Expanded abstract

Workers' Participation in Firms and Economic Efficiency

Objective

The objective of this paper is to introduce into the debate on employee participation in companies in Spain the results of recent economic research that assesses the micro (at the firm level) and macro-level (at the overall economy level) impact of codetermination in Central and Northern European countries, where the law recognizes the right of workers to nominate representatives as full members of corporate boards together with those elected by the shareholders. Additionally, reference is made to studies that evaluate the impact of the legal obligation for shareholders-controlled companies to share extraordinary profits with workers (as in the case of France), as well as to studies comparing the delegation of decision-making power to direct employees (individual or team autonomy) granted voluntarily by company management with which they maintain an employment relationship.

Methodology

The methodology used in this paper essentially consists of identifying recently published studies (from the last five years) that meet certain criterion, and summarizing their main findings so that they may, in turn, inform the ongoing debate in Spain about potential legislative initiatives to strengthen workers' rights to participate in the decision-making processes of shareholders-controlled companies for which they work. The main selection criteria include: Research evaluating the impact of participation on outcomes related to economic efficiency (results that affect the welfare of both the employing firm and its employees); quasi-experimental research that provides sufficient assurance that the *causal* effect of participation on relevant outcomes is being measured; research in which codetermination is legally mandated, ensuring that results obtained from micro-level (firm-level) data are reasonably generalizable to the broader economy. Studies analyzing the impact of participation on economic inequality, environmental sustainability, or those that advocate workplace participation as an extension of political democracy are excluded from the review.

Results

The intellectual discussion among economists about the pros and cons of codetermination has pitted, on one side, the opinion of those who believe that by empowering workers more, the incentives for investors to invest in capital will be reduced, because they anticipate that workers will appropriate capital and income that they would not obtain without codetermination. Lower investment would harm economic efficiency, understood as the ability to generate wealth.

On the other side, codetermination is defended with the argument that empowering workers increases the adaptive capacity of collaboration between capital and labor and, at the same time, encourages investment in assets specific to business activity-especially those incorporated into people's human capital. When all the power lies with employers, investments in human capital will be limited to those that can be agreed upon through complete and explicit ex-ante contracts with employees, which greatly reduces the set of feasible investments due to the high transaction costs of such contracts.

Incomplete contracts in environments of mutual trust reduce ex-ante transaction costs, at the beginning of relationships, because they respond adaptively -not anticipatively- to contingencies that arise throughout the collaboration. Codetermination ensures that workers, when ex-post decisions are made in response to unforeseen contingencies in the contract, will have the possibility to defend their interests and avoid the expropriation of the income from specific human capital investment accumulated in the past (recall that, due to its condition as relationship-specific capital, the option to exit and reinvest that capital elsewhere is not effective in protecting the investment's value).

Research testing the hypotheses on the potential benefits and costs of codetermination for economic efficiency finds no evidence supporting the hypothesis that participation empowering workers in their relationships with employers ends up extracting rents from capitalists and thus reducing investment incentives. On the other hand, there is also no clear evidence supporting the hypothesis that adaptive flexibility with more incomplete contracts and greater protection of the returns on workers' specific human capital results in higher productivity levels and significant improvements in employee well-being.

Researchers explain these results for the following reasons: First, existing codetermination laws grant little authority to workers. Second, countries with these laws already have high baseline levels of worker participation in the workplace, in line with total quality management principles and implemented voluntarily by employers. Third, codetermination laws interact with other labor market institutions, such as union representation and collective bargaining, so that productivity and employee well-being outcomes result from the combined effects of the institutions governing employer–employee relations, including legally mandated co-management.

The paper complements the core analysis on the effects of codetermination in the wellbeing of employes and employers with references to workers participation in the financial side of the business, either with legal rights to share the extraordinary profits with corporate employers, as in France, or with rights coming from their ownership of the business (either as members of cooperatives or as shareholders of the company). The financial road to participation involves employees contributing with their own wealth to the finance of the corporation that employs them, and therefore assuming economic and financial risks as shareholders' do, together with the risk of losing the job in case of bankruptcy. Financing the corporation where they also work as employees limits their possibility of diversification of income and wealth, which may run contrary to economic efficiency.

Conclusion

This paper contributes to the Spanish literature on worker participation in companies by incorporating references to recent studies published in academic economics journals that analyze participation within the theoretical framework of neoclassical economics. Within this framework, the governance of cooperation between capital and labor occurs under competitive conditions, with rational actors guided by their individual self-interest.

For this body of literature, a key question -and its answer- is why certain governance arrangements prevail over others (for example, why employers do not voluntarily adopt codetermination as a shared governance model with employees). From this perspective, it becomes relevant to consider the possible intervention of public authorities when free-market solutions are not optimal from the standpoint of the general interest-thus potentially justifying the legal imposition of codetermination. The goal is to enrich the debate by introducing additional perspectives and a more informed understanding of the experience of legally mandated codetermination in countries where this form of labor participation has been implemented.

Given the paper's scope, the analysis of worker participation presented here is necessarily partial, as it excludes several studies with findings relevant to the broader discussion. Spain, along with other Southern European countries, has so far limited the legally mandated empowerment of workers to the recognition of the works council -an exclusive labor- representation body regulated by labor law.

If Spain seeks to take a further step toward representative participation of workers -with voice and vote- in the governance bodies of capital-led corporations, the economic efficiency perspective proposed in this paper should play a central role. Efficiency is essential for achieving broader social objectives (such as reducing economic inequality) as well as political objectives (such as extending political democracy into the sphere of labor relations within firms).