

# Worker Participation and the Powers of Persuasion

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## Abstract

How can the theory of communicative action developed in American (Old) Institutional Economics and German Discourse Ethics contribute to an understanding and conceptualisation of worker participation? To respond to this question, in the first part of this paper, I want to show that in theoretical approaches, practical consultation and empirical studies, the literature on worker participation seems to suggest a fundamental tension between contentious and consensual uses of workers' voice in companies. I concentrate on worker representation (involvement by management, union voice and works councils) within capitalist firms in this paper, leaving aside other areas and forms of industrial democracy such as gender and diversity issues of participation within unions (Colgan and Ledwith 2002) or cooperatives where workers are owners (Kalmi and Klinedinst 2006).

As a concept to analyse worker participation, in the second part I will try to develop a framework of communicative action based on approaches in Institutional Economics and on Habermas's discourse ethics.

## Introduction

How can the theory of communicative action developed in American (Old) Institutional Economics and German Discourse Ethics contribute to an understanding and conceptualisation of worker participation? To respond to this question, in the first part of this paper, I want to show that in theoretical approaches, practical consultation and empirical studies, the literature on worker participation seems to suggest a fundamental tension between contentious and consensual uses of workers' voice in companies. I concentrate on worker representation (involvement by management, union voice and works councils) within capitalist firms in this paper, leaving aside other areas and forms of industrial democracy such as gender and diversity issues of participation within unions (Colgan and Ledwith 2002) or cooperatives where workers are owners (Kalmi and Klinedinst 2006).

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## Worker Participation and Workplace Democracy

Labour economists differentiate the effects of worker participation in terms of costs and benefits – namely its effects on wage bargaining and productivity gains. This is very clearly stated in "... the Freeman-Lazear (1995) works council/employee involvement model, which posits a tension between employee involvement and distributive bargaining over the wage

share” (Addison et al., 2000: 7). According to Freeman and Lazear, productivity effects arise from a) the trust developed through the provision of honest and reliable information by management which pays off as co-operation by workers in tough times, b) creativity inspired through consultation which leads to an input of new ideas and solutions and c) an indirectly enhanced sense of job security and loyalty which encourages workers to make firm-specific training investments. On the cost side worker participation a) can have the effects of reducing management’s control over decisions in general and in particular a loss of influence in wage bargaining and b) can be time consuming, leading to delays in decision-making (Addison et al. 2000: 9). Testing the model for Germany and Britain in terms of positive and negative effects on profits, Addison et al. find that benefits of worker participation prevail in Germany at least for larger firms whereas in Britain union-participation seems to strengthen workers’ distributive bargaining power so that increasing labour costs overhang productivity gains (2000: 40).

On the background of changing labour market conditions fostering flexibility and mobility of the work force on the one side and increasing job uncertainty for employees on the other, Mizrahi questions why and how a wide range of scholars working in the area of employment and human resources could come to agree on a model of a highly participatory mutual gains enterprise characterized by “... teamwork, employee involvement in problem-solving, and a climate of co-operation and trust” (2002: 690). However, based on a rationale rooted in social choice theory and New Institutional Economics he concludes that such a consensus can even be supported on the basis of the logic of such standard economic approaches.

A British textbook for employment relations points to the seminal work by Chamberlain and Kuhn (1965) and Flanders (1968) highlighting conflicting, conjunctive as well as co-operative forms of collective bargaining (Rose 2001: 295). The book offers a whole chapter on ‘Employee Voice, Participation and Partnership’ in which it bemoans the loss of voice “... associated with trade union decline in Britain during the 1980s and 1990s ...” and the absence of participation and partnership in the UK (Rose 2001: 383). The author clearly emphasizes how crucial employee voice is for employment relations in full awareness of the importance of power in negotiation and bargaining (Rose 2001: 480). As Rose points out, employee involvement does not necessarily mean employee partnership: “Here we consider certain aspects of ‘employee voice’ with particular reference to information and consultation, and partnership approaches. The term ‘employee voice’, ..., has entered the employment relations lexicon as a general term to include all varieties of participation, involvement and information-sharing within unionised and non-unionised contexts. The term itself is meaningless unless it is associated with a particular voice mechanism ...” (Rose 2001: 411). Such a mechanism is the German system of ‘co-determination’ (Mitbestimmung, Rose 2001: 399) another one is the European Works Councils (Rose 2001: 405-410). Similar elaborated mechanisms are barely existent in Australia (Markey and Monat 1998 and Markey 2003) and in New Zealand (Rasmussen 1998).

A similar kind of scepticism or differentiating view on ‘employee voice’ is expressed by Cheney et al. in their textbook on ‘Organizational Communication’. The authors clearly distinguish between what they call ‘workplace democracy’ and ‘employee participation’ (2004: 215). The former refers to open and wide ranging engagement and representation of employees leading to modification of all kinds of activities – in other words, real influence, whereas the latter signifies a more limited form of voice focussing on performing specific job tasks. Cheney et al. do also concentrate on ‘negotiation power’ (2004: 254) and place

particular emphasis on 'power in messages, interactions, and patterns of talk' (2004: 257), i. e. they see speech acts as instruments of power.

The scepticism about the depth of influence of employee voice on actual decisions and conditions in companies expressed in the Employment Relations literature seems to be confirmed at least by the tone of the views expressed in one example of recent Management literature on 'Corporate Communication' by Cornelissen. Most of the book deals with the strategic role of external communication for the company. However, when he turns to internal communication, the top down and strategic approach to communication is quite apparent from his introductory sentences: "Employees are a crucial stakeholder group in the survival of organizations. Organizations need to communicate with their employees to strengthen employee morale and their identification with the organization and to ensure that employees know how to accomplish their own, specialized tasks. The chapter discusses strategies for communicating to employees within organization" (2008: 194). However, other authors in the Management literature organisational communication seem to move from mere employee participation to workplace democracy (Sandberg and Targama 2007 and Cloke and Goldsmith 2002).

### **Economics and Communicative Action**

Mainstream economic theory usually neglects the fact that economic actors communicate with each other using ordinary language. At least the microeconomic textbook version of the rational utility maximizing man is basically a speechless person. This is also true for game theory, where talk is cheap for players in strategic interaction. Experimental game theory, however, showed considerable influence of communication on the co-operation rates resulting from several kinds of game situations (Bohnet and Frey 1994, Dawes et al. 1990, Frey and Bohnet 1995, Frey and Bohnet 1997 and Ostrom 2000). One of the few neo-classical economists who take discourse seriously, is Donald, now Deirdre McCloskey. In her book "Knowledge and Persuasion in Economics" she collects a bulk of evidence for the economic significance of persuasion under the heading "The Economy as a Conversation". McCloskey, (1994: 370) uses the example of Donald Trump to point to the power of persuasion and "the art of felicitous speech acts" to close deals. For McCloskey, this power of persuasion is the outstanding characteristic of Schumpeter's entrepreneur, for it is he, who persuades banks to invest in innovations (McCloskey 1994: 372). She calculates that about a quarter of national income is produced by "persuasive talk" (including e. g. advertising, McCloskey and Klamer, 1995: 194).

However, language is a multidimensional device for different kinds of human interaction. It can be used: a) to persuade others to work according to one's own material interests (strategic), b) to convince others of one's own value judgements which is not necessarily an expression of self-interest (opinionated), c) to obtain information to serve one's self-interest or form one's own value judgement (informational) or d) to create mutual understanding, to find common ground concerning world views (*Weltanschauungen*) among participants in discourse and thereby altering former beliefs and perceptions, and possibly inventing new ideas during the course of a conversant process of recombination (dialogical).

The aim of this article is to develop a framework to analyse the relation and transformation of these modes of communication among economic actors. In particular, the paper will show how mode d) as developed by Habermas and others transforms into communicative power and how this transition during discourse could make and in fact already does make a fruitful contribution to the development of economic theory.

## Strategic use of language a)

In an article McCloskey and Klamer quote Adam Smith as saying: 'every one is practicing oratory on others thro the whole of his life' (1995: 193). For Smith, this propensity to exchange verbal utterances was the model on which the human propensity to truck and barter was built.

McCloskey's term persuasion, however, reduces the capacities of language to the successful attempt by an economic actor to get other economic actors to do what he or she wants them to do (Park and Kayatekin 2000: 572). This concept of persuasion is built upon the instrumental neo-classical view of human agency. Moreover, it fits Max Weber's definition of power: 'the probability that an actor in a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests' (Weber [1921]1978: 53). McCloskey's conception of language based interaction is built upon the strategic mode a).

## Opinionated use of language b) – Hirschman's rhetoric power

In his book "The Rhetoric of Reaction" (1991), Albert O. Hirschman who first introduced the concept of "voice" to economics (Hirschman 1970) describes certain rhetorical figures used in public debates by proponents of conservative as well as progressive political ideas (Hirschman 1993). These figures are used to refute and destroy opponents' arguments without taking them seriously or engaging into a process of argumentation, which might lead to a common understanding. Hirschman shows that these rhetoric figures are not employed to persuade or convince others to find a good solution for all, but instead to close the argument by undermining the validity and credibility of the other position. He reviews and interprets historical debates to demonstrate how the opinionated and often strategic use of language works in practice. While uncovering the rhetorical figures his intention is '... to move public discourse beyond extreme, intransigent postures of either kind, with the hope that in the process our debates will become "democracy friendly"' (Hirschman 1991: 168).

He detects a triad of principal reactionary theses, which he calls the perversity thesis or thesis of perverse effect, the futility thesis, and the jeopardy thesis. He defines these rhetorical figures as follows "According to the *perversity* thesis, any purposive action to improve some feature of the political, social, or economic order only serves to exacerbate the condition one wishes to remedy" (Hirschman 1991: 7). One of the examples for the perversity thesis is the following quote by Milton Friedman: "Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it" (Friedman, 1962: 180). For Hirschman this statement is clearly a rhetorical one because the perverse effects of a minimum wage put forward by Friedman are not warranted by the facts. A recent discussion of the minimum wage debate can be found in Neumark and Wascher (2008). Hirschman explains that: "There is actually nothing certain about these perverse effects, particularly in the case of so basic an economic parameter as the wage. Once a minimum wage is introduced, the underlying demand and supply curves for labor could shift; moreover, the officially imposed rise in remuneration could have a positive effect on labour productivity and consequently on employment" (Hirschman 1991: 28). The progressive counterpart to the perversity thesis is the imminent-danger thesis. Here, the proponent of a certain policy argues that it is imperatively needed to stave off some threatening disaster (Hirschman 1993).

"The *futility* thesis holds that attempts at social transformation will be unavailing, that they will simply fail to "make a dent"' (Hirschman 1991: 7). To illustrate the futility thesis, Hirschman quotes for example the French journalist Alphonse Karr (1808-1890) who coined the classic epigraphic expression 'Plus ça change plus c'est la même chose' in the aftermath of the

French revolution in 1849 (Hirschman 1991: 43 and 44). An example for the futility thesis concerning economic policy is Lucas's theory of rational expectations, which attacked the Keynesian system of government intervention. According to Hirschman, Lucas's aim was to show: '... how activist Keynesian policies would lead, especially if they were widely anticipated, to expectations and ensuing behaviour on the part of the economic operators such as to *nullify* the official policies, render them inoperative, otiose – futile' (Hirschman 1991: 74). The progressive thesis, which mirrors the futility thesis, is based on the assertion of a law-like forward movement, motion or progress – that is to have history on one's side (Hirschman 1993).

"Finally, the *jeopardy* thesis argues that the cost of the proposed change or reform is too high as it endangers some previous, precious accomplishments" (Hirschman 1993: 7). The third rhetorical figure claims that: "... a reform, if carried out, would mortally *endanger* an older, highly prized one that, moreover, may have only recently been put into place. The older hard-won conquests or accomplishments cannot be taken for granted and would be placed in jeopardy by the new program" (Hirschman 1991: 84). A good example for the jeopardy thesis can be found in Friedrich von Hayek's attack on the welfare state. Hirschman traces Hayek's assertion that the welfare state would jeopardize individual liberties and democratic governance back to his book "Road to Serfdom" (1944). However, Hayek repeats the jeopardy thesis more outspoken in his later works: "Hayek went over to an explicit attack on the Welfare State along such lines with his next major publication, *The Constitution of Liberty* (1960)" (Hirschman 1991: 113). The progressive twin of jeopardy is synergy that is the thesis of an ever-harmonious and mutually supportive relation between new and older reforms (Hirschman 1993).

In a nutshell, all those rhetoric figures are ways to use speech in public debates as a means of power without an earnest attempt to attain mutual understanding or at least to acquire an understanding of the opponent's argument. These rhetoric figures are good examples for the use of the opinionated mode of communication b) in attempts to win overt public conflicts or to keep them covert by agenda setting and influencing the public opinion (Lukes 1970).

### **c) Informational use of language – Denzau and North's mental models**

Douglass North and Arthur Denzau conclude that communicated and hence, shared mental models have a transaction cost saving effect: "Some types of mental models are shared intersubjectively. If different individuals have similar models they are able to better communicate and share their learning. Ideologies and institutions can then be viewed as classes of shared mental models" (Denzau and North 1994: 4). They do describe institutions and the crucial role mental models play as follows:

"As developed in North (1990: 3), institutions are the rules of the game of a society and consist of formal and informal constraints constructed to order interpersonal relationships. The mental models are the internal representations that individual cognitive systems create to interpret the environment; the institutions are the external (to the mind) mechanisms individuals create to structure and order the environment" (Denzau and North 1994: 4).

In other words, for Denzau and North the explanation is causal linear from institution to the individual, in addition, they stress the constraining aspect of institutions compared to their enabling aspect.

From Denzau and North's point of view every individual is faced with uncertainty (Denzau and North 1994: 9) and begins to deal with it while starting primarily from his or her own experiences and secondarily relying on institutions for orientation: "The world is too complex for a single individual to learn directly how it all works (Denzau and North 1994: 14). The behavioural disposition of individuals in Denzau and North's approach is not only goal oriented (Denzau and North 1994: 13), but even individual benefit oriented (Denzau and North 1994: 8). Their view that learning and communication are a precondition of human action (Denzau and North 1994: 14 and 15) is mixed with the assumption of learning and communication as a matter of calculation (Denzau and North 1994: 20). This individualistic,

gain oriented perspective explains why communication is seen as a one way exchange model by the authors (Denzau and North 1994: 19) and not modelled as an interactive process. Denzau and North are aware of the theoretical weakness of their methodological individualism to account for the effects of communication as they do reveal in a footnote: 'This approach works at the level of the individual chooser. But many of the changes we wish to understand are social, such as changes in informal institutions or ideologies' (Denzau and North, 1994, p. 23). Their perspective on communicative economic actors is that of the informational mode c).

#### **d) Dialogical use of language – Habermas's communicative action and Boulding's integrative power**

The specific kind of rationality that brings about the productivity of speech and thus, allows the creation of inventions and solutions to improve economic organisations can be clarified by drawing on Habermas's theory of communicative action.

Communicative action in Habermas's sense is not only oriented to success, efficiency, or personal goals, but also to reaching an understanding among the participants of a discourse and is coordinated 'through cooperative achievements of understanding among participants. In communicative action, participants are not oriented primarily to their own success, but to the realization of an agreement which is the condition under which all participants in the interaction may pursue their own plans' (Habermas 1984: 541; Biesecker 1997: 220). Communicative action is based on language and operates in the process of discussion. This procedural exchange of arguments during which participants learn to understand each other's motivations, underlying norms, and opinions is called discourse by Habermas. In discourse, participants are disposed to learn from each other and to change their own attitudes toward the world in general or toward certain problems occurring within it.

Habermas assumes a certain procedural communicative rationality that helps to differentiate three basic types of arguments (speech acts) which can be criticized or defended, grounded in their specific rationality. Habermas argues that communicative rationality occurs inevitably during discourse, which is evident if we thoroughly consider the inter-subjective meaning of illocutions. If we try to persuade during discourse, we suppose that the other person can be convinced by our arguments and will accordingly change his or her mind. When we do this, however, we implicitly concede that exactly the same might happen to us but in the opposite direction. That is to say, we would admit the superiority of other's arguments and change our minds. The two one-way modes of communication: informational c) (urge to change one's own mind) and opinionated b) (urge to change the mind of someone else) are combined here. The communicative rationality of speech acts is not only instrumental, like the utilitarian rationality of economic man or the strategic mode a), but threefold. As Adelheid Biesecker put it (quoting and translating Habermas): "They [speech acts, S.K.] are not simply grounded in knowledge of the object world (as in empirical thinking), but also in the norms of the society in which the discourse is taking place (Habermas's social world) and the values of the partners in the discourse (Habermas's subject world). Communicative rationality, therefore, has three dimensions: An action [or a statement, S.K.] is rational if it is objectively true, socially right and subjectively sincere' (Habermas 1995: 149, translated in Biesecker, 1997: 220).

The participants of a discourse use their shared experiences (made in their life-world) as background and reservoir to test the validity of arguments along the three just mentioned dimensions of rationality. In a certain discourse situation, the discussants recur to their shared experiences, which contain all opinions and world views taken for granted to begin a cooperative process of interpretation. During this process, some elements of their experiences will remain untouched or stable, while others will become a matter of doubt and may change. Because discourse, as a form of social coordination, is linked to the social and subjective worlds, it has the capacity to integrate a variety of values. This establishes the special productivity of the discursive process.

### **The use and emergence of power in discours**

Habermas's action theory relies most of the time on an exclusive dichotomy of strategic and communicative action. However, in his later works (Habermas, 1996, 1999a and 2001), in which he distinguishes between weak communicative action, defined as: trying to understand what is on the other's mind without changing one's own and to influence others (communicative modes c) and b)), and a strong one, aimed at reaching mutual understanding and consensus, Habermas does not go further to elaborate a language-based form of power (weak strategic action, that is the strategic mode a) or b)).

Habermas fills this conceptual gap in his book "Between Facts and Norms" (1999) where he explores the transformation of communicative action which is dialogical mode d) into communicative power. As I have shown elsewhere Galbraith's power theory bears some similarity with this more recent discourse theoretical work (Kesting 2005).

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