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**Is the investment decision different in cooperatives?
A French study**

by

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ABSTRACT

One of the main problems the theoretical literature has discussed in relation to labor-managed firms (LMFs) is underinvestment (see, e.g., Vanek 1977, Ireland and Law 1982, Stephen 1982 and Uvalic 1992). Underinvestment has even been regarded as a key reason for the small number of LMFs in market economies, and this hypothesis is still very influential. However, there is very little empirical evidence in this area (see Estrin and Jones 1992, 1995 and 1998, Lizal and Svejnar 2002). This paper contributes to the debate by examining empirically the investment behavior of conventional and labor-managed firms in France.

Our first aim is to test empirically whether the determinants of investment behavior for the conventional firms and for the labor managed firms are different. We estimate standard investment models for both labor-managed and conventional firms and test for differences in behavior between the two groups of firms. A large body of literature on conventional firms has looked at the importance of financial constraints in the investment function. This hypothesis ties in with the point made by some critiques of the underinvestment hypothesis, who have argued that LMFs may be liquidity constrained (e.g., Berman and Berman 1989, Dow 2003). In keeping with the empirical literature, we augment the investment function with indicators of investment supply constraints. For this part of the analysis, we use two new unique data sets covering two unbalanced panels of French firms with 20 employees or more. These data sets include samples of 3000 conventional firms and all worker's cooperatives with 20 employees or more over 10 years.

Our second aim is to analyze in more detail the investment behavior of LMFs. We estimate a more extensive model for the cooperatives alone, taking into account their different sources of external funding and their propensity to plow back profits. This part of the analysis uses a brand new unbalanced data set covering 15 years of data for all French workers' cooperatives, including firms that were born and closed down during the sample period.

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