

Labour Management and Commitment: Reply to Furubotn

by

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When writing our contribution on the commitment problem, we contrasted the systems of capitalist management and of labour management in order to learn something about the comparative advantages and shortcomings of the two systems and to improve our understanding of both of them by noting their differences as well as their fundamental similarities. In particular, we got the impression that each of the two systems has its strong points as well as its particular drawbacks and one cannot claim superiority for one of them under all conceivable circumstances (SCHLICHT and v. WEIZSÄCKER [1977] p. 65).

In his recent comment, Professor Furubotn has pointed out two additional difficulties of labour management which he deems so severe as to “make it possible to conclude that the emphasis on the “commitment mechanism” may not be appropriate” (FURUBOTN [1979] p. 217) and that, “something more than labour immobility is required to guarantee rational policy by the labour-managed firm” (FURUBOTN [1979] p. 226). These difficulties are first: the possible irrationality of democratic decision-making within the firm; and second: the allocative inefficiency caused by labour immobility.

We would like to comment very briefly on these two issues and will deal with the more fundamental points thereupon. With regard to the irrationality of democratic decisionmaking it is to be remarked that similar problems arise under many circumstances, and also within the very framework of the capitalist firm, e.g. at the stockholders meeting. These problems are very severe, no doubt, but they can be mitigated by various means, i.e. by a (written or unwritten) constitution or by representative democracy. It is very difficult to give precise recommendations here, but one can argue that an optimal form of organization might evolve from competition just in the same way as one thinks the specific features of the capitalist firm we encounter today have evolved as answers to specific problems Adam Smith has not dreamt of¹.

Furthermore, democracy has its advantages too, which might be valued for the sake of their own, and might even translate into efficiency advantages if

¹ We allude to Williamson’s “organizational failures framework” of course.

control costs are very high and the individual workers motivation is very important.² This might outweigh those disadvantages stressed by Furubotn; and it might outweigh the *static* inefficiency associated with labour immobility just in the same way as the *static* inefficiency of a Schumpeterian monopolist constitutes no obstacle to his superior *dynamic* efficiency associated with a higher rate of technical progress: As noted by Thurow, the workers' resistance to technical innovations is particularly high in those industries where wage competition is rough and it might be lower if workers are participating directly in the fruits of technical progress instead of being dismissed (THUROW [1975] p. 82). Under this point of view, a labour managed economy might generate a faster rate of technical progress than a capitalist economy just in the same way as the Japanese economy has been growing rapidly in spite of the static inefficiency associated with the life-long firm membership of the individual worker.

In other words: The shortcomings of labour management discussed by Furubotn are quite important, but these shortcomings are associated with specific advantages, and the real question is under which conditions the one will outweigh the other.

As to Professor Furubotn's conclusion that "something more than the promotion of labour immobility is required to guarantee rational policy by the labour managed firm" (FURUBOTN [1979] p. 226), we have noted above already that we have been only interested in the question of *workability*, leaving the optimality (or rationality) question to the forces of competition and to the fact that the members of a labour managed firm will have any incentive to promote it; we have been, so to speak, only concerned with a Hayekian "pattern prediction" (v. HAYEK [1967]). The workability seems to be secured by our immobility assumption.

It is to be noted, however, that the possible shortcomings of our particular piece of analysis do not invalidate our view that it is important to look at the commitment mechanism when discussing alternative forms of (market and nonmarket) organizations – and we would like to stress that this view is much broader than the traditional economic view since it includes not only incentive mechanisms, but socio-psychological mechanisms, too, which might create a strong firm loyalty and a superior morale for instance.

² One can imagine circumstances where this factor becomes increasingly important, see SCHLICHT [1979] for an attempt in this direction.

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