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As others and Dr. Furubotn himself have remarked, the argument presented in this paper is closely related to Alchian's contribution: specificity leads to control; firm-specific capital and non-specific labor lead to the capitalist firm; firm-specific labor and non-specific capital would lead to labor management, and a small degree of labor specificity might lead to a small degree of co-determination. This rather abstract and formal argument is substantiated in the Furubotn-Wiggins contribution for the latter case.

I like the paper because it is non-dogmatic. It does not argue that the capitalist firm dominates other types of firms absolutely; rather, it tries to identify the particular circumstances under which this might hold true and to point – by means of an example – to other circumstances under which constitutional changes should be expected. Hence this kind of approach might lead towards an understanding of institutional changes in general, marrying theory and history.

And, indeed, the example of labor specificity selected seems to me to be of particular importance: since mechanical and repetitive work can be automated more easily than idiosyncratic and highly responsible work, we might expect *a priori* that technical progress will increase specificity of labor and will reduce, through rapid obsolescence, the specificity problem of capital (SCHLICHT [1979], p. 62). Taking the specificity problem more seriously might lead, therefore, to a better understanding of the relevance of the co-determination movement as well as to a theory on the formation of unions as Dr. Manne has suggested.

Nevertheless, some doubts can be raised:

Firstly it is not quite clear to me from the brief discussion in the paper why the informational failures can not be remedied by other means, e.g. arbitration boards or self-imposd penalties in the case of fraud. Or, to argue within and against the Alchian framework, why is it that specific investments cannot be protected by means other than the allocation of control?

Secondly, and more importantly, it is not clear that labor representation, although potentially helpful for a single firm in danger of closure, might not be harmful for an industry. Even if labor representatives have not voting power, but are simply present in order to establish confidence and improvements in the information flows, they will exert some influence on the decisions since these decisions will influence their wage bargaining. Hence the problems discussed in the literature on labor management, in particular on insufficient creation of new jobs, might become important at the industry level, and we might face the result that firms not adopting labor representatives might grow faster in spite of informational inefficiencies.

The general problem here is the same as the one thematized in biology: the selection among genes might lead to inefficiencies of the species (WICKLER and SEIBT [1977], pp. 176–180). Whereas biologists have good reasons to start from gene selection rather than group selection, in economics the problem is difficult to handle. Of course, one could argue in favor of competitive selection on the level of individuals. But it seems to be equally as plausible to argue that competetive selection works at the firm level as that it does so at the level of an industry. All this might result in different outcomes. Clearly, on some level of aggregation, inefficiencies arise – else we would not experience wars. But where to draw the line? The Furubotn/Wiggins analysis stresses optimality for individuals within a firm, but why?

References

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