BOOK REVIEW

Governing the Firm: Workers' Control in Theory and Practice, Gregory K. Dow. (New York: Cambridge University Press, 2003, 342 pp., $70.00 (hardback), $24.00 (paperback))

reviewed by Hoyt N. Wheeler†

The dream of having workers own the enterprises in which they work has been held by both utopian and pragmatic scholars for centuries. The nineteenth century Knights of Labor had the establishment of worker cooperatives as their primary goal. So, over the years there has been no lack of arguments for the desirability of this coming about. But, if this form of organization is so attractive, why is there not more of it? It is to this question that this excellent book chiefly devotes itself. It also sets out a well-reasoned plan for helping more worker-controlled organizations to come into being.

Probably the greatest contribution of the book is its proposed structure for establishing new worker-controlled enterprises. This plan is grounded in rigorous and penetrating analysis of both theory and empirical studies. It takes into account a number of theoretical frameworks drawn from economics, probably making it more acceptable to the economics community.

The author defines a labor-managed firm (LMF), or "laborist" firm, as one where control is assigned "by virtue of, and in proportion to, labor supply." In such a firm, votes are in proportion to labor supply, not capital supply. The board of directors is chosen by the workers, not shareholders. In a capital-managed firm (KMF) every non-shareholder can be replaced by the shareholders, whose voting rights cannot be taken away by anyone else.

What are the benefits of worker control? The author does not put much stock in the argument that it leads to a more equal distribution of wealth, which was the main public policy motivation for the establishment of Employee Stock Ownership Plans (ESOPs). He does believe that: (1) LMFs can offer efficiency benefits; (2) as

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argued by political theorists, workers should have governance rights within firms where other valuable objectives are not unduly impeded; and, (3) control by workers can reduce the harmful effects of "unaccountable authority" in a firm. He argues that teams and other participatory devices are not an acceptable substitute for worker control because they can be revoked by managers at any time.

There is a useful description—what the author calls "photo opportunities"—of some examples of worker control. These are plywood cooperatives in the United States, Mondragon in the Basque region of Spain, the Lega group of cooperatives in Italy, American ESOPs, and German codetermination.

Dow applies what he calls the "symmetry principle" in attempting to understand why there are differences between KMFs and LMFs. There is asymmetry between them as to their numbers, the industries in which they are found, and their behaviors. These asymmetries must be explained by "identifying qualitative and causally relevant asymmetries" between capital and labor. One qualitative asymmetry between capital and labor as a basis for control is that capital is transferable, while labor is not. Labor is unalienable. Unlike capital, it cannot be transferred from one person to another. Also, financial capital is homogeneous, while labor inputs are not. Labor inputs are dependent on the personal characteristics of the worker who supplies them. Also, the owners of capital generally share a common goal—maximizing profits. Workers, on the other hand, are likely to have a variety of goals—high wages, job security, good pensions, etc. The author also applies the "replication principle," which requires that any hypothesis that asserts a supposed advantage of KMFs must say why LMFs could not obtain the same advantage.

Various economic theories are considered for their possible usefulness in explaining the rarity of LMFs. The author says that the hypotheses generated by these theories may all have "some kernel of truth." As one who has little use for economic theories, this reviewer is not surprised that these kernels are few and far between. From this reviewer's perspective, it is notable that there is no consideration of the idea that humans have a natural inclination to form hierarchies, and that this may be part of the explanation for the difficulty of establishing more egalitarian structures in firms. However, econometric studies have produced some solid evidence of a productivity advantage for worker controlled firms.

A synthesis of various theories and studies holds that the differences in alienability between labor and capital affect control rights through: (1) commitment asymmetries; (2) composition

asymmetries; and, (3) commodification asymmetries. As to commitment, KMFs are superior in their ability to offer credible guarantees of repayment to investors, although LMFs are superior as to commitments to workers. As to composition, the LMF control group is usually larger, which may lead to problems of free-riding and costly multilateral bargaining. As to commodification, a market for labor membership is not likely to function as well as a capital market, since it is impossible to transfer labor control rights without replacing one person's input with another's.

The author concludes by maintaining that, although the inalienability of labor inevitably causes problems, "all is not gloomy." This is because many of the consequences of this can be taken care of through policy measures. Although he believes that it is not likely that the disadvantages of LMFs can be overcome at the point at which a new firm is organized, the opposite is true in converting a publicly-held KMF to a LMF. For this purpose, he makes a "Modest Proposal." This has three central elements. The first is a labor trust, a "legal entity through which employees buy a firm's equity shares on the stock market." The labor trust would gradually buy up all of the outstanding equity, using funds generated by payroll deductions. The second is a board of labor directors elected by employees on a one vote for one person basis. During the transition, an overall board of directors would be comprised of both labor directors and capital directors. The third element is the creation of labor shares, of which each person gets one. These must be transferred when workers leave, either directly to replacement workers or to the firm, which could in turn sell them to other workers. All of this would have to be initiated through a referendum of the workers. Although there are many pitfalls along the way, they are believed to be avoidable. The need for a supporting federation and associated institutions, in particular a bank, is a lesson drawn from Mondragon and the Italian cooperatives.

The volume is given an eloquent ending, with the author saying that, "the road to workers' control leads neither to heaven nor hell." Pragmatism is required, not dogmatism. "If in the process we learn how to reconcile democratic governance with economic prosperity, that will be knowledge worth having."