Recensions/*Book Reviews*

Firms as Political Entities – Saving Democracy through Economic Bicameralism

By Isabelle Ferreras (2017) Cambridge: Cambridge University Press, 215 pages.
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In the early 1980s, I became interested in the similarities between the corporation and the democratic state. I observed that the "public corporation" might be thought of as a "shareholder democracy" in which shareholder-citizens elect the board of directors (parliament?) who appoint top management (bureaucracy?). Management is legitimized by and responsible to the "shareholders." I also realized that this conception had "two major flaws." First, as noted by Berle and Means (1932), "a large gap opened during the twentieth century between ownership and the control of the corporation," and second, as pointed out by Chayes (1959), "management does not govern the shareholders, it governs the employees." Moreover, the notion that the owners of property should have a "right to control human organization" is "a vestige of 19th century social relationships." For much of the period between the 18th and mid-20th century, as discussed by Atiyah (1979) and Therborn (1977), "western nations were 'landowner democracies' and the state was considered to be the agent of landowner interests." That notion, I argued, was (in 1988) archaic and "entirely inconsistent with the contemporary principle that governors should be responsible to the governed." (Adams, 1988: 184). Nevertheless, in the modern corporation, employee status is much like that of landless "subjects" in the landowner democracies of the past. When the state made the transition from autocracy to democracy, the corporation did not follow suit. Instead, its legal form continues to be much like that of the British state of 200-odd years ago. Seen as a political entity, its citizens are shareholders and its subjects are employees.

In her book *Firms as Political Entities*, Isabelle Ferreras, a professor of Sociology at the Catholic University of Louvain in Belgium, reaffirms that argument and proposes that the time has (finally) come for the firm to make the transition from a (hyperbolic) "property owner's democracy" to a real democracy for all of its human constituents.

Calls for "industrial democracy" have been going out into the world for a long time and, indeed, many institutions now in place, including collective bargaining and associated institutions such as works councils and worker participation on boards of directors, have been heralded as forms of industrial democracy (e.g. Webb, 1897; Clegg, 1960; Blumberg, 1968; Derber, 1970) But, Ferreras insists, those forms do not go far enough. They leave the legal right to rule in the hands of the shareholders. Through unions, collective bargaining and related institutions, workers may participate in the *management* of the firm but only within a framework set by the capital investors. This is wrong, Ferreras argues, because firms depend equally on capital and on labour. Both are essential "investors" in the firm and, thus, each should have an equal say in its *governance*.

Indeed, drawing heavily on the work of Jean-Phillippe Robé (2011), Ferreras argues that the "corporation" is not the same thing as the "firm." The latter is a real community of human beings engaged in a productive process. The former is a legal chimera that has taken over, haunted and kidnapped the real world firm in an intellectual "sleight of hand" that has left employees trapped in a historical *cul-de-sac* with a status similar to that of servants in a despotic household or as a "production factor among others." (p. 114).

Ferreras's plan, the most innovative aspect of her book, is to follow the route taken by the United Kingdom and many other states which made the transition from despotism to democracy. Instead of a unicameral legislature with seats reserved for property owners, she would institute a bicameral government with two houses because it "has played a key role in transitional moments of history on the long road to free and democratic societies…" (p. 113). Along with a house for the shareholders, a second house would be elected by "labour investors". Policy decisions would have to be approved by a majority of both houses.

As in contemporary firms, top management would retain executive powers and would be given "broad initiative in the bicameral system, and should be considered as the actual driving force in the firm's everyday life." Its "overall policy plan must be submitted to the two chambers, and must be ratified by a majority in both chambers before it is implemented." (p. 148)

Ferreras believes that the time is ripe to put this option into play because the economy has evolved, at least in the well-off countries, to become a service/knowledge based one in which the political status of the worker is more public due to continual contact with customers and clients. In this new economy, two classes of citizens persistently bang up against each other. One possesses the dignity and respect due to a full member of democratic society while the other, the employee, is forced into a servile, subordinate position imposed by the despotic hierarchy inherited from another era that stomps upon contemporary democratic sensibilities.

Capitalist motivation is strictly instrumental in pursuit of profits. "Liberal economic theory," Ferreras tells us, has created an abstract model of the worker which mirrors [shareholder] instrumentality by claiming that work means no more to the employee than "making a living." But this simplistic assumption is contradicted by mountains of research. The worker's interest in the firm is, as Ferreras forcefully argues and documents, much broader than a wage for labour. Worker-citizens are interested in justice, fair treatment, community, and engagement in meaningful tasks leading to worthwhile ends. They bring to the table a multi-dimensional set of values that she labels an "expressive personality" in contrast to the single-minded "instrumental," profit-seeking mentality of the shareholder.

Despite the liberal economic arguments put forth by, for example, Hayek (1944) and Friedman (1962), the corporation was not an entity contrived solely to create profits. It was initially conceived of as a way to get the work of government done on the cheap. The East India Company, considered to be the world's "first commercial corporation," (*A Short History of Corporations*) was basically granted governmental powers in order to exploit the riches of the East on behalf of the British nation and its was rewarded with the right to make a profit while fulfilling that national objective. Corporations began as government sub-contractors who, through legal and philosophical maneuverings, were transformed into profit-making machines that continue to wield the despotic powers of long-gone states.

How would Ferreras begin to bring about the transition from despotism to democracy? Her proposal is incredibly modest. She would not have states impose economic bicameralism (at least not yet). Instead, she would have them offer "tax incentives to finance starting costs and smooth the way until the transition is made and firms begin reaping its benefits." (p. 152).

How would unions fit into this plan? A lot of questions about this issue go unanswered. They would, presumably, continue to do what they are doing now but would take on new tasks such as nominating candidates for the legislative branch elected by the labour investors. In her section on the

"Role of Unions and Labor Organizations" (p. 150), which is very short, Ferreras makes no mention of collective bargaining.

Although underdeveloped in parts, I believe that her analysis is fundamentally on target. The corporate firm is a political entity and its persistence in democratic society is an illegitimate despotism that should not be tolerated. For all of my career, I have argued for "industrial democracy" via universal collective bargaining, accompanied by works councils, board participation and what the International Labour Organization calls "social dialogue" (Adams, 1995; 2011). But, I admit, that form of "industrial democracy" leaves a core despotism in place that does not belong.

But how to transform it? My bet is that Ferraras's financial incentive scheme will get few or no takers if any government should give it a try. History pretty well confirms that capitalists are not in it solely for the money.

Consider the story of German co-determination (*Mitbestimmung*). The version imposed on the coal and steel industries after World War II was a true parity version. Worker representatives on the board had equal power with the shareholder representatives with disputes settled by a neutral chair acceptable to both sides. Christoph Rummel and I (Adams and Rummel, 1977) found that form of firm governance to be a definite success. But a German Social Democratic government that wanted to extend it to large firms across the economy in the mid-1970s could not assemble sufficient political support. The business community railed against it and managed to hold the line at the establishment of "false parity" in which the shareholders maintained a majority, first by having their representatives choose the chair (who would have the deciding vote in case of a deadlock) and secondly by having senior managers (who mostly could be counted on to side with the shareholders) select one of the employee-side representatives (Adams and Rummel, 1977: 10).

In short, even in Germany, with its tragic past, capitalists have long been successful in convincing society that they alone, as Selig Perlman pointed out nearly 100 years ago, "know how to operate the complex economic apparatus of modern society upon which the material welfare of all depends." (Perlman, 1928: 4-5).

Does this make Ferreras's proposition just another scheme destined for the intellectual garbage pile? Not necessarily. Her major mission in putting this proposal out there is to solidly establish the idea that "the firm" is a political entity and to encourage interdisciplinary research and debate on the provenance, nature and place of that entity in contemporary democratic society.

I think that there is a good chance that she will do it. She has already established herself as a strong intellect and as a charismatic figure. She knows her way around the Halls of Ivy (she is a Senior Research Associate at Harvard's Labor and Work Life Program) and the European intellectual circuit. She is already a member of the Belgium Royal Academy of Humanities, Sciences and the Arts. A look at her web page shows that she has an intense schedule of appearances.

If she is able to spark the establishment of a coherent field of research focused on the essential political nature of the firm whose governance is a proper subject of debate, she will have succeeded. Her book leaves lots of questions unanswered but, perhaps, that is part of the plan to motivate further research and debate.

Her normative proposal, the achievement of a bicameralist revolution will be a much harder sell. Even if she convinces enough people that economic despotism is illegitimate and inconsistent with democratic values, they will have to also be convinced that removing control from shareholders will not produce an economic catastrophe. Capitalists can be counted on to make a strong case for chaos and calamity (in addition to Perlman (1928), see also Lindblom (1977: 177)). If the firm is to be cured of its despotic disease, what might be called the "New Industrial Democrats" will have to be able to carry the day against that certain storm. To date, capitalist despotism has withstood every challenge to hegemony.

P.S. Although it has nothing to do with the substance of the book, its publisher has incorporated a screwy quirk I have never before seen. Instead of spelling out the word "one," in several places the Roman Numeral. "I" appears in its stead. For example, here is a sentence from page 145: "All matters regarding the life of the firm fall into the purview of the firm's bicameral government, for what decision regarding the life of a firm could realistically be seen to affect I rationality and not the other?" This is not a typo. Other instances are scattered throughout the book. What is this? The precursor to an emoji invasion?

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Mistreatment in Organizations

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