

**Sociology 292. Envisioning Real Utopias. Reading Interrogations**  
**Week 5: Workers Coops**

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**1. Matías Scaglione**

*Workers cooperatives and the importance of planning the use of social surplus*

Workers cooperatives face serious challenges in a world dominated by capital. This truism became relevant in so far as a workers cooperative is a model of egalitarian and democratic generation and distribution of *social surplus*, and, therefore, constitutes a central aspect of a strategy for a socialist society. The idea I would like to raise for discussion –and that is missing in the core readings– has to do with the long-run *planning* of the use of the social surplus appropriated by the workers. The aspects I would like to discuss are

- i) The nature, scope and rigidity of a long-run plan for the use of social surplus;
- ii) How appropriate are the conventional economic techniques –for instance the construction of production functions– to provide tools for planning the accumulation of capital and the incorporation of new technology. Does this kind of approach fairly estimate the advantages of cooperation –roughly captured by the concept of ‘increasing returns to scale’?
- iii) The necessity of limiting the potential wealth of the workers, prohibiting hired labor, and sharing the ‘residual’ social surplus (I would like someone to propose a better term, please) with the *community*, thus creating a *real* democratic and reciprocal environment.
- iv) Considering points (i) - (iii), it is possible to stimulate technological innovation through planning?
- v) [I would like to discuss other points in class]

**[Your point iii suggests – if I am understanding your discussion -- the problem of linking the control over the surplus generated within a given enterprise – in this case a worker-owned enterprise – with the broader social use of that surplus. In the readings the issue of the planning for the use of the surplus – called “profits” in the readings – within the coop is discussed in various places, since this has to do with the nature of democratic decision-making in the firm, the allocation of resources between investments and distributed profits, etc. But you are correct that nowhere is there any discussion of the broader democratic issue of the social-planning of the surplus. The assumption in both readings is that the economy remains a purely market-based economy and thus the only issue in the allocation of surplus rests with the owners of firms.**

**In terms of the themes of the reading, I think the pivotal issue here would be the ways in which broader community control over the use of surplus might undercut the positive incentive structures within coops. Coops are thought to resolve certain kinds of incentive problems that plague capitalist firms, most clearly signaled by the fact that the plywood coops have ¼ the density of supervisors. If the broader community, however described, were to have primary rights over the disposition of the surplus – and thus could really plan for its use – what would this mean for the problem of intra-firm incentives?**

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## 2. Patrizia Aurich

In his piece “The ownership of Enterprise“ Henry Hansmann looks at the different ways in which a firm can be owned by its patrons while focussing on employee ownership. He explores various relations of costs in different settings of ownership with main emphasis on the costs of contracting and the costs of ownership. He basically argues that if the costs of market contracting get too high, ownership might be a way of improving the efficiency of an existing relationship in that it reduces the costs of transaction with an existing patron. But he then wonders why employee ownership only seems to appear in settings where the gains from it aren't as high, and not in settings where the gains could be much higher, i. e. in big industry (Hansmann: 75), for example in terms of reducing alienation. (I am confused with his notion of alienation though. I thought that alienation at least in marxist terms means basically the inability of the workers to identify with their products for the ways of production are split up and for they are not residual claimants of their outcomes anymore. Whereas Hansmann sees the virtue of alienation in the unpleasantness individuals feel in engaging in market contracting because these individuals would “instinctively prefer relationships that are more cooperative, trusting or altruistic” (Hansmann: 32). I think this is a rather shortcut perception of alienation. It suggests that there are individuals who don't enjoy cooperative relationships and overlooks that this is not a market inherent problem. Also this view doesn't explain why Hansmann thinks alienation to be less of a problem in smaller businesses (Hansmann: 74.). Maybe there is no justification in assuming that the gains in reducing alienation wouldn't proportionally be the same in more heterogenous firms. **[The term “alienation”, while it has a technical Marxist meaning, also has come to describe a broader set of phenomena in people's life that make them feel “alien” within their social worlds. Thus it is quite common to regard a work setting filled with competitive hostility and adversarial relations as “alienating”, even though this is not the specific meaning Marx had in mind. It should be added, of course, that even with Marx there are a number of different meanings of the terms and endless debates over which is the most central. The min issue here, I think, is that Hansman wants us to think of the quality of social relations as one of the relevant costs of alternative ownership relations, rather than just regard costs in standard efficiency-price terms.]** Hansmann concludes that the gains might not be the crucial element for establishing employee ownership, but rather the costs. He comes up with the idea that the costs of ownership in heterogenous firms, for example costs of collective decision making, are too high. **For what? [The issue here is that these costs may be too high to make it worthwhile for the workers in question. If interests are deeply heterogeneous it may take a huge amount of time and effort to resolve differences and reach consensus, and it may even not be possible to reach a concensus. If important decisions have to be reached which advantage some workers and disadvantage others – advantage/disadvantage with respect to these heterogeneous interests – and no consensus can be reached, then the decisions will be imposed by majority vote, and this will lead to resentment by the losers and efficiency losses for the collective, which would constitute an additional cost. All of this may simply make it not worth it have a democratic process. This is why academic departments which combine people with heterogeneous scholarly interests sometimes break apart into separate departments – eg clinical psychology and neuroscience; physical anthropology and cultural anthropology.]** Participation of the workers in form of real ownership, which means the right of

earning profits as well as the right of control, in his view may not be efficient in highly hierarchical and heterogenous firms. The rights of ownership of employees in such firms rather need to be split up in that way that the employees only have a right on earning profits, but no right to control. The control is to be exercised by fiduciaries instead.

This view in my opinion inadequately reduces the egalitarian concept of employee ownership in terms of real participation to simply considering (private) costs in relation to (private) profits. Hansmann actually mentions the democratic values of employee ownership himself but only in regard to show their inefficiency (Hansmann: 43). **[He also, at least implicitly, acknowledges that democratic participation might be an intrinsic value in his discussion of trust and cooperation as forms of relationship that people find desirable]**

Empirically Hansmann may be right, that in complex firms real ownerships in terms of control cannot be exercised, because of high costs of decision making and that the closest existing type of employee ownership is the fiduciary one. But he does not take into account that this misses the real gains of ownership such as making the workers residual claimants on what they produce and enabling them to codetermine the fate of *their* firm. **[You are right about the second point – the fate of their firm – but not, I think, about the first: workers would still be the residual claimants on what they produce if they were owners even if they did not have managerial control over the operations of the firm. That is what being an “owner” would mean.]** Hansmann lacks not only an utopian, but any perspective. Thinking further, however, it might be possible to imagine other types of employee ownership in complex firms which do give the employees the right to exercise control: imagine that the scope of control is limited, not because it is transferred to someone else, but because the control only refers to a certain section of the firm, for example the department of production or investment. If workers could exercise control within their own range of activity, while owning shares of the company, they would be participants at a lower level, which is justified through the complexity of the firm as well as the size of their shares, and this could resolve in a democratic firm from the bottom up to the top with representatives of each participatory unit. Of course this would also be a reduced sort of ownership, but at least both rights inherent to ownership would be incorporated. **[I don't think anything Hansman writes would object to this – he doesn't see democratic control as an all-or-nothing affair, either with respect to scale – the whole firm vs subunits/departments – or with respect to problem area – health-and-safety vs investment decisions.]** There would probably still be high costs of collective decision making in terms of coordinating the different interests of the firm's departments, but these could be reduced by setting objective criteria, which Hansmann sees as a solution to the problem too (Hansmann: 42), as to what extent the employees can exercise this control, as for example in the codetermination in German firms, where it is exactly confined which topics are subject to codetermination.

Maybe the reason why employee ownership doesn't seem to appear in many big companies are not the costs of decision making, there are ways to limit them as the example of Mondragon or the German codetermination shows, but rather a few people on the top holding a lot of power, which they want to hold on to. **[Why exactly do people at the top want to hold on to power? Is this because they enjoy the power, or because they believe, rightly or wrongly, that it is more efficient to have power concentrated at the top, or because they simply benefit**

**materially from monopolizing power in this way?]** In a smaller business with less anonymity this concentration of power may not receive the same legitimation, especially when the jobs are more homogenous and the inequalities harder to explain. So Hansmann may be right about the importance of the homogeneity of the structure within the company, but not in the way that he thinks to be.

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### 3. Zeynep Kilic

Worker co-ops organizations are one of the best solutions given to the capitalist labor market problems while staying in capitalist market generally. In worker co-ops, the basic problem of capitalist system, appropriation of surplus by “capitalists” and by this way exploitation of workers is at least minimized. For this reason, enhancing the co-ops -- both small and large scale firms -- must be seen as a mean of reaching more egalitarian and less capitalist society. However, building a firm as a real worker co-op, in the terms of creating an active participation to management has many difficulties.

The researches show us that the worker co-ops rarely have problems about economic activities. They are typically no less efficient, and probably more efficient than capitalist firms. Due to the fact that workers consider the job to be their own, which is actually right, they work more eagerly to get more satisfaction, monitor each other effectively etc.

In respect to participation in management, I believe that it must be seen as a part of a self-determination right more than enjoyment or satisfaction from participation or even training for further political life. **[This is an important, and strong, claim: workers ownership should be viewed as a right rather than simply one among many possible organizational designs of production. This means that it would no longer be relevant whether or not a coop was more productive than conventional ownership, any more than we believe that a dictatorship would be justified politically if it could be shown it was more efficient. This doesn't eliminate the problem of the potentially high costs of cooperative ownership under conditions of heterogeneous labor, but it reframes the parameters of that discussion].**

Workers must have rights to shape their working environments in capitalist firms too. In worker-owned firms, being provided with active participation must be a necessity. This participation usually is provided by elections on board of directors. But, to increase the activity of participation, some regulation can be made. The Board has to work openly to all workers, workers have to have some mechanism of control over the board, sub-boards must design to distribute responsibility to all workers. Workers co-ops have a manager as a specialist to help making decisions about the work place. The Manager is mostly a consultant. Most of the time, the manager and board of directors make the final decisions about work. These kinds of regulations eliminate the problems of “high” management. **[I don't know if these institutional features really eliminate the problem of high management, or simply cope with the problem. I imagine that a worker coop with a manager that makes the final decisions about work will often confront tensions around decisions that adversely affect some workers and not others.]**

The researches, again, show that small scales firms with homogeneous workers have more chance to have success. This homogeneity decreases the disagreement among worker-owners about their wages or decisions on work process. Besides, there rarely is hierarchical authority among them. Or when the jobs and skills are different at least there must be measurable kind of productivity, which make easier to decide. But there is a Mondragon experience. Although we don't have much knowledge about the governance of it, we have some clues to show the way to create a worker co-op system.

I think the key point is culture and institutions, which help workers to build such a system. We have other examples from Europe. We claim that all the countries, where the examples come from, have communal tradition in their histories. Communal tradition facilitates collective decision making and collective governance by having common goal and interest instead of individual goals and interests. **[This would be an interesting empirical research question: is it in fact the case that worker coops function more effectively in places where there is a strong communalist tradition? Or, perhaps, this is an illusion: perhaps what passes for a communal tradition is really just a tradition of decision-making under conditions of interest homogeneity. That is: the communities which we think of as having such strong communal decision-making traditions were not highly differentiated, and it is actually the homogeneity which generates/supports the norms of collective decision-making not something called "culture". But also you may be right – there may really be cultural variation that matters here.]** To carry workers co-op to a larger scale, this kind of a tradition can be helpful. Hansmann points out that in American culture there is a democratic tradition, of which institutions for collective governance play a central role. But in the core of this tradition there is individualism. This can cause conflict of interests at some points and can threaten the "future" of co-op as a system. Pencavel gives us the example of two successful, structurally similar ideologically different worker co-ops. As he said it is not easy to decide which one should exhort. In any way, every co-op has its value of giving the self-determination right to the workers. But still, if the aim is extend the co-op system to other sectors of economy and to the large scales firms, I believe that, socially constructed co-ops and their workers who felt themselves in a vanguard of social change like forests workers in Northwest, have more power to make changes in actual working and managing habitudes toward a more collective form.

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#### 4. Stuart Meland

Three vague and vexing questions regarding Pencavel's Worker Participation.

- 1) *What do workers need and why are we so determined to meddle in their lives?*
- 2) *Can workers' needs be met without the workers owning their means of production?*
- 3) *Can both workers' and owners' needs be met separately and simultaneously?*

Pencavel clearly illustrates that asset distribution among workers, like asset concentration among elites, has both positive and negative effects. As an alternative to these extreme forms of asset ownership and control, we should consider a hybrid whereby both workers and owners promote

their own interests without seriously compromising the interests of the other. Citing a 1994 study by Freeman and Rogers, Pencavel says, “When given a choice among different types of workplace organizations, the vast majority of workers selected something that is run jointly by employees and management over an organization run by employees alone” (87). **[Is the couplet “workers and management” the same as “workers and owners?” Workers might prefer the former because of concerns about decision-making complexity in large organizations, and still want to be the sole owners of the firm if this were possible. While these problems are of course linked, I think one should not regard the problem of democratic participation and control over decisions as identical to the problem of ownership.]** In the final chapter, Pencavel offers some suggestions such as repealing the National Labor Relations Act of 1935 which prohibits the formation of company unions. I think these suggestions warrant a book of their own, if not a series of books dealing with the “moderate” alternatives to worker ownership or elite ownership of the means of production. I would like to address one possible alternative, codetermination, which I am only somewhat familiar, defined as:

“Cooperation, especially between labor and management, in policymaking: ‘The codetermination of labor with management, compulsory in large firms here, was applied to universities as well, with governing committees forced to share representation more evenly between professors, junior staff, and students’” (Elizabeth Pond).

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Codetermination does not necessarily require worker ownership in the company (although they are free to do so if they have the capital to invest), only representation. As I understand it, codetermination works in a similar fashion to our form of state and national governance. Workers elect representatives to the board of directors to represent their interests in corporate decision-making. Owners also elect members of the board to represent their interests. Together they hire a management team to oversee the operations of the company. I believe that worker interests are not always met through the ownership of capital assets, but through management’s recognition of workers’ rights. A codetermined company takes into considerations profit, market factors and worker rights when making decisions. **[Very good points, worth discussing at length. One issue to think about is this: can we identify specific normative issues for which codetermination provides a better solution in principle than alternatives, or is it simply a pragmatic question that it will work more effectively? Also, are there some normative issues for which the real issue is ownership as such rather than collective decisionmaking?]**

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## 5. Chang

### 1. “Governance” costs

Ownership itself involves costs (governance costs). Governance costs include the costs of making collective decisions among the owners. When many people share ownership of a firm, there are likely to be differences of opinion. The costs of collective decision-making are the additional costs that result from heterogeneity of interests among the owners (40). In employee

ownership, the costs of collective decision-making are critically significant in terms of efficiency.

Regardless of who bears the costs, there is an incentive to reduce those costs by employing some form of collective choice mechanism. Employee-owned firms tend to adopt rules that promote homogeneity of interest among the employee-owners. In the case of Mondragon, what makes homogeneity of interest possible? (if Mondragon were regarded as the successful case of worker coops)

## 2. Mondragon

What is the form of collective choice mechanism in Mondragon? Hansmann suggests it is representative form of democracy. Hansmann, however, argues that workers' rights to control and to participation in earnings are attenuated in the Mondragon system, and the individual firms cannot really be said to be fully owned by their workers (pp101-102). Is such governance structure efficient? This question is about economic aspects of Co-operative performance. According to Hansmann, Mondragon's average productivity has regularly exceeded that of Spanish industry in general (p.99). Then, **can a labor-managed sector continue to expand? I think the essential question is how to capture economies of scale without destroying the spirit of workers' self-management based on high levels of participation and managerial decisions that are given democratic endorsement. [Mondragon certainly is an interesting case. The question is whether the forms of meaningful worker participation have really significantly attenuated because of the constraints of size and complexity. It seems in some ways that the system is more one of democratic "endorsement", as you say, than real democratic involvement and participation. I wonder how much deliberation and contestation go into these elections – are these rubber stamp affairs, or elections in which real issues come into play?]**

Co-operatives are seen not as completely independent entities, but enmeshed in a web of wider social and economic relations. These give rise to both external and internal forces on co-ops. I'm not sure about the feasibility of success of Mondragon-style co-ops. Will it be feasible to maintain an identical level of average earnings between a bank, industrial cooperatives and education cooperatives if the group should become geographically more widespread? And, the issue of labor mobility? Also, problems of national policy making, such as foreign trade control, market regulations and price policies are beyond the Mondragon experience.

## 3. What I learned from Mondragon: Education from the perspective of reproduction.

The education cooperatives in Mondragon supports the entire Mondragon group. The outstanding features of an educational structure are programs of recurrent adult education, a special cooperative for the provision of research and development (R& D), and a cooperative in which students work part-time in order to combine work and study. Without education cooperatives, I think, Mondragon experience would be impossible.

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## 6. Adam Jacobs

Is there an issue of scale within cooperatives? Hansmann notes that 'where the class of owners is large, it may be prohibitively costly ... to undertake anything beyond the most cursory monitoring.' (36) As it is with the corporation, so it is with the cooperative. Is it too rigid or Aristotelean to suggest that different cooperatives (depending on the service/product) might have an ideal size? If the presence of the free-rider problem is proportional to one's anonymity in the situation, then smaller cooperatives should be better equipped for the problem. **[It would be interesting to try to figure out precisely what would determine the optimal size for a coop, since this could vary not just by product/service, but by technology, nature of the surrounding community, nature of the support networks for the coop, nature of the specific institutional form of decision-making adopted, etc. ]**

The debates about productivity, risk aversion and time horizons were all inconclusive: in no category was it empirically evident that coops were different from regular firms. In other words, whether the coop is harmful or beneficial to the consumer, or to the economy at large, is inconclusive. **[Are you simply asking about the effect of the coop on non-coop members, or specifically on "consumers" here? I am not sure what you mean when you refer to debates about productivity, risk-aversion and time horizons for the consumer. The readings include discussions about risk aversion – as you note later – but this was only about risk aversion for the members of the coop, not risk effects on consumers. The same for productivity and time horizons. So, I am not quite sure what you mean by things like risk effects of coops on consumers or the economy at large.]** It seems that, *ceteris paribus*, the cooperative is a better situation for the worker. On a related point, Pencavel concludes that 'coops and conventional firms may have existed side by side in the plywood industry in the Pacific Northwest for almost eighty years because each type of organization appeals to a different type of workers.' (44) He had earlier noted that unions and coops were generally antagonistic, rather than supportive of each other. There is simply a 'coop type,' who is less risk averse and willing to do things differently from the norm. **[I think that this argument about coop types is pretty interesting and raises some broader normative issues: perhaps the goal should be a pluralistic set of choices of organizational forms in which none had any structural advantages – for example, because of the way credit markets were organized – so that individuals could bet match their own priorities to organizational settings.]**

Could it be fruitful to look at differences in individual ideology? Pencavel pointed out that 'to the disappointment of some observers, they have hardly been 'schools for socialism''. (89) But if the coop was not revolutionary, it was at the least quite non-hierarchical. The similarity between the unionized and non-unionized firms is that they are top-down hierarchical operations. Although coops have needed to adopt some hierarchical measures, it seems this form of organization would still appeal to people with a less capitalistic ethos - that is, people preferring stability and engagement over possibly higher incomes.

Within Hansmann's chapters, I was troubled by the comparisons drawn between traditional producer's cooperatives (like those in Pencavel's book) and group practice in highly skilled professionals. Although it's true that both groups are providing a service within a more or less competitive market, lawyers and plywood workers occupy very different spaces within the

market, and within the economic hierarchy. Allegiance to, and dependence upon, the cooperative is different for these two professions: ascending to partnership, contrasted with relying on the coop system for less volatile wages and employment. I would suggest that lawyers and bankers have coops because they are sufficiently powerful not to be bothered by owners; plywood workers have coops because they are *not* sufficiently powerful, and owners would be able to exploit them. Is this dichotomy too simplistic? **[This is a very good point: the nature of the background power relations that inform the choice of organizational form and its functions for the participants. You are right, I think, that coops are more empowering for plywood workers than for lawyers. Basically lawyers have the individual exit option for solo practice and forming a coop is a way of gaining economies of scale over individual offices.]**

I think Hansmann's discussion on the value of participation per se is valuable. I would agree that 'participation in collective decision making ... may be useful training for participation in the democratic political process.' (43) Again, this seems to raise the issue of scale, since workers would be proportionally more involved in a 20 person coop than a 200 person coop.

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## 7. Elizabeth Holzer

How can we alleviate problems associated with heterogeneity of workers?

Hansmann says that homogeneity of workers is a central indicator of the likelihood for successful worker's co-ops, because it substantially reduces collective decision-making costs. Pencavel's analysis of the plywood and forest workers' co-op supports Hansmann's conclusion. It is not clear to me why heterogeneity of interests would raise the collective decision-making costs to point that democracy in a firm generally becomes unfeasible, when this is not the case on the larger, more complex and heterogeneous political scale. **[Nice point: do different kinds of organizational settings pose different problems from democratic legitimacy and conflict resolution? Is the idea that losers in a political battle should accept the "will of the majority" mean the same thing in a firm as in a polity? Does the exit-option in firms affect the issue of power and conflict within the firm in a way that it doesn't in a political unit?]** Regardless, heterogeneity presents difficulties that need to be addressed. I think it would be interesting to consider institutional mechanisms for encouraging homogeneity of interests, narrowly defined as producing "similarity in the effect that any decision by the cooperative will have upon transactions between the cooperative and each of its various members" and homogeneity of "more personal dimensions" (Hansmann 140). **[I am not exactly sure what you mean by "encouraging homogeneity." This could mean something like: shaping the identities of people so that they experience themselves as members of a community of shared interest rather than as separate individuals with distinctive interests. Or it could mean: recruiting people who are relatively like each other into the co-op (which could mean, of course, gender, race, religion, etc. as recruitment criteria). Or it could mean something like: trying to design policies and make decisions such they have similar effects on people in spite of the very different positions in the division of labor of the firm. This last one is not very clear to me.]**

Pencavel argues that homogeneity is so malleable an analytic concept as to be arbitrary (Pencavel 33) which is inaccurate (see Hansmann's comparison between pay scales according to eye color and pay scales according to skin color). But he argues convincingly that homogeneity of workers is responsive to institutional mechanisms within the firm. When a plywood co-op for example, has universal hourly rates and work hours, it eliminates a division common to other firms, between part-time workers and full-time workers. Not coincidentally, this trade-off disproportionately hurts women by not allowing for a balance between care work and paid work that part time work offers, and few women work in the industry. **[It isn't obvious that creating a universal hourly rate that applies to both part time and full time workers would hurt women, since it would mean that part time women would be paid as much as full time men. It is a separate issue whether or not part time work itself is also eliminated, but that is distinct from the hourly wage rate problem.]** I'm not sure that homogeneity of gender is necessarily something that should be encouraged—have to watch out for those unintended consequences.

Differences between workers are not weighed equally; only some are considered “legitimate” for the purposes of worker interaction. Legal remedies, like the anti-discrimination laws, are avenues of conscious redefinition of what constitutes legitimate difference. Legal remedies, by applying to a whole sector rather than a specific firm, would ideally encourage creation of new worker co-ops.

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## 8. Eric Freedman

I have two clarification questions:

1. I was confused by the discussion beginning on page 39 about the returns to membership in a coop, especially where Pencavel writes that he “found the returns to being a member of a co-op exceeded, usually by a large amount, the returns to working in a capitalist mill. In this sense, the prices of the co-op shares were undervalued” (p. 43). Later on, he explains the undervaluation by noting the “heightened risk of being a worker-owner in a co-op.” What exactly is the argument being made here? **[I wasn't completely clear on this point either. I assume that by returns to being a member of a co-op he means “total economic returns,” which include the returns to owning shares in the coop (i.e. the returns to being a coop = the wage returns + the returns to one's invested capital in the coop). If we assume people can freely choose whether to be in a coop or in a capitalist mill, and we see that the pay in the coop is higher, then it should be very costly to buy into a coop (i.e. the shares should be very expensive), since the pay will be high. The puzzle is that the shares seem pretty cheap given the high wages they give workers access to. The reason, therefore, must be something like the heightened risk of putting all of ones eggs in the single basket of the co-op).**

2. I was also somewhat confused by the idea that worker co-ops respond to increased demand (higher prices) by lowering output. I have taken Econ 101, but it was years ago, and I am not quite clear on why the worker co-op would have a differently shaped supply curve than a

capitalist firm. Also, it seemed like Pencavel's empirical research demonstrated a rather different phenomenon: not that the co-ops responded to price shifts in an opposite manner to how a capitalist firm would, but that they were relatively unresponsive to these shifts—they neither increased or decreased production. Wouldn't this finding go against the theoretical model Pencavel is evaluating? **[I think that functionally the basic point would still hold: being dramatically less responsive means that you are not responding to the price signal appropriately and thus "misallocating" resources. We should discuss the economic reasoning here in the class.]**

Aside from these questions, I do not currently have any real critical responses to the text. It seemed like Pencavel's treatment of the economics of co-ops in the Northwest was balanced and carefully researched, and he is hesitant to draw conclusions where he does not believe the evidence warrants it.

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## 9. Richard Thomson

1. Methodological critique of Hansmann's post-hoc imputation of characteristics of successful producer-cooperatives. He failed to detail the history, or the context, in the formation of the producer-cooperatives he discussed (although he provided this kind of background information for some of the agricultural cooperatives), instead he takes the current distribution of producer-cooperatives as the "population" and tries to examine them for a distinguishing feature (collective decision-making costs) and then imputes this feature post-hoc as the rationale for why some producer-cooperatives were successful and not others. At no point, does he describe the history and context of these producer-cooperatives and demonstrate how the limiting of collective decision-making costs was the driver of their success. Moreover, he is forced to explain-away the discrepancies of many producer-cooperatives with his theories (i.e. Mondragon, steel mills, etc.) which calls into question the extent to which "collective decision-making costs" is actually the driver that he claims that it is. **[But isn't the core of the argument really a theoretical one: decision-making does imply costs and it is plausible that increasing complexity and scale increases those costs if the governance structure is to be genuinely democratic. I think this is mainly an issue derived from the reasoning of transactions-costs economics, not strictly an empirical generalization, but which then can be used to diagnose empirical cases and their problems.]**

2. Hansmann fails to detail the differences between law and physician producer-owned enterprises and other types of worker-owned enterprises. Obviously, the American Bar Association and American Medical Association stance on producer-owned enterprises is a strong factor in their proliferation. Additionally, the significant education requirements and legal restrictions on performing this work without a license, are substantial differences in relation to other producer-cooperatives. Moreover, these workers with high levels of educational attainment frequently are well-paid and can use the machinery of their organizations to reinforce politically the status of worker-ownership in their industries. Other worker-cooperatives did not have an industry group mandate this form of organization (and have it upheld politically). Therefore, I do not find the comparison as fruitful as Hansmann did. **[You are posing an**

**interesting alternative theory of the success of these professional-coops: that they are successful because of the strength of the professional associations that protect them and provide them with various forms of political support, rather than because of anything specific about the nature of professional services. Still, one might argue that such associational backing would not have been sufficient to create stable professional co-ops if those co-ops weren't internally advantageous in overcoming the co-op governance problems Hansmann lays out.]**

3. Apples and oranges comparison of a few small worker cooperatives in a few industries vs. a complete distribution of millions of capitalist firms over time (same question as I brought up in my week 3 interrogation). Mondragon, the Northwest forestry cooperatives, and the agricultural cooperatives are only a small number of cooperatives in a few industries over time. Could the disadvantages of worker cooperatives be overly-magnified due to their small size in the economy historically and currently? **[That is a relevant challenge, but one still would need to counter the specific arguments about mechanisms that undercut coops]**

4. Ideology of financial institutions toward cooperatives – Hansmann rejects this argument, yet he fails to mention that one of the major reasons the Mondragon cooperatives were successful was due to the central bank created early on (which the Mondragon founders recognized was necessary if the Mondragon was to survive and flourish). Similarly, one reason agricultural cooperatives were able to flourish in the U.S. is the Cooperative Bank and similar institutions created just for this purpose. In addition, one of the reasons for the U.S. Agrarian Populist movement in the late 1880's and early 1900's was because farmers and cooperatives were having trouble getting loans from banks as easily and at the same terms as investor-owned firms. Moreover, workers due to their close proximity to work would likely have a better view of the health of an organization rather than non-involved investor-owners – thus, banks should be more likely to support cooperative proposals than investor-owned proposals. I would like to see a study of how financial institution's criteria for determining "who to give loans to" was created and evolved over time to see if the capitalist ideology did not creep into this process and skew it away from cooperatives and toward capitalist firms. **[This raises a more general question about the relevance of the institutional environment of particular organizational forms in explaining their robustness. Here you emphasize credit institutions, but one could add many other institutional conditions as well – information solving, conflict resolutions institutions, democratic governance training programs, etc.]**

5. Hansmann overemphasizes the ideological role of "profit-maximization" and "homogeneity of interests" for shareholders. If we accept Hansmann's view of shareholders – how does he explain the shareholder movement and revolt in the 1970's and 1980's, and recent shareholder proposals that obtain a significant (and increasingly larger) block of shareholders for human rights, labor, and environment proposals? These proposals would seem to dispute both assertions, because these shareholders have differing interests that do not revolve around profit-maximization. **[But, on the other hand, these are a very small group of shareholders. If, however, they became a larger group, and thus the owners of corporations began to have much more heterogeneous interests, then the corporate form would suddenly have vastly higher costs of decisionmaking, and the shareholder form might begin to disintegrate!]**

**Random Thoughts** – These random thoughts do not need comments – In lieu of last week’s discussion of limiting the breadth of topics of discussion, I provide them in case anyone else wants to discuss them:

6. Alchain and Demsetz’s Model of the Firm – both articles either implicitly or explicitly refer to this model, but this model of the firm is not empirical, but rather a metaphorical allegory on how economists have post-hoc rationalized why economic relationships have occurred as they have (similar to what Hansmann does to producer-cooperatives). A&D do not attempt to link their model to empirical phenomenon, but rather it is taken as a given. I would also argue that A&D overstate the willingness of workers to give up their claim on retained earnings in exchange for heightened monitoring of fellow workers of the firm.

7. Could Hansmann’s “homogeneity of interest” be a spurious causal variable, with “solidarity of interest” performing the same role and function as he attributes to “homogeneity of interest.” Those with a “solidarity of interest” may have different interests, but will work against their own interests, because they value solidarity to a greater extent.

8. Hansmann similarly underemphasizes the inefficiency associated with the lack of collective decision-making by patrons in investor-owned firms. What happens to these governance costs when investor-owned enterprises replace patron-owned enterprises? Are they internalized and extracted in different, but yet significant, ways? He cites several specific examples of market failures, but fails to demonstrate a continuous link of these inefficiencies throughout the relationships between patrons and the owners of the firm.

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## 10. César Rodríguez

I’d like to raise two points for discussion that pertain to Hansmann’s conclusion about the viability of employee-owned firms:

1. In Hansmann’s view, only those firms whose employees have homogeneity of interests stand a chance of thriving under a governance system that embodies “true ownership” by workers. I’ll have more to say about the idea of “true ownership” in my second point for discussion. Here, the notion that I’d like to question is that of homogeneity of interests. At one point in the text, Hansmann claims that “homogeneity of interests is, in important degree, a social construct” (p. 98). However, he doesn’t pursue the corollaries of this assertion and goes on to treat interests as fixed and thus as sources of irreconcilable conflict between different types of employees within a worker-owned firm –e.g., pilots vs. machinists in the United Airlines example.

In line with a pragmatist understanding of interests and consensus formation, recent studies and theories of governance show that in various situations that entail collective problem-solving participants’ interests and understanding of the tasks at hand may be shaped through deliberation with other stakeholders. These studies refer to a wide range of issues – like community policing or the allocation of city budgets — where heterogeneity of interests (e.g., between residents of

poor neighborhoods vs. residents of rich neighborhoods in the case of participatory budgeting) is at least as high as – and probably much higher than— within worker cooperatives.

If interests are indeed at least partly a social construct, and if we agree that the fact of being co-owner of a firm and participating directly in its decisions has the potential to give rise to feelings of solidarity among workers, then the problem of heterogeneity of interest seems to be less drastic than Hansmann is willing to admit. Could the awareness of “being on the same boat”, coupled with democratic deliberation, not help overcome at least partially the problems associated with the initial heterogeneity of interests? If theories of corporate governance like those inspired in Sabel’s work are right in predicting that worker participation in capitalist firms will give rise to a virtuous circle of commitment and collaboration between capital and labor, would this not apply all the more to worker-owned firms? **[This is an excellent point, since surely the pilot/machinist contrast is not as sharp as the capital/labor contrast. The theoretical question is how should we understand this plasticity of interests. Sables view is pretty extreme, arguing that basically there are no potent pre-given interests and pragmatic problem-solving almost fully defines the interests of actors. If we reject that, then we need to develop more of a theory of the determinants of the strength of interests that actors bring to deliberation/interaction, or perhaps (alternatively) the determinants of the transformative potential of those interactions. In the worker co-op case one issue is probably the character of the exit options and fall-back positions of would-be cooperative members. I suppose the issue of the overlap between social exogenous cleavages and the division of labor within a coop would also be an issue here. Anyway, this is worth giving concentrated thought]**

2. To my mind, Hansmann writes off too hastily the case of Mondragón as one that does not really represent “true ownership” by workers. In fact, his conclusion raises an interesting question about what exactly “true ownership” means. If “ownership has two essential attributes: exercise of control and receipt of residual earnings” (p. 35), it is worth asking whether only full and direct control, and full residual claimancy, can qualify as “true ownership,” as Hansmann’s conclusion on Mondragón suggests.

The more general issue that this question brings out is whether we can distinguish different degrees and forms of ownership that, short of full ownership, still serve the goals for which we value worker cooperatives. In the Mondragón case, as Hansmann’s own review shows, workers have no small amount of decision-making power. The Mondragón corporate complex amounts to a representative democracy system both within the firms and within the corporate complex at large. For instance, the fact that workers can elect managers and decide (in referendum-like processes) about wage differentials is no small accomplishment in terms of internal democracy.

Exploring different degrees and institutional mechanisms of serving the goals of worker-owned cooperatives has the additional advantage of not lumping the latter together – as Hansmann too readily does—with capitalist firms that introduce variations (e.g. employee stock ownership plans, worker councils, etc.) that do not represent as radical a departure from capitalist ownership and work arrangements. **[I suppose to sort this out we would need a more comprehensive typology of dimensions of ownership and “degrees” or forms within each dimension. This might help sort out what normative issues are connected with the**

**compromises and trade offs that we are forced to make. We also would need to know more about the real substance of the processes involved to make a judgment. After all, In ordinary political democracy, there is a huge difference between an electoral democracy in the winner take all first past the post system with weak parties and lots of money, then in a more proportional representation system with strong parties and strict controls on private funding. Our judgment as to how “democratic” the system is would hinge on evaluating these sorts of things. The same should hold for cases like Mondragon: in moving from direct democracy to a representative system has this coop really lost effective forms of democratic voice? How are candidates selected? Has an implicit oligarchy emerged?]**

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## 11. Jay Burlington

I think it might be fruitful to compare the arguments that Bowles & Gintis (1998) and Hansmann (1996) make about the efficiencies in worker-owned firms/producer cooperatives.

Bowles & Gintis argue that realigning property rights and the right to residual claimancy in worker-owned firms creates efficiencies that make worker-owned firms more efficient/productive in many respects than larger corporations, primarily due to lower costs of monitoring.

Hansmann’s analysis, on the other hand, suggests that the relatively high costs of collective decision making in many firms outweigh any gains in efficiency that might be created due to lowered monitoring costs.

Hansmann suggests that (1) there are few barriers to creating cooperatives<sup>1</sup> and (2) patterns of enterprise ownership are accounted for by looking at costs of ownership, and (3) that chief among these costs as a determining factor are costs of collective decision making, and (4) that lower costs of collective decision making associated with homogeneity of interests by the owners involved. The upshot here is that the efficiencies that Bowles & Gintis make about lower monitoring costs may be outweighed by costs of ownership associated with producer cooperatives in many industries. This implies that there would be more producer cooperatives if they were more economically viable in more industries.

How can Bowles & Gintis and Hansmann’s respective arguments be squared with each other? Do Bowles & Gintis underestimate the costs associated with collective decision making? Am I conflating Bowles & Gintis’s “democratic firm” (Bowles & Gintis 1998:36-39) with Hansmann’s producer cooperatives? **[You have raised an interesting general question here: if there any general way of weighing the factors that give cooperatives efficiency advantages against those that might be disadvantages? Or does this just have to be dealt with pon a case-by-case basis? I don’t think B&G really treat seriously the problem of collective decisionmaking as a cost because they view this as an intrinsic value. But of course, the**

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<sup>1</sup> This point supports the view that there would be more producer cooperatives if they were indeed economically viable.

**actors might well experience this as a cost – of time if nothing else. Furthermore it can be the case that democratic decision processes may intensify conflict in ways that more oligarchic decisionmaking would not. This raises issues of Weber-type legitimate authority: In a firm which is run by owners and their managers ordinary workers may regard giving special bonuses and favors to high skilled technicians as completely legitimate, whereas they would not if the same decision was made in a democratic meeting. ]**

I hope to speak with more clarity about this tomorrow afternoon!

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## 12. Linda M. Zech

### **Interrogation: Worker Participation/Ownership of Enterprise**

I was particularly interested in what these authors had to say about alternatives for workplace ownership as options available to increase the wealth of the most impoverished groups. I concede that I have thought about this as a problem in the US and not more generally. Because homogeneity amongst worker/owners is a positive factor for longevity of worker owned groups according to both Pencavel and Hansmann, there would seem to be some opportunity to increase and or stabilize wealth by encouraging the formation of workers co-ops.

### **Illegal Immigrants**

The most impoverished, exploited and powerless groups are the immigrant groups who have tenuous claims to be in this country. Corporate firms have been able to offer this group employment at lower wages than corporations or co-ops or other firms dare offer legal residents or citizens. Due to the lack of enforcement of immigration laws, corporations have this enormous competitive advantage with respect to labor costs, and little concern for organized movements to increase workplace democracy and competitive market wages due the weakened stance of the illegal immigrant.

The plywood coopers might very well have been acting in their own best interest by arguing for an amnesty for illegals instead of viewing them as the enemy as they watched the unscrupulous corporations drive their profits down. While the immigrant group were apparently largely from Mexico, and did not come from the same ethnic background (Scandinavian) as the plywood workers, if empowered by legal status, immigrants could have created their own coops and enjoyed fair competition with the other firms and coops. Those other businesses might have done well to offer credit assistance and business advice to help these groups get off the ground.

The immigrants, once made legal, could join in solidarity with unions and workers in union firms – rather than act as the instrument for unfair competition. However, there would have to be some other effective mechanism to prevent the corporations from simply replacing once illegal workers with a new wave. Increased monitoring of firms – and better monitoring of the borders would be necessary.

Of course the plywood industry proved to be an industry which was amenable to long lived competition with corporate firms. It had much to do with the type of work – not highly diversified, and the lack of any large dominant multinational corporations. In other words, the

size of the business organizations, regardless of form, was fairly uniform (with some differences for union and nonunion corporate firms). And the sector of work which seemed compatible with coop longevity – production and agrarian (forest workers) – is not where many of our lower paying jobs of the future will be – in the service sector.

Small bands of Immigrant groups might be able to use their strengths as a homogenous ethnic group to increase wealth, if an amnesty is provided and if there are provided with some assistance in location appropriate types of work, credit and basic mentoring.

**[Immigrants don't strike me as a very likely group to form robust cooperatives in general, since their access to capital would generally be limited. Of course, if they were legal they could join ongoing coops where these were viable, but I would doubt that a cooperative movement specifically for immigrants would be very successful.]**

### Women

Industrial unions did not do a very good job of looking after the interests of women workers. They chose a set of goals -- a living wage, a forty hour work week – etc., which furthered the cultural would view of the man as the breadwinner. Thus, although many women continued to labor alongside them, the union agenda left little room for concerns of women workers. Women were thought to be in and out of the workforce -- due to child rearing primarily – and likely to be a source of low wage competition. Workers willing to work as part-time on standard work schedules also posed a threat. The “homogeneity” of male dominated unions gave them some strength of purpose and gals when bargaining with their employers. Homogeneity also gave coops strength by focusing the goals of the coops - -especially the plywood coops.

Although industrial unions are on the wane, service unions have prospered and have done so in part by attracting women members. But given the diminishing role of unions as institutions – and the continued failure even in the service sector to seriously address the needs of non-traditional work hours and part-time workers some other solution for increasing the wealth of women is desirable.

A co-op form of business for women seems ideal, if there is enough tolerance for risk. Those who are already working marginal jobs, for low pay with no benefits may be willing to take that chance. Many such jobs are already being subsidized by the public through food stamps and other assistance. This subsidy really benefits the corporations - -and could be redirected to credit programs for fledgling businesses. **[I am not sure why you think a person with marginal resources should be more likely to take risks of the sort required of a co-op. In order to be part of a coop workers have to invest capital one way or another. Of course if they got some kind of direct subsidy, that would facilitate investing in a co-op – but then they would not be really risking any of their own resources, so the risk-aversion wouldn't enter the story. ]**

There does not seem to be any reason that a women's worker coop could not be constructed along the lines of an appropriate business that would allow its owner members to create rules which allow women greater flexibility in hours. This could accommodate the needs of caregivers and child rearing. It could provide for regular work weeks of less than 40 hours – or flexible hours to deal with emergencies. With a sufficient homogeneity of interest such organizations could survive – if the nature of the business was also compatible. This would of course be essential. But convention of the forty hour work week could be more easily overcome.

These businesses need not require a lot of capital. It could be borrowed – via government programs previously mentioned. They could be mentored, like county agents mentored agricultural owners. Successful businesses could be required to send representatives to mentor other small businesses as a cost of accepting a government grant or low interest loan. Women who are also caregivers, as well as workers, might be given some credit towards capital investment for their work as caregivers - -either in the form of a stake or a lump sum payment of a basic income, from a government source. This could be used as their share of the investment in the business.

Of course, I am concerned somewhat by the fact that such groups, that would be receiving special benefits based on their gender (or race or ethnicity), could be viewed as running afoul of anti-discrimination laws. But there are already business loans and government programs designed to assist minority start-ups which are able to meet constitutional muster. If these groups are the most impoverished, there seems little reason not to provide them with a mechanism for increasing their wealth which can play upon their strengths as minorities -- while still contributing to the economy. **[If the concern is increasing *wealth* rather than, say, *autonomy*, then I am not sure that giving loans to set up a workers co-op would be the best strategy. There is a program sponsored by the Ford Foundation to give poor people matching grants for their savings – they say \$5 and this is matched either in a 1:1 ratio or sometimes even 2:1. This is viewed as a way of increasing the incentives for savings and also more rapidly building up savings, which are then invested in relatively low-risk long term assets. Since workers co-ops are inherently relatively risky, if subsidy is available, would this be the best wealth-building strategy?]**

## Service Workers

Service workers, which are made up largely of immigrant groups and women, are a special problem if they are to form worker owner organizations. The successful coops discussed by Pencavel are involved in production or agriculture. While he and Hansmann speak of professional service corporations, like law firms and accounts, as ideally suited for coops, there give no clear examples of the types of service jobs which are dominating our economy.

Many of non-professional service jobs are not highly diversified – something they have in common with the plywood and forest industries. They do suffer from other potential problems which professional service organizations do not.

There are three categories of service jobs which would be subject to different kinds of threats if they were to be organized into worker enterprises.

Restaurants and food service business might well be able to compete. Indeed many small worker or family owned restaurants already compete with fast foods and chains. But this type of business can only absorb a limited number of workers in any given community. Chains, which rely on economies of scale to increase profits, still employ many low wage and part time workers. While they offers some opportunities for growth they are not likely to be a solution for increasing the wealth of their workers. Even those firms who offer stock options (Starbucks) just don't contribute enough elevate their employees beyond poverty status. The competition with

these firms, even when they hire legal workers, is to great to expect worker owner firms to do much for many in this industry.

Telephone (telemarketers, sales, customer service, claims, etc.) workers are another very large group of low paid service workers. There is a demand for this work, like much food and restaurant work, during many hours of the day. This is good for organizations that may be looking to offer flexibility in hours of work to women engaged in child rearing or other care giving activities. However, by its very nature telephone work can be done anywhere there is a phone line. That means competition can come from almost any quarter of the globe. And the low wage competition may come from workers of another country who are happy with their wages. This threat cannot be shut down by enforcement or amnesty, like the illegal wage worker threat.

Yet, there may be telephone workers who can carve out a groove for their specialty. They may provide services that do require cultural knowledge. Businesses known for great customer service, entailing knowledge of the customers, their cultural and their need, can use the similar characteristics of their workers as a competitive advantage (mothers, grandmothers, parents, ethnic specialties). This kind of cultural “homogeneity” may create a barrier to entry for low wage telephone workers in other countries. The capital investment in such a business may be relatively low – with computers, phones, customer lists all available for rent. The service may even be sold to a company who does not have a customer service force, much as businesses now contract out their IT, accounting or other services to smaller specialty firms.

The last type of service job, is retail. These low wage jobs are among the most troublesome. There are not particularly diverse in skills or duties, but employees are often not homogenous. Hours are sporadic, based upon unpredictable market demand. They may be students, retirees, second jobbers, etc. Capital investment is likely to be a huge barrier. Economies of scale possessed by large retail firms are hard to compete against. And even large firms seem to have trouble staying afloat in this era of the internet shopping competition. This would probably be the worst area to look for coop or worker owned businesses. And hopefully, if the other low wage jobs disappear, there will be some pressure to increase the wages in this sector.

**[What about housecleaning and caregiving services. These would seem to be quite amenable to cooperative organization since the capital investment is low, but there are considerable organizational advantages to forming a group of a number of workers rather than just doing the activity as solo self-employed]?**