On the Relative Absence of Worker Ownerhsip/Management: A Taxonomy

By Jonathan Jenner
January 3rd, 2015

Panel: Theory and Practice of Cooperatives
American Social Science Association Conference
Boston, Massachusetts
January 3rd, 2015

Abstract

This paper reviews, categorizes, and evaluates various theories on why worker owned/managed firms have remained peripheral in modern capitalist economies, in order to inform further research and strategy for the development of worker ownership/management. Rather than an exhaustive treatment of the entire literature, this paper situates various theories into broad groups that can be meaningfully evaluated. Theories on the relative absence of worker ownership/management are categorized by the location of the limiting agent of the worker owned/managed firms, in three broad genera:

- *Firm Efficiency* – worker owned/managed firms are peripheral because they are inherently inefficient, and lose out to efficient capital owned/managed firms in the long run.
- *Institutional Relationships* – worker owned/managed firms are peripheral because institutional relationships systematically inhibit their growth and development
- *The Structure of Capitalism* – worker owned/managed firms are peripheral because the structure of capitalism either competes them out or turns them into capital owned/managed firms.

This paper then evaluates each category. The first genus, *firm efficiency,* is not a sufficient answer to the relative absence of worker owned/managed firms, due to empirical evidence and logical flaws of the genus. The next two categories present difficulties for empirical verification. However, the third genus, *the structure of capitalism*, contains qualitative premonitions about the structure of the firm that could be avoided, particularly with a shift in institutional relationships explored in the second genus, *institutional relationships.* This paper finds the most convincing answer to the question of the paucity of worker ownership/management is that certain types of institutional relationships have systematically held back worker ownership/management. The implication is that the growth and development of worker ownership/management is possible by focusing on key institutional relationships that define worker ownership/management and its environment.

Outline

I. Intro

- A note on organizational issues in this paper

II. Firm Efficiency

A. Theories

i. Transactions Costs – Henry Hansmann
ii. Risk Aversion – Frank Knight
iii. Monitor Problem – N Scott Arnold

B. Evaluation

i. Empirical Evidence
ii. Problems with 'Survivorship' and Evolutionary Metaphor
iii. Conclusion

III. Institutional Relationships

A. Theories

i. Access to credit
ii. Unfamiliarity Problem – Justin Schwartz
iii. Power – Sam Bowles and Herb Gintis

B. Evaluation

IV. The Structure of Capitalism

A. Marxism & Worker Ownerhsip/Management
B. Rethinking the 'Assimilate or Die' Hypothesis

V. Conclusion

On the Relative Absence of Worker Ownerhsip/Management: A Taxonomy

I. Introduction

In 1848, John Stuart Mill predicted that, after a intermediary period of capital-managed firms being the dominant for of firm ownership and management in market economies, labor-owned and managed firms[1] ('co-operative associations') would come to dominate market economies (Mill V.7.62-64). This development, according to Mill, rested on two suppositions: (1) Worker-owned and managed firms offer superior efficiency to capitalist firms, and (2) are preferred by workers for their more equitable distribution of the firm's income. Some hundred odd years later, Paul Samuelson added some neoclassical, microeconomic dressing (albeit with a different tone) to Mill's sentiments: “In a perfectly competitive market, it really doesn't matter who hires whom: so have labor hire 'capital,'” (Samuelson 1957). And yet, today, worker owned and/or managed firms are so peripheral to the economy that they are marked more by their absence than their presence.

Through the years, much work has been advanced by various economists who have tried to account for this paucity of worker owned and managed firms, and a wide range of explanatory mechanisms have been advanced to explain why the form is not more common across the various configurations of extant capitalism. The importance of these explanatory mechanisms and the theoretical formulations cannot be understated, particularly as a means to inform strategy for those interested in broad-based systems of labor-management. Because the range of theories advanced articulate such different limits to the viability of worker owned and managed firms, and strategy, in it most abstract form, would concern itself with overcoming those limits, it follows that a thorough understanding of which *theoretical* limits are *actual* limits forms a necessary starting point for thinking about worker cooperative strategy. The goal of this paper is to trace how various economists have

1 The titles given to different forms of firm-ownership and management are multiple. See the 'note on organizational issues in the paper,' below.

explained why there are such few examples of worker owned and managed firms in capitalist economies, and to evaluate these explanations.

To do this, this paper has classified the various types of theories about the paucity of worker-owned and managed firms into three broad genera, separated by where the limiting agent is located. Those genera are:

- *Firm Efficiency* – worker owned/managed firms are peripheral because they are inherently inefficient, and lose out to efficient capital owned/managed firms in the long run.
- *Institutional Relationships* – worker owned/managed firms are peripheral because institutional relationships systematically inhibit their growth and development
- *The Structure of Capitalism* – worker owned/managed firms are peripheral because the structure of capitalism either competes them out or turns them into capital owned/managed firms.

After exploring some representative theories of each genus, this paper will assess the usefulness of each in answering why worker ownership/management has remained peripheral in our economy.

A note on organizational issues in the paper

I have organized this paper according to different genera of reasons why there are not large numbers of labor-managed firms in the economy, and these genera or organized by the location of the limiting agent – the firm, inter-firm relationships, and the economy as a whole. In one sense, these classifications are 'Russian dolled,' or concentric circles that move out from the firm to the economy. Immediately, different levels of these explanations face different problems. Empirically, the different genera face different counterfactuals. If there are no labor managed firms because of problems within the firm, the firms can be compared to capitalist firms, both theoretically and empirically. It becomes much trickier to empirically verify the next level, because different theories focus on particular forms

of inter-firm relationships (and with concrete bodies like financial institutions and more nebulous bodies like power and ideology), and counterfactuals simply don't exist. If the problem lies with the capitalist economy itself, there exist very few examples of market economies with significant saturation of labor-managed firms (Yugoslavia, Emilia Romagna, and perhaps Catalonia 1936-39 notwithstanding), and the debate enters a much more theoretically dominated landscape.

Still more problems exist in the delineation of the different genera. For example, power, in its most general iteration, has its genesis in relationships outside of the firm, but may well be expressed inside the firm. In this regard, I've tried to not only categorize the genera of theories not only in terms of location of the cause, but along other qualitative aspects, such as efficiency.

Beyond this, there exists many different problems with terminology, particularly in trying to categorize a wide diversity of firm types into very generalized categories. At root is the problem that management and ownership have often been conflated, both in the literature and in practice, although they are indeed very different things, particularly in complexly organized horizontal and vertical firms. Given this, this paper uses the term 'worker ownership/management' to refer to a wide variety of firms that include various iterations of ownership and management. This has its weaknesses (for example, the work of Jaroslav Vanek explores important distinction between labor-owned firms and labor-managed firms), but has, as its strength, the ability to survey a wide set of work. All of these organizational issues notwithstanding, I believe that there is something valuable to the organization of the various theories in the way that this paper has, particularly as a means of informing strategy.

II. Firm Efficiency

A. Theories

Paul Samuelson's charge, that in a perfectly competitive market, it doesn't matter if labor hires capital or if capital hires labor, is built from neoclassical assumptions, and has two key implications:

(1) worker owned/managed firms should proliferate more, and (2) it wouldn't matter, in terms of outcomes, if they did. Because there do not exist worker owned/managed firms in large numbers, a cadre of theories have been advanced, firmly within the neoclassical rules of the game, that seek out something in the structure of worker owned/managed firms blocks them from hiring capital as efficiently as capital hires labor. These ways of rendering worker owned/managed firms inefficient is coupled with the idea of 'survivorship' – that only more efficient firms survive in the long run – in order to account for the lack of worker owned/managed firms. It is those theories which are explored here. It is worth noting, though, that there exists a particularly conservative (as in, defender of the *status quo*) implication in these modifications to Samuelson's point, because the second implication of Samuelson's charge remains intact: worker owned/managed firms are not efficient institutions, but, even if they were, their effect would be the same as a capital-managed firm.

i. Transactions Costs – Henry Hansmann

Henry Hansmann presents one of the more standard efficiency arguments based on transactions costs, in his book *Ownership of Enterprise* (1996). Hansmann's analysis starts from the characterization of the firm as a 'nexus of contracts' between the various parties who supply the firms inputs and the various parties that purchase the firms output. Any of these parties has the formal ability to initiate, own, and manage the firm. All contracts are necessary incomplete, and different parties to the firm's inputs and outputs have different ways of dealing with this incompleteness, which also varies across industries. Whichever party to the firm's nexus of contracts has the cost minimizing method of dealing with the incomplete contracts will represent the ownership form that is the most efficient.

As such, Hansmann argues that forms of ownership best suited to the management of contracts are those which the problems of incomplete contracts represent the least organizational cost, because they are the organizational forms, that, given the particularities of a particular industry will survive.

This important principle – which Hansmann terms 'survivorship,' is one to which this paper will return below. He writes that firm ownership is “assigned to the class of patrons for whom the problems of market efficiency are the least severe,” an analysis he terms the “lowest cost assignment of ownership,” (Hansmann 21). Hansmann reviews many ownership forms, and teases out particular examples of contracting efficiency leading to certain types of ownership. For example, because customers of rural electricity are faced with a natural monopoly, it makes sense for them to own rural electric firms because they have the least cost mechanisms for dealing with contracting inefficiency. Hence, the rural electric consumer-owned cooperative is prominent.

Within certain parameters, labor-owned[2] firms represent the least cost management of contracts. This parameter, to wit, is 'homogeneity' of the role of labor in the firm. Hansmann notes, for example, that in the case of the plywood cooperatives of the Northwest, given the homogeneity of labor's role within the industry, labor-owned firms make the most sense because they can most efficiently deal with the incompleteness of the firms various contracts. In another example, Hansmann notes that labor-ownership is more concurrent with service professions, where homogeneity is (imaginably) higher. However, as the heterogeneity of the labor performed by a firm increases, there is a governance cost in associated with the coordination of these various roles. That governance, Hansmann argues, is the root of the efficiency problem for worker owned/managed firms. As the archetypal firm of the industrial economy contains heterogeneous labor roles and various vertical and horizontal needs, and the most efficient management of these diverse contracts lies in the capital-managed firm. If a firm is not capital-managed in this type of industry, it will face higher costs of business, lower profit rates, and,

2 Again, there is a problem here in the naming of different forms, which often glosses over the multiplicity of forms that exist or might exist. I've been attempting to use the term labor-managed for reasons discussed in the introduction, but, in the analysis of different thinkers, I'm a bit more flexible with the usage. One source of the multiple terms is the different, but often conflated roles of ownership and management which I don't go into detail about here (and which has a significant discussion in the literature). Hansmann's actual terms are 'employee-owned' and 'investor-owned' firms.

hence be competed out.

One immediate problem with this analysis, according to Justin Schwartz, is that Hansmann treats homogeneity endogenously (with respect to the firm), and not something that is determined by the firms governance structure (Schwartz 252). However, this analysis also hinges on the notion of 'survivorship,' where a multiplicity of forms exist and some win out, which is alternatively called "the evolutionary hypothesis" and the "assumption of efficient design," (Schwartz 240 and Bowles 336, respectively).

ii. Risk Aversion – Frank Knight

In the approach first explored by Frank Knight in his *Risk, Uncertainty, and Profit* in 1921 (and since adopted by many), the inefficiency of the labor-managed firm stems from the fact that the costs of risk in entrepreneurial activity affect labor-managed firms more than capital-managed firms. As such, over time, due to the variability of income experienced by a firm, the form of the firm that is better suited to weather (read: minimize) the costs of income variability will be the forms that 'win out.' Workers both desire a fixed (wage) income that minimizes risk, and capital-managed firms more effectively deal with risk. Sam Bowles summarizes the risk aversion line of argument presented by Frank Knight:

> The approach...explains the structure of the firm by two facts: first, the income flowing from a joint production process varies stochastically, and second, the cost of bearing this risk is greater for the for the suppliers of labor than for the suppliers of capital, (Bowles 339).

The position that the cost of bearing risk is greater for the suppliers of labor rather than suppliers of capital is based on several assumptions, but, ones that still seem relatively borne out in practice. In one iteration of the assumption, the cost of income variation increases as incomes fall. However, the concurrent assumption, that suppliers of labor have lower incomes than suppliers of capital, and therefore have higher costs associated with risk, does not necessarily

follow. Income distribution is determined in large part by the structure of firm ownership, so the assumptions of the income/risk-aversion relationship depend on the phenomena it tries to explain. However, another assumption, wherein suppliers of labor have limited places to deploy their labor, while suppliers of capital might diversify their capital in different places, the cost of risk is minimized by the fungibility of capital. Although Frank Knight's explanation of why capital hires labor and not *vice versa* predates Samuelson's statement, it has still been marshaled by the efficiency line of argument to resolve Samuelson's observation that it wouldn't matter in perfect competition which input hires the other.

iii. Monitor Problem – N Scott Arnold

Another species of the efficiency line of argument is what Schwartz terms 'the monitor problem,' whose foremost thinker is N. Scott Arnold, in his *The Philosophy and Economics of Market Socialism: A Critical Study (1994)*. Arnold's 'monitor problem' is application of the more generalized free rider problem (of Mancur Olson, *et alia*), to the structure of worker ownership/management. In the production of a firm where multiple workers contribute to output, but their individual outcomes are difficult to distinguish while incomes are standardized, the argument goes, individual workers, maximizing their utility, will shirk. Schwartz summarizes Arnold's reasoning: “If shirkers...get the same rewards as workers, it will be rational for all not to work (as hard) and productivity will suffer. To minimize this, recourse to a monitor with managerial powers is necessary,” (Schwartz 243). In this way, *ceteris paribus*, a worker owned/managed firm will have less output per worker, which lowers profit by lowering total revenue (where $\pi = TR - TC$). Similar to the other species of the efficiency line of argument, worker owned/managed firms would not be able to survive in competitive environments with capital owned/managed firms, who (imaginably) have easier ways to control shirking.

There are several problems, immediately, with this argument. First, monitoring does not need to imply capital ownership/management, as demonstrated by many successful worker owned/managed firms with vertical management structures chosen through democratic procedures, like Kerala Dinesh Beedi, Indian Coffee House, Mondragón, etc. Secondly, monitoring is only a partial antidote to shirking, and utility maximizing workers in capital owned/managed firms will face incentives to shirk. In fact, workers in worker owned/managed firms would be more likely to have a higher cost of shirking – they let down their co-workers if their shirking is known, in ways non-existent in capital owned/managed firms[3].

B. Evaluation

This paper evaluates the efficiency line of argument in two different ways – the empirical record and the logical/idealogical structure of how efficiency translates into existence of worker owned/managed firms and capital owned/managed firms.

i. Empirical Evidence

Many studies indicate that worker owned/managed firms are equally (and even *more*) efficient than capital owned/managed firms, while there is scant evidence in the literature that they are less efficient. Before presenting this, some important premonitions are in order about such empirical studies. As Schwartz points out, methods of measurement of efficiency can be tricky when comparing capital owned/managed and worker owned/managed firms, because to simply look at profitability is quite misleading. Not only is the notion of 'profit' categorically different, but 'costs' are also different

3 I must say that the assumptions underlying the efficacy of capital-appointed monitors baffles me and does not match my own particular experience, having worked a host of menial to mid-level jobs in capital-managed firms, where, even with the appearance of monitoring efficacy, shirking was rampant, and the amounts of energy, creativity, and general leverage of 'human capital' exerted by workers to avoid work were, in general, the only significant deployments to speak of of energy, creativity, and leverage of 'human capital,' in any of the firms. I most fondly recall the coordination of workers at the Marmaxx™ (Marshall's & TJ Maxx) processing warehouse in Bridgewater, Virginia, where I worked in 2006, to avoid speed up, enforced with laser trips, sirens, and boss walk-throughs as a wonderful testament to cooperative artistry, complete with box tossing, conveyor belt jams, and advanced whistle warning systems.

for worker owned/managed firms, where labor is accounted for differently (Schwartz 240). Measurements like productivity or output per worker have been used to compare firms in the same industries, and are even arguably a better way of understanding firm efficiency, but it can be difficult to find such cross sectional data.

These difficulties in measurement notwithstanding, much work shows that different levels of worker involvement – from participation in decision-making to outright ownership of the firm – demonstrate no negative productivity effects, and often demonstrate positive effects. Richard Freeman and Joel Rogers landmark *What Workers Want,* published in 1999, that employee-involvement "programs do not harm productivity on average, and, more likely than not, raise it," (Freeman and Rogers 116). David Schweickart's *Against Capitalism* (1996) works though much of the empirical studies on this (which demonstrate efficiency gains to labor-management), including David I. Levine and Laura D'Andrea Tyson's 'Participation, Productivity, and the Firm's Environment', Martin Weitzman and Douglas Kruse's 'Profit Sharing and Productivity;' other examples include Seymour Melman's 'Industrial Efficiency Under Managerial Versus Cooperative Decision-Making: A Comparative Study of Manufacturing Enterprises in Israel,' Chris Doucouliagos' 'Worker Participation and Productivity in Labor-Managed Firms and Participatory Capitalist Firms: A Meta-Analysis,' and so on (Schwartz also works through an extensive list). Evidence to the contrary is largely absent from the literature.

However, perhaps the best work on this particular topic comes from Ben Craig and John Pencavel, who gathered the best (to date) cross sectional data on worker ownership/management and capital ownership/management between the plywood firms of the Pacific Northwest. Craig and Pencavel find that "worker participation has neither major efficiency gains nor efficiency losses," but that there were still key differences in how output per worker was arrived at (Craig and Pencavel 158).

Worker owned/managed firms minimized unemployment in times of adversity by adjusting pay but not output, while capital owned/managed firms adjusted employment and output, but not pay.

Gregory Dow, who is quite sympathetic to worker ownership/management, remains cautiously ambivalent to the question of efficiency, in part because of the measurement issues outlined above. He writes that "our knowledge is too primitive to attach a confident positive or negative sign to the efficiency properties of workes' control, which undoubtedly vary with industry characteristics and the specific organizational design one has in mind," (Dow 262). Similar to the sentiments of Craig & Pencavel, though, Dow finds many auxiliary reasons to support worker ownership/management, coming from the *manner* that worker owned/managed efficiency is achieved.

ii. Problems with 'Survivorship' and Evolutionary Metaphor

Why then, does the efficiency line of argument live on, in spite of significant evidence against it? Yohann Stryjan, in his book *Impossible Organizations* (1989), suggests that the vast majority of the research tradition on the viability of labor-management, before dissenting voices came to prominence in the height of the Cold War, was molded after the foundational archetype of Beatrice Webb (née Potter, who in published her *Cooperative Movement in Great Britain* in 1891. Potter's work, which combined empirical findings on 54 British cooperative societies with theoretical analysis, called the British cooperative movement a "dismal record of repeated failure," wherein the "profitable administration of property is a condition which cannot be fulfilled by a self-governing body of workers," (Webb 149, 128). Stryjan argues that this approach "set a quasi-paradigmatic imprint on nearly a century of self-management research," (Stryjan 6). Because cooperatives have been seen to fail (in some circumstances), they must fail because of themselves; as such, research was guided to match this circular logic.

Later, the idea of the necessary failure was expanded with the use of an evolutionary metaphor:

worker owned/managed firms were understood to be theoretically inefficient, and an evolutionary metaphor helped to explain how inefficient firms would die out. Both Schwartz and Bowles frame the history of thought on the subject similarly. Schwartz calls this framework the 'evolutionary hypothesis;' Bowles calls it the 'assumption of efficient design.' Both trace this framework to Armen Alchian's 1950 article 'Uncertainty, Evolution, and Economic Theory' in the Journal of Political Economy. Bowles includes Oliver Williamson's *The Economic Institutions of Capitalism* (1985) and Begnt Holmstrom and Paul Migrom's 'The Firm as Incentive System,' (1994) as other grounding works to the the extenshion of the evolutionary metaphor into economics.

However, as both Bowles and Scwhartz independently observe, there are two logical flaws to such an analysis. First, for any Darwinian metaphor to exist, there would need to be a sufficient number of worker owned/managed firms in existence for their form to not be chosen by the efficiency rubric. Put differently, in order to go extinct, firms must exist in sufficient numbers in the first place – the evolutionary framework using efficiency might explain why firms die out, but it is not sufficient to answer why worker owned/managed firms are rarely initiated in the first place, especially when the empirical evidence of the small amount of firms that does exist *suggests* Darwinian advantages. Second, while inefficiency might result in some form of extinction, it is a sufficient, but not necessary, condition for extinction. Something might be extinct for many reasons, and inefficiency is only one reason. To illustrate, imagine that I survey Massachusetts today and see no (non-avian) dinosaurs. I might postulate that the non-avian dinosaurs may have gone extinct because of their adaptive deficiencies, but I could also postulate that they may have gone extinct because of the Chicxulub asteroid crashing into the Yucatán, or something else. It would be incorrect, though, to assume, *a priori,* that adaptive deficiencies led to their extinction, *especially* if there was evidence of the adaptive efficiency of anchisauruses. In this way, it would be incorrect to assume that worker owned/managed

firms are initiated and fail because of their inherent inefficiency, particularly when the empirical record suggests no losses to inefficiency; they may be initiated and fail because of other structural patterns, or they may be prevented from initiation in the first instance by structural limits, even though they may present potential efficiency gains.

iii. Conclusion

However, much of the efficiency line of argument follows this form. Due to logical problems that underlie the argument, and the fact that the inefficiency of labor-managed firms is contradicted by the literature, the efficacy of the efficiency line of argument in explaining the absence of labor-managed firms is dubious at best, and flat wrong at worst.

III. Institutional Relationships

John Kenneth Galbraith, in his 1967 *New Insdustrial State*, wonders why economists have not, in general, asked "why power is associated with some factors of production and not with others," (Galbraith 47). Indeed, if worker owned/managed firms *are* more efficient than capital owned/managed firms, but yet still don't exist in significant numbers, it seems instructive to examine whether or not those reasons lie in power structures beyond the firm. This genus of theories is perhaps the most nebulous of the three presented in this paper – a clearinghouse for theories on the paucity of labor-managed firms where their absence is explained beyond the firm but not up to the totalizing level of the capitalist economy. As Brüno Jossa points out, it is perhaps also an area that has not been as systematically explored, by either mainstream economists or their Marxist colleagues (Jossa 29). This paper will work through three different species (access to credit, the problem with unfamiliarity, and a particular rendering of power, á la Sam Bowles and Herb Gintis) in the *institutional relationships* genus, and then evaluate the efficacy of the genus in explaining why worker owned/managed firms are not more prominent.

A. Theories

i. Access to credit

Financial limits are an often cited reason for why there are not more worker owned/managed firms, and the limits to finance are seen on several levels. First, in terms of leveraging start-up capital, workers often have less wealth than capitalists, and, even together, have much less ability to leverage the amount of capital necessary to start firms. Carla Dickstein cites this as a reason that worker owned/operated firms tend to be in more labor-intensive industries (Dickstein 11). When looking for initial credit from financial institutions, the stylized lack of wealth from workers also results in loan conditions that are more costly for capitalists with more wealth. Bowles writes that "the cost of capital supplied to a firm controlled by its employees will be higher than the capital costs faced by an otherwise identical firm controlled by its capital suppliers...[because] the competitively determined interest cost of a loan varies inversely with the wealth of the borrower," (Bowles 342).

For a worker owned/operated firm already in operation, it faces other obstacles in leveraging financing. As R.A. McCain notes, worker owned/managed firms are not able to leverage equity shares with the same ability that capital owned/managed firms are able to, because equity shares that include ownership and control rights are antithetical to the structure of the worker owned/operated firm (McCain 358). This means that firms are often forced to finance themselves off of retained earnings, which put them at a competitive disadvantage to capital owned/manage firms, which can choose an optimal mixture of retained earning/equity share financing. Additionally, as posited by Jaroslav Vanek, financing off of retained earnings may change the very behavior of the firm, and channel investment decisions by worker-owners toward short term returns on investment instead of long term investments which may be more prudent investments for the worker owned/operated firm. Finally, various thinkers have postulated that financial institutions are wary to lend to worker owned/operated firms because the

level of risk is less knowable owing to the fact that very few exist and that financial institutions are wary of the idea of claiming collateral from many worker-owners as opposed to a few capitalists (Dickstein 11, Jackall and Levin 286).

These theoretical observations are largely borne out by the empirical record. Gintis, for example, in his 1989 “Financial Markets and the Political Structure of the Enterprise,” found that banks acted very differently with the plywood cooperatives of the Northwest than with capital-managed plywood firms in the the Northwest, ultimately providing less credit to the worker cooperatives. Several other books, articles, and reports also note that financial access has been the limiting agent to worker ownership and management, such as the Commission on European Communities report *Prospects for workers' cooperatives in Europe* (1981), and Jenny Thornley's *Worker' Cooperatives: Jobs & Dreams* (1981). Moreover, successful complexes of worker ownership/management have often risen concurrent with relationships with financial institutions that superseded the traditional relationship. For example, Mondragón rose concurrent with the *Caja Laboral Popular*, and the worker cooperative complex of Emilia Romagna is enable by financial and institutional support from the state and cooperative confederations. The Working World, a financial institution that supplies loans to worker owned/operated firms in Argentina, Nicaragua, and the United States, has not only found that it is often the only financial institution able to loan to worker owned/operated firms, but that its loans are paid back at 95 per cent, suggesting an unmet demand for financial services for worker owned/operated firms across several different national contexts (Martin and Wong).

ii. Unfamiliarity problem – Justin Schwartz

Justin Schwartz tries to formalize the notion than because worker owned/managed firms are unfamiliar, there exists a general hesitancy, both from workers and from financial institutions, that results in the exclusion of worker ownership/management from a prominent existence in capitalist

economies. That is, worker ownership/management is peripheral because it is peripheral, because this unfamiliarity compounds the (perceived or real) constraints on worker ownership/management. Schwartz posits the worker owned/managed firm as a public good in and of itself, for whom there exists the classic undersupply because the benefits added by contributors are not wholly claimed by them (he offers a "more modest version" of the rational utility maximizer, where social and benevolent tendencies of the individual are understood next to selfishness). He writes that "the bare fact that labor management is rare makes it less attractive to workers and potential sources of finance because of the real, if arguably, irrational, cognitive bias in favor of the familiar, including familiar organizational forms," (Schwartz 283). In this way, the institutional environment where worker ownership/management is already rare is one of the large contributing factors to why it remains rare, and the unfamiliarity expresses itself by compounding several other areas of potential weakness for worker ownership/management – external finance and workers' willingness to initiate worker owned/managed firms.

There are, of course, institutional answers to the problem of unfamiliarity that are at once easy to name and more difficult to execute: make the unfamiliar familiar. A quick survey of the cooperative movement today – and the amount of excitement and exposure around different new ventures – suggests that the capability to make the unfamiliar familiar exists.

iii. Power – Sam Bowles and Herb Gintis

Bowles and Gintis characterize the absence of worker owned/managed firms and predominance of capital owned/managed firms by showing how capitalists are able to systematically exercise power in the labor market. This postulate descends from the notion that in repeated interactions in the labor market, which is characterized by incomplete contracts, the chosen method of enforcement is for the capitalist to offer a rent to some workers – and to exclude others – with a promise to renew if work is

accomplished satisfactorily for a given period. The incompleteness of the contract in labor markets comes from the fact that labor power is contracted for in time units, but effort units, which are either non-verifiable or non-enforceable, are what affect output, which firmly situates the employment relationship in the broad class of principal-agent relationships. If the labor market were a complete contract, 'hiring' would simply be called 'buying.' The power of the capitalist, which Bowles and Gintis define as an "interpersonal relationship with the ability to impose sanctions," comes from the ability of the capitalist to exclude the worker from the employment rent in future periods – a mechanism called contingent renewal (Bowles and Gintis 2). The power to offer and take away an employment rent is concentrated with the capitalist in this relationship because they the short side of the market – the "side of the market on which the number of desired transactions is less, that is, employers in a labour market with unemployment," (Bowles and Gintis 5). This power underwrites exchange in the labor market, and cannot be abstracted away from or confined to the arena of its origin. As such, it is levied by capitalists in variety of forms that systematically privilege the forms of enterprise amenable to capitalists (the capital owned/managed firm), and exclude forms of enterprise where profit appropriation by non-producers is impossible (the worker owned/managed firm).

It seems instructive to ask – why do workers form the long side of the labor market, thus ceding power, and the ability to initiate forms of enterprise that would be amenable to them? In the classical Marxist manner, this question can be answered by the fact that workers have been socially and historically produced as people without capital (or their own means of production), who arrive at their subsistence through the sale of the one commodity that they could not be divorced from – their labor power. However, institutional forms that would allow workers access to capital – suggested in the above sections – would help to invert the conditions which bring workers to the sphere of production without the power to initiate the forms most amenable to their needs.

B. Evaluation

There exist some difficult issues in the empirical evaluation for this genus. How does one measure power or familiarity in ways that are instructive to discussing how these limit the presence of worker owned/managed firms? However, there exists a long and robust record of empirical studies that find worker owned/managed firms suffer from an undersupply of finance, limited by the structure of financial markets and the structure of worker owned/managed firms themselves. Moreover, finance is a category which has implications for each species in this genus – the problems of finance are compounded by unfamiliarity, and a lack of access to capital in any meaningful way is what creates workers on the short side of the market. Moreover, we have a long history of successful financial innovation to draw from, from the Caja Laboral Popular that was so key to the Mondragón complex, to the state/federated funding schemes of Emilia Romagna, and to the success of new institutions like The Working World in funding recovered factories and worker cooperatives across the Americas. Moreover, there are significant financial resources that do not currently support worker ownership/management, but would seem likely allies given the tweaking of certain institutional arrangements – such as labor union pension funds and credit union deposits. The key to this genus is that if worker ownership/management has been peripheral for a series of *institutional problems*, there exist, in some capacity, *institutional solutions* to their peripherality. The case seems strong that the limiting agent to worker ownership/management lies in institutional relationships that don't favor worker ownership/management, though there remains a challenge for the empirical testing of this hypothesis.

IV. The Structure of Capitalism

A. Marxism & Worker Ownerhsip/Management

Marxism has been accused by Jossa, amongst others, of paying scant attention to worker

ownership/management, or even dismissing worker ownership/management as a misdirected attempt to cure a symptom of capitalism, but not its root (Jossa 29). The debate that has existed amongst Marxists on worker ownership/management has not only been about why the form remains peripheral, but about whether or not worker ownership/management presents a compelling alternative to capitalist production that can be seen as a step toward its replacement and a classless society. Though Marx himself did not frequently address the topic, there are notable exceptions. For example, In his address to the International Working Men's Association in 1866, Marx said:

> We acknowledge the co-operative movement as one of the transforming forces of the present society based upon class antagonism. Its great merit is to practically show, that the present pauperising, and despotic system of the *subordination of labour* to capital can be superseded by the republican and benificent system of the association of free and equal producers (Marx and Engels 77).

However, as David Prychitko points out in his *Marxism and Workers' Self-Management*, Marx was reluctant to name the specifics of such a system, and expressed the concomitant fear that producers cooperatives would devolve into joint-stock companies in several other places (Prychitko 9).

Vladimir Lenin, in a series of two editorial pieces in *Pravda* in 1923, expresses a similar sentiment – expressing much hope in the cooperative movement while also expressing the idea that pre-1917 cooperatives were bourgeois entities that either exploited themselves or exploited others. He writes that the old cooperative dreams of Robert Owen *et alia* were "fantastic...because they dreamed of peacefully remodeling contemporary society into socialism without taking account of such fundamental questions as the class struggle, the capture of political power by the working class, and the overthrow of the exploiting class," (Lenin 474). However, when those struggles had been won in the early years of the Soviet Union, during the New Economic Program, Lenin's attitude was that the "fantastic, even romantic, even banal

dreams of the old cooperators is now becoming unvarnished reality," such that "the only task, indeed, that remains for us is to organize the population into cooperative societies," (Lenin 467).

Rosa Luxemburg, perhaps, gave this line of thought perhaps its most lucid treatment in *Reform or Revolution.* In particular, her seventh chapter – 'Cooperatives, Unions, and Democracy,' - deals with the question of whether or not worker owned/managed firms can herald in new modes of classless production. She writes that as modes of production within a capitalist sea, it becomes very difficult for worker ownership/management to shift the capitalist mode, because it must remake itself in the mold of capitalist firms. Her analysis is worth repeating at length:

> In capitalist economy exchanges dominate production. As a result of competition, the complete domination of the process of production by the interests of capital – that is, pitiless exploitation – becomes a condition for the survival of each enterprise. The domination of capital over the process of production expresses itself in the following ways. Labour is intensified. The work day is lengthened or shortened, according to the situation of the market. And, depending on the requirements of the market, labour is either employed or thrown back into the street. In other words, use is made of all methods that enable an enterprise to stand up against its competitors in the market. The workers forming a co-operative in the field of production are thus faced with the contradictory necessity of governing themselves with the utmost absolutism. They are obliged to take toward themselves the role of capitalist entrepreneur – a contradiction that accounts for the usual failure of production co-operatives which either become pure capitalist enterprises or, if the workers' interests continue to predominate, end by dissolving, (Luxemburg VII.4).

Luxemburg paints a picture wherein the worker owned/managed firm that exist in capitalist economies are forced, by the very structure of capitalism toward an unsavory proposition: dissolve or become capitalist. Traditional Marxists have a long sympathy of being quite sympathetic to the aspirations of worker ownership/management, but very dubious of the ability of the form to exist in any meaningful way that stands apart from, and opposed to, capitalist production.

B. Rethinking the 'Assimilate or Die' Hypothesis

Economic theory began to carefully parse the properties and characteristics of worker

ownership/management long after the Marxist position on the cooperative movement was fairly established. Also, worker ownership/management took the form of the worker cooperative, which was often cast together with a range of peasant producer, financial, consumer, and housing cooperatives, so that the particular treatment of various aspects of worker ownership and management were glossed over. Jaroslav Vanek was prominent in stressing key fundamental differences between ownership and management, and how key differences between them led to structural differences, particularly in the way that firms would engage in self-exploitation. Jossa writes that “Vanek's [Labour Managed Firm], which does not self-finance itself and whose workers can consequently not be correctly described as 'their own capitalists,'...disproves the arguments of those Marxists who maintain that cooperatives are, by their very nature, an intermediate form in between capitalism and socialism,” (Jossa 4). With these qualifications, Jossa claims that “it is possible to argue that an efficient system of producer cooperatives is a socialist order which may supersede capitalism in full harmony with Marxist thought,” (Jossa 4).

What, then, does the worker-managed, as opposed to worker-owned firm require? Similar to the problems that were discussed in the above section, the worker-managed firm requires financial backing not of its own origin, and financial backing that does not cede control of the firm to the owners of finance. Several different thinkers have imagined such institutions – from the public control of investment imagined by Schweickart to the social ownership of finance and of the firm in Vanek's theory of the labor managed economy. Though this would be big projects, they are still within the realm of institutional development and innovation, and can effectively work around the central 'assimilate or die' conundrum of worker ownership/management that was central to the traditional Marxist take on the viability of worker ownership/management.

V. Conclusion

Jon Elster, in his article "From Here to There; Or, If Cooperative Ownership Is So Desirable, Why Are There So Few Cooperatives?" (1989), concludes his survey of the literature with a mark of caution: “the main argument of this paper is apparently inconclusive: we just don't know whether the observed lack of cooperatives is due to their inherent inferiority or to interactions with the non-cooperative environment,” (Elster 110). To some extent, given the problems of empirical verification that exist in the second and third genera discussed in the paper, the caution is perhaps appropriate. However, almost 30 years later, the central argument of this paper is that we can do better. We can conclude, given the logical flaws and lack of empirical evidence – and empirical evidence that demonstrates the contrary – that worker ownership/management has not been kept peripheral by their inherent inferiority. The implication, then, is whether or not the limitations that lie beyond the firm are totalizing within a capitalist context, or whether or not they are surmountable institutional arrangements. There is strong evidence to suggest that the limits to worker ownership/management are financial limits, and there are possible institutional fixes to this problem. Similarly, there are ways of working around the Marxist knife-edge of worker ownership/management within capitalism of 'assimilate or die,' such that the Marxist wariness towards worker ownership/management need not be a total disregard for the form, but a series of premonitions about how to avoid the 'assimilate or die' conundrum. These ways of working around the structural paradox would be innovation in financial institutions specially directed toward the proliferation of worker management. Because many roads point to the financial limits specifically, and institutional limits more generally as the likely limiting agent to worker ownership/management, it should become the work of actors and researchers interested in the question of the growth and proliferation of worker ownership/management to arrive at a convincing answer as to whether or not such financial limits are real and surmountable.

Bibliography

Alchian, Armen A. "Uncertainty, Evolution, and Economic Theory." *Journal of Political Economy* 58.3 (1950): 211. Web

Arnold, N. Scott. "Market Socialism." *Critical Review* 6.4 (1992): 517-57. Print.

---- *The Philosophy and Economics of Market Socialism: A Critical Study*. New York: Oxford UP, 1994. Print.

Birchall J & Ketilson LH. 2009. "Resilience of the Cooperative Business Model in Times of Crisis. Sustainable Enterprise Programme: Responses to the global economic crisis," Geneva. International Labour Organisation.

Bowles, Samuel. *Microeconomics: Behavior, Institutions, and Evolution*. Princeton, NJ: Princeton UP, 2006. Print.

Bowles, Samuel, and Gintis, Herb. "Power" http://scholarworks.umass.edu/econ_workingpaper/37/. Accessed on May 4th, 2014.

Doucouliagos, C. "Why Capitalist Firms Outnumber Labor-Managed Firms." *Review of Radical Political Economics* 22.4 (1990): 44-66. Print.

Doucouliagos, Chris. "Industrial Efficiency Under Mangerial Versus Cooperative Decision-Making: A Comparative Study of Manufacturing Enterprises in Israel." *Self-governing Socialism: A Reader*. By Branko Horvat, Mihailo Marković, and Rudi Supek. White Plains, NY: International Arts and Sciences, 1975. N. pag. Print.

Dow, Gregory K. *Governing the Firm: Workers' Control in Theory and Practice*. Cambridge: Cambridge UP, 2003. Print.

Dickstein, C. "The Promise and Problems of Worker Cooperatives." *Journal of Planning Literature* 6.1 (1991): 16-33. Web.

Elster, Jon. "From Here to There; Or, If Cooperative Ownership Is So Desirable, Why Are There So Few Cooperatives?" *Social Philosophy and Policy* 6.02 (1989): 93. Print.

Freeman, Richard B., and Joel Rogers. *What Workers Want*. Ithaca: ILR, 1999. Print.

Galbraith, John Kenneth. *The New Industrial State*. Boston: Houghton Mifflin, 1967. Print.

Gintis, Herbert. "Financial Markets and the Political Structure of the Enterprise." *Journal of Economic Behavior & Organization* 11.3 (1989): 311-22. Print.

Hansmann, Henry. *The Ownership of Enterprise*. Cambridge, MA: Belknap of Harvard UP, 1996. Print.

Holmström, Bengt, and Paul Migrom in Putterman, Louis G., and Randy Kroszner. *The Economic Nature of the Firm: A Reader*. Cambridge: Cambridge UP, 1996. Print.

Holmström, Bengt, and Tirole, Jean. *The Theory of the Firm*. Cambridge, Mass: Dept. of Economics, Massachusetts Institute of Technology, 1987. Print.

Jossa, B. "Marx, Marxism and the Cooperative Movement." *Cambridge Journal of Economics* 29.1 (2005): 3-18. Print.

Knight, Frank H., Risk, Uncertainty, and Profit. 1921. Library of Economics and Liberty. 5 May 2014. <http://www.econlib.org/library/Knight/knRUP7.html>.

Lenin, Vladimir. "On Cooperation." *On Cooperation*. Pravda, n.d. Web. 7 May 2014.

Levine, David I., and Laura D'Andrea Tyson. "Participation, Productivity, and the Firm's Environment." *Paying for Productivity: A Look at the Evidence*. By Alan S. Blinder. Washington, D.C.: Brookings Institution, 1990. N. pag. Print.

Luxemburg, Rosa. "Chapter VII Co-operatives, Unions, Democracy." *Rosa Luxemburg: Reform or Revolution (Chap.7)*. N.p., n.d. Web. 7 May 2014.

Marx, Karl. Inaugural address of the Working Men's International Association. In *Marx-Engels Colllected Works,* vol. 20. London, Lawrence and Wishart.

Martin, Brendan, and Steve Wong. Personal Correspondence. August 19th, 2014.

McCain, Roger A. "On the Optimum Financial Environment for Worker Cooperatives." *Zeitschrift Für National Ökonomie Journal of Economics* 37.3-4 (1977): 355-84. Web.

Mill, John Stuart, Jonathan Riley, and John Stuart Mill. *Principles of Political Economy: And, Chapters on Socialism*. Oxford: Oxford UP, 2008. Print.

Melman, Seymour. *After Capitalism: From Managerialism to Workplace Democracy*. New York: Alfred A. Knopf, 2001. Print.

Prychitko, David L. *Marxism and Workers' Self-management: The Essential Tension*. New York: Greenwood, 1991. Print.

Samuelson, Paul. "Wages and Interest: A Modern Dissection of Marxian Economic Models." *American Economic Review* 47 (1957): n. pag. Web. 5 May 2014.

Schweickart, David. *Against Capitalism*. Cambridge: Cambridge UP, 1993. Print.

Schwartz, Justin, Where Did Mill Go Wrong?: Why the Capital Managed Firm Rather than the Labor

Managed Enterprise is the Predominant Organizational Form in Market Economies (July 14, 2011). Available at SSRN: http://ssrn.com/abstract=1886024

Stryjan, Yohanan. *Impossible Organizations: Self-management and Organizational Reproduction*. New York: Greenwood, 1989. Print.

Webb, Beatrice. *The Co-operative Movement in Great Britain*. London: S. Sonnenschein, 1891. Print.

Weitzman, Martin L., and Douglas L. Kruse. "Profit Sharing and Productivity." *Paying for Productivity: A Look at the Evidence*. By Alan S. Blinder. Washington, D.C.: Brookings Institution, 1990. N. pag. Print.

Williamson, Oliver E. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: Free, 1985. Print.