

***Firms as Political Entities: Saving Democracy through Economic Bicameralism*, by Isabelle Ferreras. Cambridge: Cambridge University Press, 2017. 213 pp.**

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In this interdisciplinary book, sociologist Isabelle Ferreras argues for a bicameral system of corporate governance modeled on bicameral political legislatures, such as the US Congress or the Australian Parliament. The system she proposes would put the day-to-day operations of the corporation in the hands of executive officers, who would answer to two representative bodies: one representing workers in the firm (“labor investors”) and one representing shareholders in the firm (“capital investors”). Major corporate decisions would have to win a majority of votes in each body.

As a model of economic democracy, Ferreras’s proposal resembles the German codetermination system, but with two important differences. Under her proposal: 1) labor representatives and capital representatives would work in separate deliberative bodies, not on the same “supervisory board,” and 2) capital representatives would not have a tie-breaking vote that allows them to overrule labor representatives when the chips are down.

Ferreras’s proposal has a lot going for it and the parallel with political bicameralism is an interesting one. The best parts of the book develop the proposal in light of the long history of bicameralism in politics. The book has some of the drawbacks of interdisciplinary work, making suggestive connections between various literatures, but often leaving you wishing for a more systematic engagement with counterarguments. There is, for example, not much discussion of the welfarist argument for profit maximization, which claims that everyone in society benefits (at least potentially) when all firms are oriented towards maximizing profits—this argument actually underlies most economic approaches to the firm. But I want to highlight a novel line of reasoning in the book, one that is worth exploring further.

First, the book as a whole has three parts. Parts one and two aim to establish that the firm is a political entity. Part one argues that there has been a historical transformation of work in our culture: where work was once part of the private sphere (i.e., subject to the norms of households and feudal manors), work is now part of the public sphere, where it is subject to democratic norms of civic interaction. We can see that transformation most clearly in the rise of collective bargaining and related forms of industrial democracy, which create structures in which workers and employers participate in social decision-making through dialogue and bargaining (31–8). Part two argues that the firm is not just a legal construct (i.e., a “corporation”), but a locus of productive activity (i.e., work). Not only is work understood to be subject to democratic norms of civic interaction, but workers themselves care about how their work affects their political status in the community (85–93). It is most clearly because the firm involves work (and workers), not just legal relations, that the firm is a political entity. Part three then develops bicameralism as a model for how the firm, understood as a political entity, should be organized.

The book pursues many more specific lines of argument, but the argument I want to highlight appeals to the idea of a rationality. As Ferreras uses the term, a “rationality” is a set of abstract norms or standards for how people should think and act in a certain domain. When a judge has to make a legal decision, for example, she does not reach a decision the same way that she would when she is choosing between different detergents at the grocery store. Instead of focusing on her own needs and preferences, the judge adopts a standpoint defined by legal rules and standards, along with interpretive norms that tell her how to identify legal rules and standards in legislation and in judicial precedent. We might call the standpoint that judges are supposed to adopt when making legal decisions “legal rationality.”

Ferreras argues that there are two rationalities that have a normative claim on how people should think and act with respect to organizing the activities of a firm. “Instrumental rationality” consists of a set of norms that treat the firm’s activities as valuable insofar as they produce some external good. For example, the typical profit-maximizing manager will make decisions about allocating the work effort of employees based on whatever pattern will generate the largest financial returns for shareholders. Instrumental rationality is also a standpoint that workers can take toward their activities in the firm when, for instance, a worker treats her activities during the workday purely as a means to getting a paycheck.

“Expressive rationality,” by contrast, consists of a set of norms that treat the activities of the firm as activities that must be expressive of the values, commitments, and principles of the individuals who engage in these activities. Expressive rationality is the way that we typically approach decision-making when we are truly “acting as ourselves” rather than treating our activities simply as a means to an end. If I am running a restaurant, I might guide my conduct from an alienated standpoint where I cook whatever will get my customers to part with their money. But if I am making dinner for my kids, I will make nutritious, healthy food that they like, treating my conduct as something that expresses my genuine parental concern for my children.

Among the most important elements of expressive rationality are an array of moral, ethical, and political ideals that are among the things that most people care about. From the standpoint of pure instrumental rationality, workers on a factory farm might do whatever they have to do in order to get a paycheck from their employer. But from the standpoint of expressive rationality, they will pay attention to the moral dimension of their activity, rejecting certain kinds of work because it involves cruelty to animals, which is inconsistent with their moral commitments.

According to Ferreras, the firm is properly understood as the site of competition between instrumental rationality and expressive rationality. Both systems of norms make genuine normative demands on how to organize the activities of the firm. The norms of instrumental rationality, most clearly personified in capital investors, demand that the firm should be organized in whatever way will maximize financial returns for shareholders. The norms of expressive rationality, most clearly personified in workers, demand that the firm should be organized in whatever way will answer to a wide range of moral, ethical, and political ideals. Both forms of reasoning make genuine claims on the firm, so we have to find a way to manage their competing demands.

Some readers might wonder why capital investors personify instrumental rationality more clearly than workers do. Assume for the moment that instrumental rationality consists of a set of norms that treat the firm's activities as valuable insofar as these activities generate a "residual," i.e., gross revenues left over once all contractually specified costs have been covered. A standard argument in economic theory holds that capital investors—i.e., shareholders—are better placed to maximize the residual, because these actors typically have no social or emotional ties to the firm's assets or practices (71). Whereas workers may form friendships with other workers or become attached to the firm's traditions, shareholders typically have no such connections, so they are more likely to organize and reorganize the firm in whatever way will generate the greatest residual. This argument raises some important questions about instrumental rationality.<sup>1</sup> But for my purposes here, I accept that shareholders most clearly embody instrumental rationality, and that instrumental rationality directs shareholders to generate the greatest residual (taking for granted that the residual is what ends up in their hands as a return on their capital investment).<sup>2</sup>

A central argument for the bicameral model of corporate governance is that it represents a way of managing the conflict between the instrumental rationality and expressive rationality. In the chamber of capital investor representatives, deliberators would assess management proposals from a standpoint that treats the firm's activities purely as an instrument for increasing financial returns on capital investment. In the chamber of labor investor representatives, deliberators would assess management proposals purely from a standpoint that treats the firm's activities as action that must be expressive of values, commitments, and principles that workers care about.

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<sup>1</sup>Do shareholders embody "instrumental rationality" more clearly than workers? It is helpful to think about the issue in the following way. Suppose that instrumental rationality consists of a set of norms that treat the firm's activities as valuable insofar as these activities generate "income from production," that is, gross revenues left over after costs not related to labor have been covered (see Piketty 2014). It is an important fact that income from production can be divided in different ways between shareholders and workers: you could give more of the income to shareholders as dividends or more to workers as wages and benefits. Given this fact, it seems natural to think that there are actually two types of instrumental rationality: the instrumental rationality of shareholders treats the activities of the firm as a means to generating financial returns for shareholders; and the instrumental rationality of workers treats the activities of the firm as a means to generating wages and benefits for workers. Some policies might answer to both types of instrumental rationality: e.g., policies that increase sales may increase both dividends and wages. But many policies have a distributive effect, lowering wages, say, to increase dividends or stock prices. With respect to these distributive policies, shareholders most clearly embody the instrumental rationality of *shareholders*, but not the instrumental rationality of *workers*. The issue raises a question about the structure of the bicameral firm. How should the model deal with policies that determine the distribution of income from production between labor investors and capital investors? If the chamber of capital investor representatives simply chooses the policy that is best from the standpoint of shareholder returns, should the chamber of labor investor representatives choose the policy that is best from the standpoint of labor investor returns? Maybe choices about these policies should be decided by the chamber of labor investor representatives alone because these are questions of expressive rationality, involving the equal dignity and status? Or is there some third category: issues that both chambers must address jointly from the noninstrumental standpoint of distributive justice?

<sup>2</sup>I think this position is consistent with the overall tenor of Ferreras's view of the instrumental rationality of capital investors: "Investment capital is not an end in itself; it is a means to the highest potential return on investment, whatever the form this return may take (increased value of shares, dividends, etc.)" (81).

Because both chambers have veto power, representatives of each form of rationality must find a way of accommodating representatives of the other: "Working together within the firm, representatives of both chambers would be obliged to clarify and negotiate tensions face-to-face, with the goal of finding a constructive solution for both parties" (135). In a bicameral firm, each party's interest would be harnessed to build compromises beneficial to both, since both have it in their best interests, albeit for different reasons, to ensure that the firm functions optimally (134). One chamber has an interest in reaching a compromise to ensure that the firm generates some return on capital investment, while the other has an interest in reaching a compromise to ensure that the firm's activities are at least somewhat expressive of employee values.

The "two rationalities" argument for bicameralism is novel and interesting. But let me raise a worry. An attractive feature of corporate bicameralism is that it does not allow instrumental rationality to overrule expressive rationality. But the bicameral firm does still allow instrumental rationality to force expressive rationality into some kind of *modus vivendi*. The chamber of capital representatives constantly exerts pressure on the chamber of labor representatives through the threat of a veto, which forces labor representatives to reach some kind of accommodation with capital representatives. The problem here is not that workers do not have enough power, but that the model seems to misunderstand how the two forms of rationality are supposed to relate to each other.

To illustrate, suppose that the chamber of labor representatives votes in favor of a plan to raise the salaries of women in the firm so that men and women doing similar work get similar salaries. But suppose that the chamber of capital representatives votes against the proposal purely on the grounds that it would reduce financial returns for capital investors. Why should instrumental rationality, as embodied in capital investor representatives, have any kind of a veto over proposals that move the firm toward a more just distribution of salaries? Why does instrumental rationality in the bicameral firm get an "across the board" veto power in corporate decision-making?

Consider an analogy. In bicameral political government, we do not think that the profit-making rationality of business corporations should have a veto over environmental policy or tax policy. But if this is not acceptable at the level of political government, then why is it acceptable at the level of corporate governance? In both cases, instrumental rationality is not supposed to "compete" with the rationality that properly guides various forms of policymaking.

Throughout Ferreras's argument, it seemed that a key piece of the puzzle was missing. The firm is not just a "moral conflict zone" where two forms of rationality make competing claims on the organization of the firm's activities. It may be true that the representatives of instrumental rationality (i.e., shareholders) always *want* more, but this does not mean that, as a matter of political morality, they always have a *genuine claim* to more. Even according to the standard economic analysis, instrumental rationality has its proper place: government agencies must be insulated from profit maximizing firms so that these agencies can adopt policies that internalize externalities and otherwise ensure that market competition leads to increases in overall social welfare, even when these policies impose setbacks on particular firms.

Similarly, various theories of justice might allow room for instrumental rationality to guide firms in a competitive process that generates an efficient allocation of assets to various productive uses, but these theories would not allow instrumental rationality to play a role in, say, subverting the conditions of formal equality of opportunity in the workplace.<sup>3</sup>

A more nuanced account of the proper role of instrumental rationality in economic life might lead to a different version of bicameral corporate governance. The revised model might allow each chamber the authority to *overrule* the other when dealing with certain types of issues. The chamber of labor representatives might overrule when it comes to certain issues of workplace justice, while the chamber of capital representatives might overrule when it comes to pure pricing strategies. Whatever the correct model for bicameral governance turns out to be, it will have to be informed by a more sophisticated account of the proper role of instrumental rationality in economic life. This is not so much a criticism of Ferreras's view as a suggestion about how we might develop her intriguing argument for bicameralism further.

#### REFERENCE

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<sup>3</sup>Ferreras attaches importance to justice and equal dignity, as well as to the democratic principle that the relevant conception of justice in a certain context should arise through deliberation among the affected parties (85–93). She attaches importance to these notions, however, mainly as elements of the expressive rationality of workers: justice is important because workers care about justice and justice is essential to their dignity and to their finding meaning in their work. It is never entirely clear from her discussion how justice relates to instrumental rationality and whether the principles of justice impose freestanding constraints on the operation of this rationality.

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