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Gregory Dow on his new book "The Labor-Managed Firm: Theoretical Foundations"

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Gregory K. Dow, a professor at Simon Fraser University since 1995, is set to release his new book, *The Labor-Managed Firm: Theoretical Foundations*, from Cambridge University Press in March 2018.

His book seeks to explain why labor-managed firms are rare in comparison with capital-managed firms, and addresses other differences between the two, including issues of design, behavior, performance, and industry distribution.

What is your book about?

I want to explain why firms controlled by capital suppliers (investors) are common, while firms controlled by labor suppliers (workers) are rare. I also try to explain a number of other differences between the two types of firms, including their distributions across industries, their organizational structures, and their responses to the market environment. The book is mainly theoretical but it exploits a substantial amount of empirical research by other economists.

What interests you on the topic of worker-controlled firms? And are they what are commonly known as co-operatives?

Yes, worker co-operatives would be one example of a worker-controlled firm. However, the concept is broader than that. For example, it also includes professional partnerships like law firms and medical clinics. The question I am asking is why we live in an economy that is mostly (although not entirely) 'capitalist,' in the sense that most large firms are controlled by capital suppliers. I have thought for a long time that economists should have a convincing answer to this question.

Can you explain the concept that "capital is alienable while labor is inalienable?"

In the book, I argue that we can't explain the asymmetries between capital-managed and labor-managed firms unless we can identify some important difference between capital and labor. Otherwise, the distribution of the two types of firms would be essentially random. One big difference is that non-human capital is alienable, which means that it can be easily transferred from one person or group to another. For example, one group of investors can sell a factory to another group of investors. But labor is inalienable, in the sense that one person's time, skills, or knowledge cannot be easily transferred to someone else. An employer can pay for a flow of labor services from an employee, or a teacher can help students learn, but one cannot buy and sell human capital in the same way as non-human capital. A key idea of the book is that this asymmetry is fundamental for understanding why firms controlled by investors are more common than firms controlled by workers.

You mention that market imperfections are one of the reasons that worker co-operatives are not very common. Could you give an example?

There are several kinds of market imperfections that could be important, but one example involves situations where it is difficult to make legally binding commitments about future payments. Suppose a labor-managed firm needs to own a factory and its members don't have much personal wealth. The workers will then have to raise capital from outsiders like banks, bondholders, or shareholders. If these outside investors don't have control rights within the firm, they may be concerned that they won't be repaid later (the firm may pay high wages and then declare bankruptcy). This problem can make it hard for labor-managed firms to obtain capital. The opposite problem can arise in a capital-managed firm where the employees might be worried that the firm will pay out high dividends and then default on promised wages or benefits. But in a capital-intensive industry, it is typically harder for a labor-managed firm to attract capital than for a capital-managed firm to attract labor.

Louis Putterman from Brown University made the following statement in a review of your book: "Gregory K. Dow has thought more deeply, in a more sustained manner, about the puzzle of why capital hires labor than any serious student of economic theory since the first efforts in the field were undertaken more than a generation ago." Why has this puzzle stumped economists for so long, and what have you proposed that brings some clarity to this issue?

Some earlier researchers in this field made arbitrary assumptions about how labor-managed firms would behave, without justifying their assumptions theoretically or linking them with empirical evidence about how such firms really do behave. I think this led the field into some blind alleys that didn't have much intellectual payoff. What I've try to do is start from basic economic theory. For example, I have shown that in a world of complete and competitive markets, there is no reason to expect any difference in behavior from the two types of firms. Then I consider a range of market imperfections one at a time, and study how each imperfection interacts with the fact that capital is alienable while labor is not. The resulting predictions can be compared with real-world observations to determine whether the theory is on the right track.

What policy recommendations do you have that would benefit co-operatives in Canada?

The available evidence suggests that when worker co-operatives do exist, they often have higher productivity and better survival rates than conventional firms in the same industry. The main difficulty is that they are rarely created. Therefore I would lean toward policies that make it easier to start such firms and/or encourage employee buy-outs of conventional firms. Governments could establish arms-length financial institutions with a mission of this kind. It would also be useful to organize federations of worker-controlled firms that provide support to individual firms through capital allocation, risk management, technical consulting, and so on. Such federations have a long and successful track record in some European countries, and Canada could benefit from policy experiments along these lines.