

A second type of power is *political power*. This itself comes in two varieties. First is what Waheed Hussain and Jeffrey Moriarty (2014, 432) call *old corporate political activity* (CPA). Old CPA refers to firms' power over the state via lobbying for favorable regulations, financing political campaigns, and setting the political agenda through think-tanks and the like. Constitutive of the concept of old CPA is a distinction between the public sphere, where representatives make decisions in the public interest, and the private sphere, where actors pursue their own interests. Of course, old CPA honors the custom of the public/private distinction in the breach

3. Hussain and Moriarty (2014) do present all three options, although their analysis is focused specifically on the "new corporate political activity" rather than corporate power more generally.

4. Singer (2019) does provide a framework to evaluate the efficiency costs of reforming intra-firm norms. However, given the focus of his work on corporate governance, Singer does not consider the third side of the trilemma, associated with encouraging competition.

5. For overview of the political science literature, see Van Apeldoorn and De Graaf (2017).

6. This corresponds roughly to Néron's (2010) category of "corporations as distributive agents" (one possible interpretation he gives for the idea that firms are political actors).

rather than the observance. Old CPA is a form of boundary-crossing between spheres, with firms influencing political decisions. Second is the "new CPA," an element less discussed in older debates from the 1960s and 1970s. For Hussain and Moriarty, new CPA occurs when firms "arrogate to themselves the traditional functions of the state", such as the provision of public goods. In weak states, some firms go a long way in providing their employees with financial services, health care, and education. Sometimes in conjunction with nongovernment organizations (NGOs), firms engage in global standard-setting processes where their expertise is essential to crafting rules.

In the section "Corporate Power Trilemma," we introduce the three main strategies for dealing with these forms of corporate power and the goals at stake in choosing between these strategies, and we show how these trade-offs have a trilemmatic structure. The section "Normative Theories of Power Balance" discusses different normative interpretations of power balance and the different choices they imply within the trilemma. The section "Escaping the Trilemma?" responds to objections to the idea that the trade-offs we face in dealing with corporate power always have a trilemmatic form.

THE CORPORATE POWER TRILEMMA

The triangle in figure 1 defines the menu of options available when it comes to corporate power. The corners of the triangle correspond to three ideal-typical ways of responding to corporate power: making powerful firms accountable (A), making firms compete so as to render them less powerful (C), and allowing powerful, nonaccountable firms to exist (P). We call these ways of responding to corporate power "strategies." Each of the three ideal-typical strategies is incompatible with a certain goal, represented by the opposite side of the triangle: power balance, minimal agency costs, and maximal economies of scale. The space between these ideal-types represents a menu of more mixed options, each entailing a different trade-off between the three goals. The closer a point is to a side, the more that option promotes the goals which that side represents. For example, the ideal-typical accountability strategy (A) is right up against the sides representing power balance and economies of scale, showing that it promotes these values as fully as possible. However, this point is also as far away as possible from the value of minimal agency costs, showing that the accountability strategy performs as poorly as possible on this value.

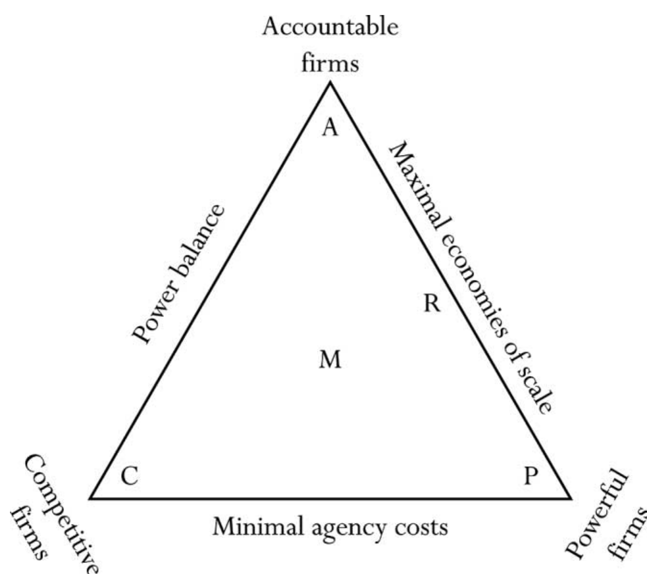

Figure 1. Corporate power trilemma

The purpose of this section is purely analytical: to explore the trilemmatic relation between the three strategies and the three goals. The values these goals might serve will be explored in the next section. The structure is a trilemmatic trade-off: three potentially desirable goals, only two of which can be fully reached at any point in time. This is a trilemma in the same sense as the "monetary policy trilemma" (impossible trinity) in international economics, or the "political trilemma of the global economy" in the work of Dani Rodrik (2012). Trilemmas of this sort allow for compromise strategies. Thus, a point right in the middle of the triangle (M) would represent a strategy that compromised equally on all three goals. What makes the trilemmatic structure distinct from trade-offs in general is the particular structure in which two goals can be simultaneously pursued but never all three. This implies that attempting to improve on one of the goals must come at the expense of one of the other goals. So if one wishes to move from "M" to greater economies of scale, one must either move in the direction of "P" (sacrificing some power balance), in the direction of "A" (sacrificing on the minimization of agency costs), or "R" (sacrificing a mix of both). Whether it is possible to escape the trilemma and improve on all three goals at once is a question we postpone to the section "Escaping the Trilemma?" In the remainder of this section, we explain each of the ideal-typical strategies in the corners of the triangle, and why they are incompatible with the corresponding goals on the opposite side.

Accountable firms

The basic idea of the accountable firm is to increase the power society exerts over the firm. Power balance is secured by increasing society's power over the firm to match the power the firm exerts over the rest of society. Accountability strategies do this by importing political mechanisms familiar from the liberal democratic state into the governance structure of the firm, empowering a wider range of stakeholders to influence the firm's decision-making process.

Of course, "the firm" is potentially ambiguous. The firm is always subject to internal power struggles between different stakeholders (employees, management and investors). Which interest should the firm is the subject of long-standing debates in law and political theory between so-called grant, real entity, and aggregate theories of the corporation, and in business ethics between shareholder and stakeholder theories.[7]

We focus here on the standard case of investor-ownership. As such, we identify the firm with its shareholders when discussing the balance of power between the firm and the rest of society. Our choice is driven not at all by a principled stance in favour of shareholders but by the current reality of corporate practice and law. Ownership by investors eclipses other forms of ownership in all but a few niches of the economy (Hansmann 1996). And after two generations of the law and economics movement, corporate governance is increasingly oriented toward the pursuit of shareholder value. While managers retain some slack, corporate power primarily accrues to shareholders.

The common downside of accountability strategies is increased agency costs. By agency costs we mean the transaction costs of agency relationships: the inefficiencies that arise in any situation where some (agents) follow orders from or work on behalf of others (principals). Some such costs are intrinsic to firms, since the nature of a firm (what distinguishes it from a market) is economic activity organized through authority relationships rather than through voluntary bargaining (Coase 1937; Singer 2019). Accountability strategies increase these costs by adding additional principals to existing relationships.

The paradigm accountability strategy is legally mandated representation for all affected stakeholders on the corporation's board of directors. The more common and weaker variant of this strategy is to enfranchise some particular subset of stakeholders. As the group that is usually most clearly defined and usually has the biggest stake, workers are the prime candidates here, with various proposals for workplace democracy.[8]

To explain why such schemes tend to increase agency costs, we refer to the work of Henry Hansmann (1996).[9] For Hansmann, agency costs tend to increase the more heterogeneity there is among principals in an agency relationship. Greater heterogeneity leads to higher costs of collective decision making among enfranchised stakeholders (e.g., shareholders and workers). There are more disagreements about the firm's direction that need to be settled, and it becomes harder for principals to keep track of management's performance (Heath and Norman 2004). The more stakeholder groups are enfranchised within the firm, the more heterogeneity there will be among them. Of all the stakeholder groups that could take on the position of controlling the firm, investors are distinguished for their relative homogeneity: while there are some conflicts of interest between short-run and long-run investors, these pale in comparison to the conflicts of interest between, for example, high-skilled versus low-skilled workers or casual versus regular customers, let alone conflicts between these stakeholder groups. Consistent with this theory, most firms tend to be controlled by their investors rather than workers, suppliers or customers and we pretty much never see the spontaneous formation of multi-stakeholder-owned firms. Tellingly, in those sectors where noninvestor control is prevalent, the alternative ownership constituency tends to be unusually homogenous, like supplier-owned dairies. Setting aside those niche sectors in which agency costs shake out differently, Hansmann's theory provides a basis for our claim that direct accountability strategies tend to increase agency costs.[10] Agency costs are a natural problem for accountability strategies given that their very purpose is to increase the heterogeneity of the constituency or set of constituencies controlling the firm, empowering other stakeholders in addition to investor-owners.

Accountability strategies need to take into account the way that other parties are likely to respond strategically (Singer 2019). If accountability increases the internal transaction costs of the firm, we can expect to see more people choosing to carry out economic activity in the market rather than within the firm. This is not to say that accountability strategies are futile but rather that the effort put into enforcing them will not translate wholly into more accountable firms; part of it will leak out in the form of outsourcing. We can find an example in one of the most feted worker-owned cooperatives, British retailer John Lewis. All John Lewis workers are co-owners of the company and enjoy an unusual range of in-kind benefits such as discounted gyms and holiday homes. But these benefits do not extend to the company's cleaners because its cleaners are employed by separate cleaning companies with which John

7. For a historical overview of theories of the corporation, see Avi-Yonah (2005). The corporation is the particular legal form that is used to organize the vast majority of firms (Robé 2011). For the purposes of this article we use these terms interchangeably. For stakeholder theory, see Freeman (2010). For criticisms, see Heath (2014) and Orts and Strudler (2009).

8. See among many others Dahl (1986), Fleurbaey (2008), Moriarty (2010), and O'Neill (2008a).

9. For discussion, see Heath (2014) and Singer (2019).

10. Others have disputed Hansmann's account, including Bowles and Gintis (1993), Dow (2018), and Schwartz (2012). However, we take Hansmann's account as the best-supported view in contemporary economics. To be clear, the fact that increased agency costs present one source of inefficiency does not imply that increasing accountability cannot increase efficiency overall (see the "Normative Theories of Power Balance" section). Hansmann's account only implies that market competition between various types of firms responds to agency cost inefficiencies more strongly than to these other types of efficiencies.

Lewis has market contracts. The fact that John Lewis offers such good benefits for its own workers means it can save even more money than other companies do by outsourcing work to contractors. Moreover, if in practice contracted cleaning staff are coordinated by the firm in much the same way as the company's workers, outsourcing seems like a fig leaf to maintain a merely technical compliance with the company's principle that all workers are equal co-owners. What's striking about this example is that the principles John Lewis are arguably gaming are self-imposed norms rather than legal regulations. If firms will game even voluntarily undertaken egalitarian norms, it seems likely that egalitarian norms legally imposed on firms from the outside will encounter even greater resistance. In such cases, introducing accountability moves firms from point "P" on figure 1 in a direction toward point "A" but not as much as would have been the case without these secondary effects.

While we take stakeholder representation as the paradigm accountability strategy, an alternative approach is to make firms accountable to those they affect via a state that is itself accountable to the people. This means bringing firms under public ownership so that the state is the principal and managers are the agents, effectively public servants. The agency costs of such arrangements are well known (Heath and Norman 2004). Many state-owned firms in the United States and Europe have been privatized since the 1980s, and in some formerly state-owned sectors, such as utilities, regulators continue to play an active role. When this regulation takes a sufficiently hands-on form, it can still make sense to think of regulators and firms as a principal-agent relationship, albeit a more attenuated one than under full public ownership. Privatization with active regulation can therefore be seen as a compromise between accountability and competition strategies. However, we do not include the mass of traditional rule-based regulation in our category of accountability, and so it does not form part of our trilemma (we return to this subject in the section "Escaping the Trilemma?").

Competitive firms

For political theorists accustomed to the paradigm of the liberal-democratic state, strategies of accountability are the obvious way of securing a balance of power. However, when it comes to businesses, market competition has been at least as important for curbing unaccountable power. Competition curbs the power of a firm on its stakeholders. While competition does not necessarily democratize the inner workings of an organization, competitive labour markets in particular offer workers better exit options, allowing them to bargain for better conditions.

There are two ways of understanding how competition promotes a balance of power. First, one might see market competition as a way for society to exercise counterpower over the firm, so as to balance the power of the firm over society. Alternatively, one might see market competition as reducing the power of the firm over the rest of society, bringing the firm back in line with the power exercised over it. For example, if we think of a monopoly in a market of a relatively fixed size, increasing competition to reduce the firm's market power will require reducing the size of the firm. For our purposes here, it does not matter too much whether we think of market competition as reducing the power of a firm or as an alternative way of countervailing the power of a firm. The important point is that this is a qualitatively different way of securing power balance compared to the distinctively political mechanisms that constitute accountability strategies.

The predominant form currently taken by the strategy of competition in liberal democracies is competition or antitrust policy (Amato 1997). Here experts employed by the government assess whether market concentration in specific industries reduces consumer welfare. Competition law can do various things. The most important are prohibiting mergers that would reduce competition, prohibiting companies that enjoy a dominant position from abusing it, prohibiting companies from colluding to reduce competition, and (although rarely exercised) increasing competition by forcing companies to split up.

Reducing corporate power also comes at a price, and here the price is the goal of *maximal economies of scale*. Allowing firms to grow larger often allows them to take advantage of economies of scale, making them more internally efficient. For example, imagine an electricity market with one big monopoly supplier. In order to create more competition and reduce the inefficiencies of monopoly, we might wish to break up the monopoly into a number of smaller suppliers. But this would also require going from one big power plant to four smaller power plants, and suppose that smaller power plants have higher running costs per watt of electricity produced. Consequently, these little companies will be less internally efficient than the very big monopolist was. Here we face a trade-off between the efficiencies created by competition (maximized by reducing corporate power) and the efficiencies created by economies of scale (maximized by powerful firms; Heath 2014). Economies of scale can be more intangible than the energy-efficiency of bigger machines. The growth of technology firms (social media especially) owes much to network externalities, a phenomenon where customers derive more benefit using services with more other users.

A caveat should be entered here: it is certainly not always the case that larger firms can benefit from economies of scale. Sometimes, increasing size may lead to diseconomies of scale, and the only business reason for doing so would be to take

advantage of reduced competition. In such cases, there is no social advantage to allowing greater market concentration. The trilemma only applies before this point is reached, where there are genuine trade-offs between efficiencies of scale and competition (e.g., where network effects are strong). There is also a lively economic debate about just how concentrated a market can get and still produce the benefits of competition. However, a significant source of contemporary dissatisfaction with competition/antitrust policy comes from the belief that agencies have become overly sanguine about the viability of competition at high levels of market concentration (Khan 2018).

Both economies of scale and agency costs within the firm can be situated within the more general framework of transaction costs economics. Talking about economies of scale made possible by the firm is another way of talking about the costs of carrying out those economic activities in the market. The benefit of organizing in a large firm is precisely that it saves on the costs associated with continually having to contract out different tasks on the market (Coase 1937). If economies of scale represent the transaction costs of organizing on the market, agency costs represent the transaction costs of organizing in the firm. The disadvantage of organizing within a firm are the costs arising from its internal politics and bureaucracy. By making a firm more accountable, we increase the complexity and conflict in its internal decision-making processes, increasing the costs of organizing economic activities in the firm rather than the market.

The political power of firms (in terms of lobbying or old CPA) requires a special mention. One way to reduce the political power of firms is by reducing their economic power. Generally, a lack of competition facilitates lobbying in two ways. On the one hand, because it tends to increase profits, it also makes more money available for use in lobbying. On the other hand, it makes lobbying more profitable. A large firm without strong competitive pressures can target its lobbying more precisely in a way that benefits it rather than competitors, and it needn't worry so much that the benefits created will be eaten away by competition (Crouch 2011, 65). The insight that market structure also affects firms' political power underpins new calls for antitrust practice to take account of political as well as economic effects (Khan 2018).

Powerful firms

The third option is to accept powerful firms as a necessary evil. The powerful firm faces only limited competition and has considerable market power and political influence. To the extent that this description matches the status quo, the strategy is a negative stance: refraining from further attempts to reduce corporate power or make it democratically accountable. However, we can also imagine rolling back those forms of competition promotion (like competition law) and accountability (like regulatory supervision) that currently inhibit powerful firms.

Critics of corporate power might wonder why this option is worth considering at all. We can motivate it by thinking about corporate power as being subject to a leveling down problem.[11] Moving from powerful firms to accountable or competitive firms (or something in-between) reduces inequality in power between the shareholders of the firm and other stakeholders (customers, workers, etc.). However, in the process of reducing imbalances in power, we might actually be damaging the interests of those other stakeholders: we might be leveling down. Why? Because of the other two goals on the triangle: minimizing agency costs and maximizing economies of scale. We can imagine versions of accountability and reduced corporate power so severe that the agency costs and forgone economies of scale are so large that job opportunities for workers, consumer value for customers, and so forth are worse than under powerful firms. Along these lines, Colin Crouch has argued that one can plausibly reconstruct a "normative theory of corporate political power" at the core of which is the efficiency defence of oligopolistic competition in the name of enhanced consumer welfare (Crouch 2015).

The cost of allowing or encouraging powerful firms is its incompatibility with maintaining a power balance. Shareholders of the firm enjoy power over others greater than the power others exercised over them. This refers to shareholders as a group, of course. Depending on how concentrated share ownership is, individual shareholders may not seem particularly powerful. Nonetheless, as a group, shareholders ensure firms act in their interests, primarily through the threat of exiting (with ensuing share price falls and threats of hostile takeover) if the firm does not post acceptable profits. In the next section, we discuss how to interpret the normative importance of power balance.

NORMATIVE THEORIES OF POWER BALANCE

So far, we have set out the structure of the choice states face when considering how to respond to corporate power. The nature of this choice puts the goals of power balance, economies of scale and minimizing agency costs into conflict with one another in a particular way. Advancing any particular goal requires making a sacrifice in terms of one (but only one) of the other two goals. In this section we will explain why the pursuit of these goals is valuable.

Both economies of scale and agency costs refer straightforwardly to established categories from economics. These

11. A classic account of leveling down is Parfit (1997).

two goals are both contributors to economic efficiency. Economic efficiency is understood conventionally as Pareto-improvements in terms of welfare. Welfare is understood as the satisfaction of preferences, with economists focusing mainly on preferences for consumption goods. Reducing production costs by increasing economies of scale or reducing agency costs will allow for higher levels of consumption and so a greater satisfaction of consumer preferences. These ideas derive from a welfare economics paradigm that is based on its own peculiar normative theory. However, we think that all plausible normative theories attach some weight to efficiency of this kind. Material resources are requisites for the ability to live a good life (however defined). If we care about people's abilities to live a good life, we should care about whether the use of resources can be reorganized to satisfy more of people's preferences (cf. Singer 2019, 27). None of this is to say that economic efficiency is an overriding consideration, and we are about to show exactly how it might be outweighed by other considerations.

While the first two goals of the trilemma fit into the standard economic picture, the third objective in the trilemma is somewhat harder to place. The remainder of the section will therefore be devoted to interpreting what fundamental moral values are served by this goal. There are various normative reasons why we might value power balance. Depending on one's reasons for caring about power balance, one will ultimately make different choices about how to respond to corporate power. Rather than taking one perspective, this section sketches how the territory appears from the perspective of three large families of normative theories: efficiency, distributive equality, and what we call *power equality*. This somewhat stylized picture of the landscape of normative theories will help to capture the different reasons for valuing a power balance, and how the trade-offs looks through the lens of each family of theories.

Efficiency

We begin by noting that power balance, like economies of scale and the minimization of agency costs, is also a contributor to economic efficiency. This relies on interpreting power balance as the minimization of abuses of market power. Powerful firms have market power and abuse it. Competitive firms lack market power and so cannot abuse it, while accountable firms have market power but don't abuse it (because they are constrained by other accountability mechanisms). The abuse of market power causes inefficiency. In the first place, it causes static, allocative inefficiency: firms with market power will raise their prices above the market-clearing rate, causing an inefficiently low volume of trades. The abuse of market power reduces gains from trade, one of the primary sources of welfare gains (Heath 2014). Market power also has the potential to cause dynamic inefficiency as firms protected from competition become lazy and cease to innovate. Corporate political power is also a source of inefficiency, as firms lobby governments to secure rents and artificially create market failures that increase their profits. The first reason to pursue a power balance for corporations is therefore to increase economic efficiency.

Suppose we stop here and view all three sides of the triangle solely in terms of efficiency. How then should we decide how to respond to corporate power: what point in the triangle should we choose? Even taking efficiency as the only reason to value each of the three goals, actually recommending a particular point within the triangle requires going at least one step further. If efficiency is the value behind each of the three goals, we need to appeal to *social welfare maximization* to adjudicate the relative importance of the three goals in choosing a point within the triangle. This extra step is necessary because Pareto optimality alone is likely to be indeterminate: if we take Pareto optimality as our sole criterion and take the trilemma to represent hard constraints on the set of available options, there are likely to be multiple optima within the triangle. It's likely that some constituencies will benefit more from the minimization of agency costs, while others will benefit more from realizing economies of scale, while others will benefit more from preventing the abuse of market power (Bennett 2020a). None of the options simply dominates the others. In order to recommend one particular optima, we therefore need a slightly richer moral theory. The standard theory for this purpose in economics is social welfare maximization, a historical outgrowth of the tradition of utilitarianism in philosophy. From this perspective, welfare is interpreted quantitively as something that can be compared between persons. This makes it possible to ask how much welfare is contributed by the three different variables of minimizing agency costs, power balance, and economies of scale. We can then select the point which secures the highest total welfare from all three sources. For a welfare maximization perspective, the trilemma is an optimization problem between three different sources of welfare gains.

In these terms, our trilemma provides a new way of visualizing how competition/antitrust economists already operate. This is a highly influential perspective, dominant in contemporary competition and corporate law.[12] The standard in competition law is consumer welfare, making the further assumption that the relevant sources of welfare for consumers are the prices and quality of the products in the market in

12. For competition law, see Baarsma (2011) and Cseres (2007). For corporate law, see Kraakman et al. (2009).

question and disregarding the welfare of producers. However, in themselves, the concepts of Pareto optimality and of maximization can be applied to a variety of goods or metrics, such as hedonistic or objective-list theories of well-being (Crisp 2008). Nonetheless, we speculate that when it comes to corporate power, alternative distributive metrics are likely to track preference-satisfaction closely enough that the trilemma remains substantially the same: an optimization problem between three different sources of efficiency gains.

Social welfare maximization offers a theoretically determinate criterion for choosing how to respond to corporate power. But actually operationalizing it requires empirical knowledge about the relative size of the contributions made by each of the three goals. Different economists will therefore tend to locate the optimum at different locations within the triangle. In 2000s, competition/antitrust authorities in the European Union took a harder line against Microsoft than their US counterparts. These different judgements were justified not with reference to different normative criteria but by different predictions about performance according to the same consumer welfare criterion. Depending on how these judgments within the welfare maximization framework are made, conceptually the outcome of this analysis might be anywhere within the triangle. But suppose, for the sake of illustration, that it is point "W" in figure 2. This allows us to position the outcome of the welfare maximization perspective relative to the next perspective we consider.

Distributive equality

The second reason to value power balance for the corporation is because of its instrumental effects on distributive

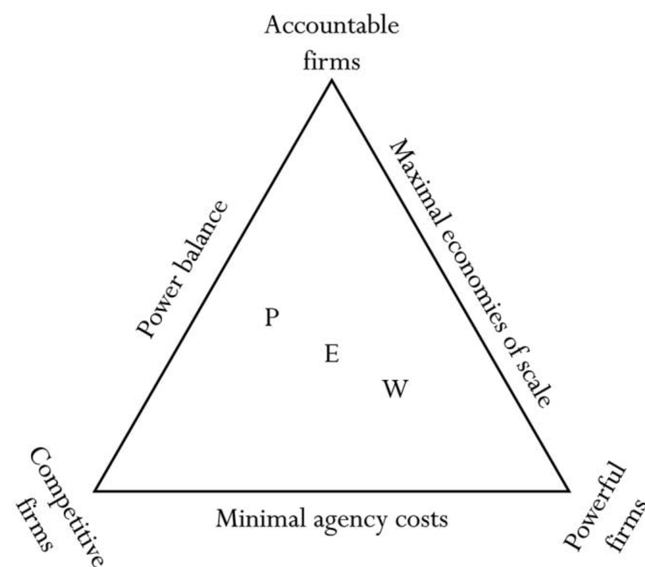

Figure 2. Interpreting power balance within the corporate power trilemma

(in)equality. We use the term *distributive equality* to encompass a broad family of diverse moral views, including versions of prioritarianism and sufficientarianism. What unites this family of views are that they value not only how much of a good there is but how equally this good is distributed.

Distributive egalitarians should worry that corporate power causes distributive inequality as well as inefficiency. Shareholders tend to be relatively wealthy compared to other stakeholders of the firm. To put it another way, as people become richer, they tend to increasingly relate to companies as shareholders rather than as customers, workers, suppliers, or neighbors. If market power is used to benefit shareholders at the expense of others (as supposed by economists), this market power will therefore increase distributive inequality between (members of) these groups. For distributive egalitarians, this is noninstrumentally undesirable. From a distributive egalitarian perspective, corporate political power is also instrumentally undesirable, because of its likely inegalitarian impact. This parallels the judgment of the efficiency perspective that corporate political power is instrumentally undesirable because of its likely inefficiencies.

One might wonder why distributive justice cannot simply be left to the welfare state and the tax system. Indeed, if we could rely on redistributive taxation to ensure an equitable distribution of wealth, it would make sense to focus competition and corporate governance policy on maximizing the production of wealth (as discussed above). However, in practice tax systems does not ensure egalitarian distributive justice. Moreover, this is likely to be a pretty durable fact given that straightforward taxes and transfers of the kind recommended by egalitarian philosophers tend to be politically highly unpopular. Given these constraints, there has been recent interest in the idea of "predistribution": that labor markets and other institutions should be organized so as to produce more egalitarian outcomes even before taxation takes place (Hacker, Jackson, and O'Neill 2013). The classic example is sectorial collective bargaining between unions and employers' associations. The kinds of policies encompassed by the accountability and competition strategies can serve a similar predistributive function in reducing pretax inequality.

These considerations should appeal to a broad range of egalitarian views, which differ along several dimensions. First, like the basic concern for efficiency, a basic concern for distributive equality is theoretically compatible with a range of different currencies or metrics of distributive justice. Whereas one particular conception of market-based economic welfare dominates the efficiency perspective outlined above, the question of the correct metric of distribution is a central debate among distributive egalitarians. The inequality caused by corporate power is most obvious in resource terms, but this

clearly also impacts on capabilities or welfare.[13] Second, some concern for distributive equality can be manifested in a range of different distributive principles. The diversity of distributive principles reflect different ways of adjudicating trade-offs between more equal distributions and maximizing the aggregate total quantity of the good under consideration. For example, John Rawls's difference principle and other versions of prioritarianism trade these off using particular formulae for giving more or less priority to gains for the worse off in a distribution compared to gains to those better off. Sufficientarian principles can also generate a concern with the distributive implications of corporate power, depending on where the sufficiency line is drawn.

We take no stance on these options here.[14] In general, however, we suppose that those who want greater distributive equality will also want people to have more of the goods whose distribution they care about. Under this assumption, distributive equality can be understood as an *additional* reason to value power balance, on top of the efficiency reasons discussed in the previous section. To know exactly what location on the trilemma a distributive egalitarian would recommend, we would have to know how they would trade-off between equality and maximization when the two conflict. Our point here is simply that if we value the more equal distributions of goods as well as higher quantities of goods, we will be less willing to entertain trade-offs between power balance and the other two goals in the trilemma. This means that for any given position endorsed by the welfare maximization perspective, distributive egalitarians will (where possible) endorse a position closer to the power-balance side of the triangle. In figure 2, if a pure social welfare maximization perspective leads to "W," adding a concern for distributive equality leads to something like "E."

Power equality

Our third normative perspective is an umbrella category that we refer to as *power egalitarian* theories. This refers to theories that hold that there is something valuable about power balance in addition to the efficiency and distributive equality considerations identified above. On this perspective, power balance is (at least in certain situations) noninstrumentally valuable.

Grounds for such a belief can be found in a variety of traditions. Relational egalitarian theories may hold that the power balance line offers one plausible interpretation of the idea of an egalitarian social relationship. Relational egalitarians thus think there is something noninstrumentally valuable about power balance, beyond its distributive effects, because it represents the realization of their ideal of equality of social standing between citizens.[15] Similarly, neorepublican theories focus on the noninstrumental badness of relationships of domination, understood as being under the arbitrary power of another. For them, any distance from the power balance line may plausibly be interpreted as a situation of domination.[16]

Finally, noninstrumental concerns about power balance can also be derived from democratic theories. This can be understood as a conditional claim: whenever society is so organized that decisions are made that are public or political in the relevant sense, we have reason to demand that these decisions are made democratically. To the extent that firms fall under this description, they would need to be democratized.[17] Because such a claim from democratic theories is a conditional one, it is still compatible with competitive firms that lack extensive powers and so are not subject to demands for democratic accountability. Looking at figure 1, this means that for every move away from competitive firms toward greater economies of scale, we have reason to demand that entities also move upward in the direction of more accountability at the same time. This suggests an additional reason to choose points closer to the side representing power balance.

On the two previous perspectives, corporate political power was understood merely as a phenomenon instrumentally relevant for its effects on the preferred distributive pattern. By contrast, power egalitarian perspectives (particularly those founded in democratic theory) are likely to treat political power as a special case, perhaps with greater normative significance than economic power. Old CPA (e.g., lobbying) threatens to violate principles of political equality and of decision-making oriented toward the common good.[18] New CPA seems to represent a more benign face of corporate power, often sold under the banner of "corporate social responsibility." However, the very socialness and publicness of the new CPA has been argued by some as grounding special claims for greater corporate accountability (Scherer and Palazzo 2007, 2011).

13. For resource views, see Dworkin (2002) and Rawls (1999). For capability views, see Nussbaum (2007) and Sen (1999). For a version of welfare egalitarianism, see Arneson (1989).

14. For the position taken by one of us, see Claassen (2021, 2022).

15. See Anderson (1999), O'Neill (2008b), and Schemmel (2012). For an application to the employment relationship specifically, see Anderson (2017).

16. See Pettit (1999). For a republican view of corporations, see also Anderson (2015).

17. See Néron (2010) and Scherer and Palazzo (2007). These kinds of claims are also common in arguments for workplace democracy; see, e.g., Archer (1995), Dahl (1986), and McMahon (1994).

18. For an overview of the debate, see Christiano (2012). On campaign finance in particular, see among many others, Beitz (1990), Bennett (2020b), Cohen (2001), and Pevnick (2016).

There are thus several potential reasons—equality of standing, nondomination, democratic legitimacy—for believing there is something wrong with a corporate power beyond its distributive and efficiency effects. To the extent that one believes this, one will think that not only the welfare maximizing perspective but also the distributive egalitarian perspective is overly willing to trade off the goal of power balance against the other two goals of the trilemma. While all are critical of corporate power, some of these theories may also have a particular preference for accountability or competition strategies. For example, participatory Democrats and neo-Athenian Republicans may place greater emphasis on enhancing opportunities for actual participation in decision making in civil life, thus favouring accountable firms, while liberal Democrats and neo-Roman Republicans can also be content with the power balance reached through competitive firms. Abstracting from these differences, we can say that, if distributive egalitarians endorse position "E" on figure 2, a power egalitarian perspective will endorse something like "P." We can see a "P-E-W" axis emerging in figure 2. Different normative theories line up along a spectrum of the strength of their reasons for caring about power balance when it comes to firms.

ESCAPING THE TRILEMMA?

Any alleged trilemma can be challenged by showing that at least one of the ideal-typical strategies is not inversely correlated with one of the goals—that one can have one's cake and eat it too. Might this be the case with our trilemma? We briefly consider each of the alleged strategy/goal incompatibilities.

First, can one have the benefits of powerful firms without the disadvantages of a power imbalance? Since we cannot revert to accountability and competition strategies when answering this question, the only way of alleviating this conflict that we can think of would be through business ethics: shareholders of powerful firms voluntarily encouraging or at least allowing managers not to exploit the firm's power. For what we called power egalitarian theories, such a solution remains inherently unsatisfactory, because the badness of corporate power is not reducible to its instrumental effects. However, for distributive egalitarian and utilitarian views, salvation via business ethics is at least a theoretical possibility. For these views, the interesting question is how empirically realistic this prospect is. Phrased thus, it seems very hard to believe that exploitation of corporate power could ever be eliminated. The interesting question is how far business ethics could alleviate this exploitation, and so render powerful firms a comparatively more attractive option.

An alternative suggestion is that the most normatively problematic aspects of powerful firms can be eliminated through rule-based external regulations that prohibit or require certain courses of action—for example, occupational health and safety requirements or environmental standards. One particularly salient example of such external regulation relates to the traditional way of reducing firms' political power by insulating the political sphere from the economic sphere through stricter limits of campaign finance, lobbying, and the like.[19] We have opted for excluding all these forms of external regulation from the corporate power trilemma (although we recognize that including them would also have been a theoretically possible).[20] This means that the trilemma represents a choice about what to do, taking the level of external regulation as given. We think of the trilemma as applying to whatever amount of corporate economic and political power we find ourselves confronted with after attempts at external regulation have been exhausted. This exclusion of regulation from the trilemma arguably reduces its scope but keeps it tractable.[21]

Second, can one have the benefits of competitive firms without forgoing economies of scale? Goods like window cleaning have always been efficiently provided at a small scale, so there are no significant economies of scale to forego. However, important economies of scale do seem to be present in other industries, like semiconductors or social media, where we observe highly concentrated markets. There are three ways we can imagine the conflict between competition and economies of scale might be erased. One way is simply for other markets to become more like window cleaning, that is, there are no significant economies of scale (small-scale production being relatively efficient). Something like this has happened in taxi and hotel markets thanks to the new technology of platforms like Uber and AirBnB. However, these markets were never particularly concentrated to begin with, and fragmentation

19. The classical account is Walzer (1984). For a discussion in the context of Rawls's demand that the "fair value" of political liberties must be protected, see O'Neill (2012).

20. This could be done by including external regulation within a thereby broadened category of accountability. This would have taken the focus away from the costs of agency relationships as standardly understood in economics. We certainly think an argument for such a broadened category can be made, since there is a substantial overlap between agency costs and the kinds of costs created by rule-based regulation, particularly monitoring and enforcement costs. However, partly for simplicity, we have in the end decided to stick with the more standard interpretation of agency costs.

21. We certainly do not dismiss the importance of traditional regulation in dealing with corporate power. Apart from theoretical simplicity, another reason we chose to exclude regulation from the construction of the trilemma is that concerns about corporate power have been rising at the same time as the growth of the administrative state. This has pushed us (and the broader literature on corporate power) to focus on competition and accountability strategies which counter corporate power more directly, i.e., at the level of corporate governance and corporate size itself.

at the level of providers has gone hand in hand with concentration at the level of the platforms themselves. Still, we could potentially imagine a world where small-scale production becomes more efficient. The trilemma applies to the extent that this world is not getting any closer, and economies of scale remain important.

Another way of eliding the conflict would be if the constraints of competition could apply even to big firms in concentrated markets, like mobile phone providers. A discussion of this option would require an assessment of what is perhaps the central controversy of competition economics: what is the relationship between market concentration and competition? We cannot do that here, so we restrict ourselves to the theoretical point that insofar as it is possible to have competition in a concentrated market (perhaps also with smarter antitrust enforcement), this option will provide relief from the trilemma. Insofar as this is possible seemingly powerful firms may actually be more like competitive firms, disciplined by their (actual and potential) competitors, than they appear. Our trilemma applies to the extent that there is a trade-off between competitive disciplining and market concentration.

A final way in which one can have greater benefits from competition without prejudice to economies of scale, is in the particular situation when a domestic industry is heavily concentrated because of protection from international competition. In such a case, removing trade barriers (such as tariffs) protecting domestic firms from international competition offers a way of escaping the trilemma, by enlarging the competitive playing field. So the trilemma should be understood as something that applies to domestic policy, where the level of protectionism is taken as given.[22]

Third, can one have the benefits of accountable firms without increasing agency costs? Once again, there are certainly ways of mitigating the conflict. If managers and shareholders spent less effort resisting attempts to hold them accountable, this would reduce the costs of monitoring. And surely some accountability mechanisms are more laborious and ineffective while others are more efficient and less time-consuming. Nonetheless, accountability mechanisms inherently involve giving a say in decisions to a larger number with more diverse interests. It seems hard to imagine how this could avoid increasing decision-making costs at least somewhat (even assuming shareholders and managers cooperate). Once again, we are left with empirical questions about the relative costs and effectiveness of different strategies. To the extent that accountability is less costly, it will appear relatively more attractive as an option.

22. We thank one of the reviewers for pointing out this option.

All in all, we therefore believe the corporate trilemma is robust in a large number of real-world circumstances. Thinking about how the trilemma might be transcended only draws us deeper into an empirical inquiry into how any given proposal actually performs with regard to the three goals of the trilemma. There is a huge amount of work still to be done on these empirical questions. Normative theorists proposing reforms to corporate governance cannot avoid engaging with this work. What we have suggested here is that the menu of options available for responding to corporate power is broader than it might initially appear, but that all available options come with trade-offs that need to be reckoned with.

CONCLUSION

In this article we have sought to clarify what is at stake in corporate power and allow people to work out the optimal regime of corporate power based on their normative commitments. However, this attempt at rational clarity should not be mistaken for the idea that corporate power is subject to any kind of reliable technocratic solution.

First, contemporary powerful firms would not exist if they did not serve the interests of powerful people. It is therefore to be expected that the beneficiaries of corporate power will react to any new restraints placed upon them by trying to restore their profitable position, perhaps under new appearances. This is true even for those sympathetic to accepting powerful firms due to their two efficiency benefits. Corporate power always threatens to grow beyond a point that could be justified by considerations of agency costs and economies of scale. As Colin Crouch (2011) points out, while some strategies for dealing with corporate power may be better than others, none of them can be expected to work permanently or automatically. All of them require the continual vigilance of activists in public life. Second, all of this is also context-dependent. What is judged to be an "optimal regime" also depends on the political-economic culture and path-dependent trajectory of specific countries and regions. Moreover, the optimal regime may also differ between industries, as each industry may have different characteristics with respect to the type of corporate power exercised and its effects on relevant stakeholders. The application of the trilemma needs to take this into account.

Our goal here has been to introduce a comparative perspective into the normative debate about the political power of firms. The article made two contributions in particular. First, we identified the trilemmatic trade-offs (between power balance, agency costs, and economies of scale) that all the ways of organizing the firm must reckon with. We hope this clarifies understanding in several ways. For one thing, competition as well as accountability is worth considering as a response to corporate power. Most importantly, no option is without costs.

This implies that accepting the existence of powerful firms is also worthy of consideration. The choice ultimately comes down to the normative weights that we attach to the different goals in the trilemma. Sketching how different normative theories will approach this trade-off was the second main contribution of the article. In setting this out, we also brought together economic and political goals that are rarely considered in relation to one another. In the process, we demonstrated how moral and political theories can be brought to bear upon the socially urgent question of corporate power.

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