

Book Review

John Corina

Prychitko, David L. and Vanek, Jaroslav, **Producer Co-operatives and Labour-Managed Systems. Vol. I Theory. Vol. II Case Studies.** The International Library of Critical Writings in Economics. Edward Elgar, Cheltenham, 1996, £170. Vol. I xxiii, 487pp. Vol. II xix, 316pp.

Over the past 30 years, the economic theory of producer co-operatives and labour-managed economic systems has burgeoned. Yet, the individualist neoclassical paradigm has remained the central tool employed by economists to analyse co-operative modes of production and distribution. Students of orthodox theory still start by scribbling down the 'objective function' of the capitalist firm, and then proceed by differentiation, and the use of Lagrange multipliers and other mathematical artifices, to analyse the first and second order conditions for profit and output maximisation under special perfect-market assumptions. Though useful as a toolkit, the model is too limited for 'virtual reality'; being intrinsically blind to the social realities of mass unemployment, wage-slavery, and job insecurity, prevalent throughout the post-communist and post-industrial capitalist order. Over the past decade, alternative developments in the mathematical theory of co-operative games have provided an equally, if not more, powerful simulation of optimal economic behaviour.

Co-operative-vision economists, committed to creating a healthy stakeholder-economy in the new millennium, must combat every *laissez-faire* inspired attack upon their brand-new multidimensional 'coalition' game-theories and co-operative-behaviour models. The *laissez-faire* conception of 'Pareto-efficiency' chases a mirage of already-achieved static equilibrium. It wrongly presumes that there are no prior conflicts of interest within the labour market. Industrial self-government theory, however, offers a dynamic solution to the triangular producer- owner-consumer power struggle in the disequilibrated market economy, generating a meaningful policy debate not just over capital ownership and income distribution as social entities, but also over the associated ownership

and control of new technology, and hence the distribution of its cruel social costs and immense benefits. Capitalist organisation itself, as the inventor of computing, Charles Babbage, early recognised, rests on a perpetual contradiction. The fixed socio-technology behind the curvilinearised competitive 'production function' depends crucially upon co-operation as a precursor to competitiveness. The living dynamics of the 'Hicks-neutral' equation, as Silicon Valley shows, will work only if the candle flame of co-operation is kept alive within a profit-dominated high technology culture; despite the piratical 'free-riding' of owner-autocrats, each competing to blow out the tiny co-operative flames elsewhere. Now an alternative body of *co-operative* microeconomic theory has merged to challenge the so-called 'objective function' itself; undermining the foundations of a production theory built upon antagonistic units and unmasking the narrow profit-maxim as merely a limiting case in the principal-agent/stakeholder debate.

Introducing the new wave of self-management theory, Volume I presents a stimulating selection of 27 technical writings published between 1958-86 by mainstream Western economists. The American scholar, Professor Vanek, acknowledged as the master of the general theory of economic democracy, has long been the trailblazer. Here, he boldly maps out the pure macroeconomic contours of the labour-managed market economy. The British Nobel-laureate, James Meade, follows up with a number of sparkling classic contributions on producer co-operatives, first written for the *Economic Journal*. Jacques Dresses powerfully demonstrates, originally in *Econometrica*, that the Walrasian general equilibrium outcomes achievable under labour management would not fall short of the efficiency solutions presumed to occur under private profit maximization. Gregory Dow demonstrates conclusively that co-operative ownership of capital will not necessarily damage investment incentives. David Ellerman, economist to the American Industrial Co-op Association, offers a penetrating analysis of the economics of legal structures.

Volume II tries to bridge the gulf between the theoretical and empirical literatures on producer co-ops. it presents the powerful 1993 overview of the current state of theory and applied research,

undertaken for the *Journal of Economic Literature* by the leading U.S. researchers, John Bonin, Derek Jones, and Louis Putterman. Most testable economic hypotheses on producer co-ops and self-management examine participatory variables against a backdrop of five broad themes: exploring the positive employment and output effects, the positive incentive and productivity effects and the positive effects on innovation, while examining the capitalisation constraints on take-off points, and fundamental ecological questions underlying co-op enterprise formation and life cycles. The research evidence, so far assembled, overwhelmingly supports the view that producer co-operation, though small, is very beautiful - self-actualization accompanies economic gains on all fronts.

This raises a problematic question. Why then are there so few producer co-ops and self-managed enterprises in the market economy? Without cracking the enigma, the other contributions in Volume II probe the international spectrum of economic participation for evidence-based success. The informative case studies embrace self-management in former Yugoslavia, the lessons of Mondragon, the benefits of co-determination in Germany, the possibilities for self-management in the emerging Russian economy, producer co-operation in Poland, and the potent co-op exemplars in America and Western Europe. Like the guild Socialist vision, the introductory evidence, surveyed by Prychitko and Vanek for volume II, provides hard-headed economic insights into the promise of participation for the 2000s. *Why not now mount a fully funded and large-scale inter-University research programme into the economics of labour-managed systems, fully supported through the internet by Co-operative activists, on these critical foundations?*

These professional volumes, invaluable to economic and social research institutes, are highly recommended for the reference collections and teaching libraries of Universities. They are also highly commended as a *Tractatus Co-operationus* for serious students and practitioners of producer co-operation everywhere.

John Corina (Oxford University)