### Resolved: In the United States, workers ought to have the legal right to vote for representatives on corporate boards.

Notes:

This topic asks you to engage in the question of codetermination, defined as the practice of workers directly voting for representation of corporate boards. This often leads to union leaders, or popular workers in a company, taking a place on a board to push certain ideals and speak for the general population of the workers. Questions about how enforceable such positions are, as well as how much influence one of these electees might have are important questions you will answer in your rounds.

The current precedent for such laws are often found in Europe. Particularly, Germany has very strong codetermination laws enshrined in the 1976 Codetermination Law that requires that in situations, up to 1/3 of the board is made up of workers. It is viewed as a key way to reorient the mission and purpose for a company towards protecting workers. There are also benefits towards the company itself, seeing an increase in long-term productivity with less chance of strikes or aggressive unionization.

Discussions of expansion of such laws to other parts of Europe are quite common and have been generally successful, but the U.S is only beginning this process. Elizabeth Warren sponsored a bill with this purpose, called the Accountable Capitalism Act(SSB 3348). Warrens plan calls for 40% of boards to be made up of worker-elected people.

Critics of codetermination argue that because shareholders invest money to garner the right to elect the board, this is a seizure of that right. This economically conservative viewpoint posits that profit for the shareholder is the most important duty of a corporation, as they are bound to do so for the wishes of those who invest. This viewpoint favors profit, innovation, and expediency of business. Leftist critics exist as well, arguing that this is a useless way to quell more important unionization movements. Kevin Drum from Mother Jones wrote “Why choose an oddball proposal that sounds European and vaguely socialist? Why not instead propose a truly simple and powerful proposal to boost unionization throughout the American economy? If your goal is to increase the power of the working class, this is the way to do it.”

Studies have shown that in Germany, codetermination has led to much more long-term thinking and increased pay equity, but potentially less profits. Other studies have indicated that there has in fact been great amounts of innovation under these programs. While in the 1910s, certain examples exist of similar concepts in the U.S, such as in Standard Oil, collective bargaining and unionization overshadowed and eventually eliminated the perceived need for such arrangements.

Further Reading:

<https://www.steven-hill.com/co-determination-takes-the-spotlight-in-the-us/>

<https://prospect.org/labor/codetermination-difference/>

<https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3565955>

<https://www.bruegel.org/2016/10/codetermination-in-germany-a-role-model-for-the-uk-and-the-us/>

<https://review.chicagobooth.edu/economics/2019/article/capitalisn-t-codetermination-seat-table>

<https://www.cato.org/publications/commentary/history-shows-forcing-companies-put-workers-boards-bad-idea>

## AC

Text: The USFG should pass all parts of SB 3348 related to Codetermination

### **Value**

####  In this round, we should value pragmatic action that leads to tangible change in the forum of workers’ rights. Plan sufficiently meets this value

#### AC Bill is the best precedent for Codetermination in the U.S, solid legislation

Hill 19

Steven Hill is a political writer and the author of seven books, Co-determination takes the spotlight in the US, Published by Steven Hill 2/12/19, https://www.steven-hill.com/co-determination-takes-the-spotlight-in-the-us/)//LED

German-style codetermination gains ground in the US, pushed forward by presidential candidate Senator Elizabeth Warren. Will Trump’s America take a page from Europe’s “social capitalism”? Over the past year in the United States, German-style codetermination has moved closer to center stage in the national debate over inequality and worker’s rights. Several high profile Democratic Party leaders, including 2020 presidential candidate US Senator Elizabeth Warren, have proposed partially worker-elected boards of directors for major corporations. This proposal is gaining attention not only as a response to the right-wing populism of President Donald Trump, but also as the US tries to cope with the long-term decline of trade unions and worker’s rights. The ongoing rise of the digital economy, launched by dominant tech platform companies from Silicon Valley and Seattle, has only made these pressures more acute. Senator Warren’s bill, which is called the Accountable Capitalism Act (Senate Bill 3348), aims to not only introduce codetermination to the US, but more broadly to transform the skewed market incentives of “shareholder capitalism” that push companies to invest far more in maximizing shareholder value than in their workforces and communities. The legislation seeks to reverse the trends over the last thirty years that have led to record corporate profits and rising worker productivity but stagnant wages and declining labor power. The US, says Sen. Warren, should “return to the era when American corporations and American workers did well together.” Some Americans learning from „Social Europe“… and US history The statements of Sen. Warren and other Democrats about the rationale for her bill sounds similar to the defenses of “Social Europe” by leading German and European politicians. “For most of our country’s history,” says Sen. Warren, “American corporations balanced their responsibilities to all of their stakeholders — employees, customers and communities in addition to shareholders — in corporate decisions. And it worked: profits went up, productivity went up, wages went up, and America built a thriving middle class.” Starting in the 1930s, the four decades dominated by the New Deal philosophy of public-private partnership and government intervention to ensure a broadly shared prosperity often have been cited by US progressives as a golden age that is disappearing into the mist. But in the 1970s a new idea began to take hold in the US, particularly among business and political elites, that undermined the New Deal. That idea was that American corporations should focus only on maximizing returns to their shareholders, and ignore as much as possible any other company stakeholders. A main proponent of this view was influential neo-liberal economist Milton Friedman, who wrote an era-defining New York Times magazine article in 1970 entitled “The Social Responsibility of Business Is to Increase its Profits.” For the past several decades, that has been the dominant business and political elite philosophy. Now Sen. Warren is directly challenging that neo-liberal paradigm with her codetermination bill. “For decades, American workers have helped create record corporate profits but have seen their wages hardly budge,” says Sen. Warren. “To fix this problem we need to end the harmful corporate obsession with maximizing shareholder returns at all costs, which has sucked trillions of dollars away from workers and necessary long-term investments.”

### Criterion

#### The criterion of this round is pragmatism: examining the practical ends of the plan ignores prior questions that can only hurt workers.

#### Won’t pass now

Hill 19

Steven Hill is a political writer and the author of seven books, Co-determination takes the spotlight in the US, Published by Steven Hill 2/12/19, https://www.steven-hill.com/co-determination-takes-the-spotlight-in-the-us/)//LED

Sen. Warren and proponents understand that her legislation is not going to become law anytime soon. A hostile president and Republican-controlled Senate are mighty barriers to its enactment. But Sen. Warren (as well as Sen. Baldwin before her) is clearly planting some seeds, trying to stir up debate and give grassroots activists something hopeful to get excited about. Some are speculating that Warren is doing this in preparation for her announced presidential run in 2020. Proponents realize that most Americans, whether left, middle or right, are still mostly unfamiliar with codetermination. It will take some time for advocates to educate about these changes to corporate governance.

#### Studies and empirics show that plan solves

Hill 19

Steven Hill is a political writer and the author of seven books, Co-determination takes the spotlight in the US, Published by Steven Hill 2/12/19, https://www.steven-hill.com/co-determination-takes-the-spotlight-in-the-us/)//LED

As part of this educational process, Germany’s example already has been a huge help in raising the credibility of this proposal. Studies from Germany’s experience with co-determination indicate that it leads to less short-termism in corporate decision-making and much higher levels of pay equality, while other studies demonstrate positive results on productivity and innovation. The American Prospect’s Harold Meyerson wrote, in support of Warren’s legislation, “Co-determination has been a major factor in Germany’s ability to maintain world leadership in manufacturing, preserve its middle class, and limit CEO pay – a whole raft of achievements that have eluded the financialized United States.” America’s long-ago history using co-determination The educational effort will be helped along by one other factor. No doubt many Americans will be comforted when they find out that co-determination is not really all that “foreign” of an idea. In fact, in many ways it is as American as apple pie. In 1918, the gargantuan Standard Oil of New Jersey, inheritor of the legacy of oil baron John D. Rockefeller, made a dramatic shift in its model of corporate governance. Led by its then-president Walter Teagle, it instituted a form of a partially worker-elected board of directors to give its employees “a voice in the fixing of their compensation, hours of labor, conditions under which they work and live, and everything affecting the welfare of themselves and their families” (from company literature). The plan was for “representatives to be chosen by the workmen to represent them at the company’s councils and every man employed will have a vote.” Spurred on by attempts to blunt the growing power of labor unions, this structure became part of a wave of corporate governance changes, with other large corporations such as Goodyear, United States Rubber, International Harvester and others adopting forms of co-determination. FOR MANY AMERICANS WARREN’S BILL IS BOTH A RELIEF AND A BEACON POINTING THE WAY FORWARD. This legacy of worker representation did not survive in the US, mostly because labor unions during the time of the New Deal chose to settle for a bigger piece of the economic pie for their members, enforced via workplace (not sectoral) collective bargaining agreements with individual employers, instead of pushing for any type of codetermination rights. But it took root in Germany in the post World War II era and spread to Sweden, France and other European countries. In fact, the evidence suggests that the Allied Forces, as the victorious conquerors of Western Germany, imposed this structure on German companies as a way of breaking up the power of the industrialists who had supported the Nazis. In effect, one might say, Germany was “punished” with a degree of economic democracy that US leaders have never bestowed upon US workers. Co-determination has become a foundation of European-style “social capitalism,” which has proven to be more effective at enacting a more broadly shared prosperity than US-style Wall Street/Silicon Valley capitalism or Chinese-style state command capitalism. And Americans today are showing an increasing degree of interest and even acceptance. An April 2018 opinion survey found that, once they become familiar with codetermination, a majority of American respondents support the concept, favoring it by a margin of well over 2:1 (53% vs. 22%, though with some respondents undecided). For many decades, Germany’s leadership in enacting new forms of worker representation and empowerment has provided an innovative model for corporate governance. As the world slides uneasily into its digital future, codetermination will increasingly be seen as an effective way to maintain both a broadly shared prosperity and the crucial voice of workers in the economy. For many Americans chafing under the surreal landscape of TrumpLand, Sen. Elizabeth Warren’s bill for German-style codetermination is both a relief and a beacon pointing the way forward.

### Contention

#### Codetermination is a fundamentally good system empirically

Tyler 19

George Tyler has served as a deputy assistant treasury secretary (1993-1995) and a senior World Bank official (1995-1997) (description from site), The Codetermination Difference Published by The American Prospect 1/10/19, https://prospect.org/labor/codetermination-difference/)//LED

Nearly one-third of Senate Democrats have now backed bills by their colleagues Tammy Baldwin (Wisconsin) and Elizabeth Warren (Massachusetts) that require corporations to shift to codetermination—the practice of employee representatives joining shareholder representatives on corporate boards of directors. This new push for codetermination is a shrewd way to dramatize how American-style shareholder capitalism has battered wages, job security, and respect for workers. More important, it is a proven and effective different model of capitalism that will improve the lives of American families left economically adrift since the 1980s. Following the doctrine of “maximizing shareholder value” for the past 40 years, corporate boards controlled by large-scale shareholders have funneled their revenues to those shareholders and the corporate executives whose pay is linked to shareholder rewards—at the expense of investment and wages. Pandemic short-termism in American C-suites since the Reagan presidency is responsible for the long-term decline in private investment documented by the Federal Reserve Bank of St. Louis, the World Bank, and the OECD. Employee up-skilling has stagnated for the same reason, compounded by the gig economy, contracting out and the decline of collective bargaining. Corporate cash flow has also been steadily diverted from wages—labor compensation for more than four decades lagging productivity growth. The deterioration in income equality has caused the U.S. income distribution to become the most skewed of any rich democracy, comparable to that of Turkey. Eager to shed jobs whose pay and benefits come to $80,000 jobs, boards of directors have become adroit at exporting jobs rather than goods and services. Evidence developed by Robert Scott for the Economic Policy Institute and others affirm that U.S. multinationals have exported five million jobs net since 2000. Consequently, the domestic share of U.S. multinational global employment has fallen below the U.S. share of their global sales according to Department of Commerce surveys. Offshoring has exacerbated the chronic U.S. trade deficit. President Trump has criticized America's deficits with both China and Germany (“bad, very bad”), but the factors responsible are quite dissimilar. China pursues classic mercantilist policies, but Germany is bound by EU-wide tariff and trade agreements that emphasize freer trade and maintenance of a stout rules-based international trading order. The German advantage, by contrast, is in part the consequence of policies rooted in its embrace of codetermination. It is true that Germany exhibits a strikingly large current accounts surplus (8 percent of GDP in 2017). But it's not an outlier among its northern European neighbors, including the Netherlands (surplus of 10.2 percent), Denmark (7.9 percent), and Norway (5.2 percent). These are the most competitive economies on earth despite paying the world's highest wages. A portion of their surpluses reflect public sector fiscal sobriety, German wage moderation prior to the Great Recession and membership in the Eurozone. But a significant factor is the focus of corporate boards of directors in these nations on expanding the domestic stock of high-wage jobs—jobs that tend to cluster in high-productivity export sectors. Codetermination and Corporate Governance in Northern Europe The enigma of northern Europe's robust international competitiveness is explained by codetermination—what to American eyes are the unusual dynamics at the very peak of their domestic corporations: a stakeholder orientation reflecting the inclusion of employee representatives on their boards of directors. Consequently, the boards of northern European firms embrace policies to nurture long-term firm prosperity as well as local and national communities. These boards also eschew practices characteristic of American-style shareholder capitalism. Stock options offered to top executives are far smaller than those in the U.S., and their boards reject pathologies such as buybacks designed to spike quarterly earnings. An INSEAD analysis identified only 210 announced buybacks among German enterprises between 1998 and 2014 compared to 11,096 by U.S. firms. Your donation keeps this site free and open for all to read. Give what you can... SUPPORT THE PROSPECT Codetermination is rooted in nineteenth century European corporate reforms (for more details, see codeterminationfact.com, the European Trade Union Institute, and Ewan McGaughey and Rebecca Zahn). Its resurrection in the wake of World War II is the central feature in the half-century evolution of European postwar corporations. At most midsized and larger firms, elected representatives of employees sitting on Boards of Directors have voice and vote equal to those of shareholder representatives; they are jointly responsible for monitoring firm operations, the appointment and dismissal of CEOs and management, crafting strategic and tactical investment direction, and holding management accountable to board, ethical and legal strictures. The other important feature of this model has been works councils, employee/management bodies that meet regularly on a host of mid-level management issues like scheduling and workplace changes. Had these evolutions diminished firm values or efficiency, codetermination and works councils would have been abandoned decades ago by lawmakers. Instead, they have spread from Germany to two-thirds of the EU. Indeed, codetermination is commonplace at German, Dutch, Austrian, and Scandinavian (including Finnish) corporations. The legal threshold for codetermination governance ranges from firms with more than 25 employees in Sweden to 1,000 employees in Luxembourg (in Denmark, it’s 35; the Netherlands, 100; Norway, 200; Austria, 300; Germany, 500). In most of these nations, employees hold one-third of the board seats, but they hold 50 percent at the largest German corporations, with ties broken by board chairs if needed. Most Americans would be surprised to see who sits on the Board of Directors (Supervisory Board) at any larger German firm such as Daimler. One reason codetermination and less plutocratic economic policies prevail in these European nations has been their criminalization of political bribery. Political donations of any nature above de minimus amounts are illegal, reflecting the judgment of the late U.S. Senator Russell B. Long that “Almost a hairline’s difference separates bribes and contributions.” The European rejection of pay-to-play means public policy outcomes do not reflect an American-style income bias documented in the seminal analysis by Martin Gilens and Benjamin Page. Policy preferences of the donor class are far more predictive of U.S. legislative outcomes than are middle-class preferences. Across Northern Europe, codetermination has been a major contributor to opportunity creation. Its impact on corporate cultures, investment, wages and national labor practices can best be assessed against the outcomes of the U.S. shareholder corporate culture.

#### **Boosts productivity, innovation and stabilizes middle class**

Tyler 19

George Tyler has served as a deputy assistant treasury secretary (1993-1995) and a senior World Bank official (1995-1997) (description from site), The Codetermination Difference Published by The American Prospect 1/10/19, https://prospect.org/labor/codetermination-difference/)//LED

The stakeholder orientation of their corporate boards has prioritized enterprise longevity and international competitiveness along with shareholder returns. We can see the difference between their economic model and ours by tracking the differences in wages, investment, and domestic labor markets. Corporate boards and national leaders in these nations may have drawn inspiration from Adam Smith's argument that hewing to market-determined labor compensation is inappropriate when it's in conflict with important social objectives. Wages should be sufficiently high, he wrote, to cover "whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without" (including, he wrote in 1776, linen shirts and leather shoes). In nations practicing codetermination, inflation-adjusted compensation tends to track productivity. Your donation keeps this site free and open for all to read. Give what you can... SUPPORT THE PROSPECT The steady rise in the rewards for work has been a vital element in expanding opportunity—rising enough to have leapfrogged the rewards for work in the U.S. Bureau of Labor Statistics and Eurostat data show labor compensation per hour (including employer social costs) in Austria, Germany, and the Netherlands is now about 10 percent higher than it is here, and the gap is even greater in Scandinavia. Conference Board data on labor compensation in the capstone manufacturing sectors alone display a similar pattern. Only American union members earn northern European-level wages. In contradistinction to U.S. corporate boards that prioritize short-term boosts to share value, codetermination boards establish investment policies that nurture long-term firm prosperity and bolster local and national communities. These policies have engendered über-competitive and innovative enterprise cultures that turn out numerous best-in-class products. Robots to streamline production and drive productivity are nearly fivetimes more common now in Germany (7.6 per thousand workers) than in the U.S. (1.6). Unsurprisingly, sectors dominated by skilled jobs in the nations practicing codetermination are larger than they are here; the skilled-job sector in the Netherlands, for instance, which encompasses 47 percent of that nation's jobs is nearly one-third larger than that in the U.S (36 percent). Some American corporations, venture capital, and private hedge funds do invest large sums in research. But R&D spending as a share of GDP by the business sectors of countries like Denmark, Germany, and Sweden is greater than it is here. Indeed, by prioritizing long term firm prosperity, codetermination partnership boards bolster their domestic ecosystems in science, labor skills, technology and innovation. In contrast, American C-suites drain resources from upskilling and investment, choosing instead to spike their share price. Higher wages, robust investment, and large skilled-job sectors reflect the focus of codetermination boards to foster local and national communities by expanding the number of high value jobs rather than exporting them. A recent Ernst and Young study of the premier German firms that comprise the DAX 30 index (including such companies as Daimler, Siemens, and Volkswagen) concludes that those corporations have increased domestic employment by morethan the growth in their domestic sales, while expanding foreign employment by less than growth in foreign sales. Handelsblatt reported that by 2017, some 36 percent of the total global workforce of DAX 30 firms was located in Germany, while only 21 percent of their sales occurred there. The difference—jobs integral to 15 percent of global sales by these enterprises—reflects the resistance of codetermination boards to offshoring. screen\_shot\_2019-01-09\_at\_3.14.31\_pm.png This focus on domestic employment has not dimmed the DAX 30 investment abroad. These companies are also huge international investors, with Daimler and Siemens alone owning over 70 U.S. plants. But they also have retained and created a far higher share of skilled, well-compensated jobs domestically than U.S. companies have. Codetermination has proven to be the most effective version yet devised to realize Adam Smith's hopes for a market-based capitalism that engenders widely based prosperity. By injecting codetermination to the American political debate, Democrats have taken an important step to upgrade the American middle class. But they may also upgrade American democracy. Everyone should have a voice in American democracy, including at work where so many hours are spent. There are obvious complementarities between codetermination and giving new voice to citizens in other labor markets institutions, including collective bargaining, employers' associations and works councils. Giving voice to citizens at their worksites is an important cultural adjunct strengthening communitarian values and expectations of responsive public officials that are central to a high-quality democracy. Indeed, the Bertelsmann Foundation's 2018 global assessment concluded that the five highest-quality democracies were all adopters of codetermination. Its panels of international political scientists judged the quality of American democracy—how well citizen voice or public sentiment is reflected in government policies—to rank only 18th. Separately, the Freedom House annual international update on the global State of Liberty found that freedom and political rights were also stronger in each of the major adopters of codetermination than they were in the U.S. Redressing the low quality of American democracy poses major challenges, of which Trump is just one element. But with its promise of empowering many more voices, codetermination offers a valuable pathway forward to improving the quality of American democracy itself.

#### Creates stable companies with strong structures

Berger and Vaccarino 16

Bennet Berger, Former Research Assistant for Bruegel, Elena Vaccarino, Research Assistant in the micro team in the area of Innovation. She holds a Master’s Degree in Economics from Bocconi University in Milan, Codetermination in Germany – a role model for the UK and the US? Published by Bruegel 10/13/20

RSS Feeds Back to top BLOG POST Codetermination in Germany – a role model for the UK and the US? The idea of codetermination, i.e. the cooperation between management and workers in decision-making, has grown in popularity lately. We review the characteristics of codetermination in Germany and ask whether it could be a role model for the UK and the US. BY: BENNET BERGER AND ELENA VACCARINO DATE: OCTOBER 13, 2016 TOPIC: EUROPEAN MACROECONOMICS & GOVERNANCE Codetermination or “Mitbestimmung” – the German term for worker participation in a company’s decision making – has recently attracted attention as UK Prime Minister Theresa May and US presidential candidate Hillary Clinton promised to strengthen workers’ rights and interests. The latter has called for rewriting “the rules so more companies share profits with their employees”. Mrs May has repeatedly stated her intention to reform corporate governance such that workers and consumers are represented on boards, to “reform capitalism so it works for everyone – not just the privileged few.” Many commentators have interpreted the Brexit vote also as a rejection of the current globalized economic system from which “the rich are gaining at the expense of the poor” (see e.g. here). While codetermination does not only exist in Germany, several authors (see here and here) have wondered whether it could be a role model also for the UK and the US. This blog provides a short overview of the characteristics of codetermination in Germany and evidence from academic literature. What is codetermination? Codetermination is deeply rooted in the tradition of German corporate governance and has existed in its current form since the Codetermination Act of 1976. It has an explicit social dimension: as the German Constitutional Court ruled, codetermination on the company level is meant to introduce equal participation of shareholders and employees in a firm’s decision making and shall complement the economic legitimacy of a firm’s management with a social one. Codetermination is therefore about a democratic decision making process at the firm level and the equality of capital and work (Page 2009). Furthermore, according to Kommission Mitbestimmung (1998), the main aims of codetermination consist in making investments in human capital profitable, and “rewarding” employees’ loyalty towards the firm with participation rights. Codetermination could be viewed as an institution enhancing workers’ representation and participation rights in a firm’s corporate governance. There are two levels through which employees are given codetermination rights to participate in a firm’s decision making: the work council (“Betriebsrat”,establishment or “shop-floor” level) and the supervisory board (“Aufsichtsrat”,company level). The work council is generally elected in firms with more than 5 employees and many of its members are also members of German trade unions. The council is endowed with far-reaching information and consultation rights that enable it to exert influence on working conditions, pay principles, working time etc. Employers must negotiate with the work council if changes affecting the workforce take place, e.g. the dismissal of employees. Codetermination at the company level, on the other hand, consists in the participation of employees or their representatives in the supervisory board. Germany was one of the first countries to introduce a two-tier system, meaning that the law requires firms to have an executive board, composed by executives and chaired by the CEO, and a supervisory board, composed by non-executives, which are shareholder and employee representatives (including union representatives). Note that workers are thus represented on the supervisory board – not the (executive) board. The number of employee representatives depends on the size and legal type of the firm: one-half of the members of the supervisory board are employee representatives for firms with staff of more than 500 for limited liability corporations (“GmbH”) and more than 2000 for stock corporations (“AG”), and one-third for stock corporations with between 500 and 2000 staff. The chairman of the supervisory board, who is elected by shareholders, has an extra vote in case of a tie. The supervisory board is generally involved in the appointment of the management board members, monitoring of business operations overseeing the activities of the management board and, in a subcommittee, determining the compensation of its members. With the supervisory board approving major strategic decisions, ultimate corporate power resides with it (FitzRoy and Kraft 2004) and thus also with employee representatives. Finally, it should be noted that codetermination and wage negotiations are separate as usually unions and employers’ associations bargain with each other. However, there are close personal links between unions and institutions of codetermination as work councillors and thus employee representatives on the supervisory board may be union members (FitzRoy and Kraft 2004).

#### Leads to increased economic efficiency and equality

Berger and Vaccarino 16

Bennet Berger, Former Research Assistant for Bruegel, Elena Vaccarino, Research Assistant in the micro team in the area of Innovation. She holds a Master’s Degree in Economics from Bocconi University in Milan, Codetermination in Germany – a role model for the UK and the US? Published by Bruegel 10/13/20

Corporate governance is characterized by the interplay between managers and owners of a firm. While the latter wish to maximize the value of the firm in the long run, executives maximize their own utility, for which compensation, prestige, power etc. are relevant. Codetermination introduces a third interest group, employees, to the supervisory board and thus to the firm’s decision making process. The question is whether the interests of each group overlap or are in contrast with each other, and which benefits and costs employee representation entails. Shareholder vs labour interests, efficiency, and the supervisory board Some authors have questioned why codetermination should be made mandatory. If it was beneficial, firms would have introduced it themselves and its presence may therefore be inefficient (Jensen and Meckling 1979). There may be rent seeking on part of labor at the expense of shareholders. Indeed, studies have found that equal representation on the supervisory board (versus one-third representation) reduces the market-to-book ratio – a measure of firm performance – by 31% on average (Gorton and Schmid (2004). The authors conjecture that “labor succeeds in altering the objective function of the firm – away from maximizing shareholder wealth”, e.g. by resisting lay-offs and thus using their voting power as an insurance for employees in response to negative shocks. They also find evidence for high staffing levels and thus potential overstaffing in equal-representation firms. On the other hand, employees might have a similar objective function as shareholders (or their representatives) aiming at the long-run survival of the firm, in which case employee representation could actually be beneficial for shareholders. One such overlap in employees’ and shareholders’ interest would be to prevent managers from pursuing overly risky projects, maximizing short-term profits, or engaging in expansion by mergers and acquisitions. The shareholders as members of the supervisory board can change the managers’ compensation structure to incentivize them to act according to their interest. Dyballa and Kraft (2016) find evidence that employee representation is beneficial in that regard. Furthermore, there may be benefits due to an improved flow of information between board and workers. Due to their knowledge of a firm’s operations and processes, employees are good at monitoring managerial performance and bring first-hand knowledge to the board’s decision making (Edwards et al 2009, Fauver and Fuerst 2006). The latter find that codetermination can increase firm efficiency and market value. This finding is not necessarily incompatible with Gorton and Schmid (2004) as they do not stipulate that one-half representation is optimal but simply that a positive number of employee representatives is beneficial. The optimal level of labor representation might thus be below parity. They argue that their finding holds in particular for “industries that require more intense coordination, integration of activities, and information sharing such as trade, transportation, computers, pharmaceuticals, and other manufacturing”. Information flows and work council presence Beyond worker representation on boards, work councils as the other pillar of codetermination institutionalize cooperation between workers and employers. Workplace representation in Germany takes place mainly through work councils rather than unions (see Addison 2005 for a survey of the academic literature). These institutions aggregate information and preferences of workers and thus may help determine the social demand for public goods such as better working conditions. Work councils may also be beneficial in relation to workers’ input of effort, reducing exit behaviour (quits, absenteeism) and increasing firm-specific investments in human capital. Other benefits may be due to work councils’ information rights – by, e.g., verifying management claims and avoiding costly disputes -, consultation rights – leading to new solutions and creative discussion – and by encouraging workers to take a longer-run view of the firm by providing them more job security, a point also raised by Kommission Mitbestimmung (1998) further above. On the empirical side the findings are quite mixed, however. Most recent studies find neutral or small, positive effects on productivity, innovation, and investment. One study argues that the functioning of work councils also depends on its age, i.e. there is a learning effect (Jirjahn et al 2011). For example, the authors find that adversarial relationships between work councils and the management are decreasing, and productivity increasing, with its age. Codetermination and equality Finally, as the system of codetermination is also mentioned in the context of “democratic capitalism” and is meant to be an inclusive framework, it seems natural to wonder whether this also shows up in numbers. For obvious reasons, macroeconomic effects are hard to measure seriously. Nevertheless, Vitols (2005) looks at 25 EU countries and finds that countries with stronger worker participation rights perform better in terms of labor productivity, R&D intensity, and had lower strike rates, although this group of countries performed worse in terms of GDP growth. Hörisch (2012) looks at the association between codetermination and income inequality (measured using the Gini index) in OECD countries and finds that it is negative – i.e. higher income equality in countries with codetermination. To conclude, there is plenty of evidence that the German stakeholder system of codetermination has been a positive experience

#### Empirically boosts economy by better distributing earnings

Matthews 18

Dylan Matthews is Senior Correspondent for Vox, Workers don’t have much say in corporations. Why not give them seats on the board?, Published by Vox 4/6/18, https://www.vox.com/2018/4/6/17086720/poll-corporate-board-democracy-worker-council-codetermination-union-labor)//LED

In large German companies of 2,000 or more employees, half of supervisory board members are elected by workers, with the other half and the chair elected by shareholders. Companies are also required to allow works councils elected to represent workers in day-to-day disputes over work conditions, layoffs, etc. These councils have a variety of legal rights requiring companies to consult them, and about 43 percent of workers in the former West Germany and 35 percent in the former East Germany are represented by one. Economists in the past four decades have produced a large literature trying to determine the effects that codetermination has had on the German economy, and while the results are mixed, more often than not, studies find that codetermination and “works councils” lead to higher wages, less short-termism, greater productivity, even higher levels of income equality (see here for a good overview of recent research). They may, however, reduce profitability and lower returns for shareholders, suggesting they lead to a shift in both power and corporate earnings away from shareholders and toward workers. Perhaps more importantly, codetermination gives workers a tangible stake and voice in their companies, which could appeal to voters in the wake of decades of slow wage growth and increasing job precarity. That’s led some Americans, notably including Boston College law professor Kent Greenfield, to embrace the idea and call for its adoption in the US. And while the idea raises some constitutional challenges (as reducing shareholder power over companies could be ruled a “taking” under the Fifth Amendment), it has no budgetary cost, unlike many populist economic proposals common in the left wing of the Democratic Party.

## Block

#### Solving inequality key to economic growth

Bivens 17

Josh Bivens is director of research at the Economic Policy Institute (EPI), Inequality is slowing US economic growth, Published by EPI 12/12/17, https://www.epi.org/publication/secular-stagnation/)//LED

A useful (if admittedly too-simple) way to think about an economy’s growth is as an interplay between the economy’s productive capacity and the level of aggregate demand. The economy’s productive capacity is a measure of potential that includes three major “inputs” of production: the labor force, the capital stock, and the state of technology. However, for these potential inputs to be fully utilized, aggregate demand—or spending by households, businesses, and governments—must be strong enough to mobilize them. Take the example of a hotel’s economic fortunes from 2007 to 2010. In 2007, the building and physical plant existed, the systems for taking reservations existed, and there were plenty of workers, both actual employees and potential workers willing to take jobs at the right wages. Also in that year, there were customers; rooms were likely booked to capacity and the owners may have even considered adding rooms. In 2010, this hotel still had a physical plant and reservation systems, and while their own staff was likely much smaller because of layoffs in the wake of the Great Recession, there was a huge increase in potential workers looking for jobs that could have been hired. But what kept the hotel’s hiring constrained and profits low in 2010 was lack of customers, not slow growth in the economy’s potential (or productive capacity). Recently, a number of economists have noted that evidence over recent decades indicates that growth has been constrained more by slow growth in aggregate demand than by slow growth in the economy’s productive capacity. For example, the full business cycle between the peaks of 2001 and 2007 saw the slowest economic growth then on record. The result of this slow growth was that the unemployment rate never returned to prerecession levels, and the prime-age employment-to-population (EPOP) ratio never approached prerecession levels. (See Bivens and Irons 2008 for a full accounting of this business cycle’s place in historical comparisons.) All of this indicates that the slow growth that took hold even before the Great Recession hit was likely a function of too-slow growth in aggregate demand—or spending by households, businesses, and governments. Before the Great Recession, most macroeconomists would have rejected the idea that economic growth could be constrained for long periods of time by too-slow demand growth relative to the economy’s productive capacity. The typical view was that growth in productive capacity was driven by long-run trends that did not change very fast, such as the aging of the population (which determines the pace of potential labor force growth), the accumulation of plants, equipment, and buildings that is the result of decades of past investment, and accelerations and decelerations of technology that were largely exogenous (unrelated to the state of the business cycle). In this view, ensuring that growth in productive capacity (or growth in potential GDP) is fully realized essentially means ensuring that aggregate demand grows quickly enough to keep resources (labor and capital) fully employed. In past decades, policymakers considered it relatively easy to keep aggregate demand growing fast enough high enough to fully utilize the economy’s productive capacity. In fact, macroeconomic policymakers thought their most difficult task was restraining, not boosting, growth in aggregate demand. When aggregate demand for economic output outstrips the economy’s productive capacity to meet that demand, the result is inflation. So policymakers focused on controlling inflation—or ensuring that aggregate demand did not run chronically too fast. Of course, the U.S. economy underwent recessions during which demand growth lagged behind potential GDP growth, but it was thought that the demand shortfalls could be easily solved by the Federal Reserve reducing short-term interest rates to spur more spending. Because aggregate demand was thought to need policy restraint, not stimulus, this implies that overall growth was constrained by how fast the economy’s productive capacity could grow. Any worry that persistently slow growth (say lasting more than one year) in aggregate demand could be a primary constraint on economic growth over a meaningfully long time period was largely dismissed. We now know that this dismissal was premature, and that sluggish demand growth can pull down economic growth for long periods of time. The data show we are in such a period, and likely have been for over a decade. The extraordinarily weak GDP growth between 2001 and 2007 was accompanied by decelerating wage growth, and low inflation and interest rates. These trends are strong indicators that demand was lagging growth in productive capacity. This weakness in demand was especially striking given that aggregate demand (or spending by households, businesses, and governments) was buoyed in those years initially by near-zero interest rates (set by the Federal Reserve in the early 2000s) and then by an enormous asset bubble in residential real estate that increased household wealth in the mid-2000s. The housing bubble burst, ushering in the Great Recession. The recovery from that recession was even slower than the recovery from the 2001 recession, despite extraordinarily expansionary monetary policy in the wake of the Great Recession.

#### Inequality causes economic collapse and global war

**Liu 18** (Qian, writer for The World Economic Forum, The next economic crisis could cause a global conflict. Here's why, 9/13/18, https://www.weforum.org/agenda/2018/11/the-next-economic-crisis-could-cause-a-global-conflict-heres-why)//LED

The response to the 2008 economic crisis has relied far too much on monetary stimulus, in the form of quantitative easing and near-zero (or even negative) interest rates, and included far too little structural reform. This means that the next crisis could come soon – and pave the way for a large-scale military conflict. The next economic crisis is closer than you think. But what you should really worry about is what comes after: in the current social, political, and technological landscape, a prolonged economic crisis, combined with rising income inequality, could well escalate into a major global military conflict. The 2008-09 global financial crisis almost bankrupted governments and caused systemic collapse. Policymakers managed to pull the global economy back from the brink, using massive monetary stimulus, including quantitative easing and near-zero (or even negative) interest rates. Image: UN But monetary stimulus is like an adrenaline shot to jump-start an arrested heart; it can revive the patient, but it does nothing to cure the disease. Treating a sick economy requires structural reforms, which can cover everything from financial and labor markets to tax systems, fertility patterns, and education policies. Policymakers have utterly failed to pursue such reforms, despite promising to do so. Instead, they have remained preoccupied with politics. From Italy to Germany, forming and sustaining governments now seems to take more time than actual governing. And Greece, for example, has relied on money from international creditors to keep its head (barely) above water, rather than genuinely reforming its pension system or improving its business environment. The lack of structural reform has meant that the unprecedented excess liquidity that central banks injected into their economies was not allocated to its most efficient uses. Instead, it raised global asset prices to levels even higher than those prevailing before 2008. In the United States, housing prices are now 8% higher than they were at the peak of the property bubble in 2006, according to the property website Zillow. The price-to-earnings (CAPE) ratio, which measures whether stock-market prices are within a reasonable range, is now higher than it was both in 2008 and at the start of the Great Depression in 1929. As monetary tightening reveals the vulnerabilities in the real economy, the collapse of asset-price bubbles will trigger another economic crisis – one that could be even more severe than the last, because we have built up a tolerance to our strongest macroeconomic medications. A decade of regular adrenaline shots, in the form of ultra-low interest rates and unconventional monetary policies, has severely depleted their power to stabilize and stimulate the economy. If history is any guide, the consequences of this mistake could extend far beyond the economy. According to Harvard’s Benjamin Friedman, prolonged periods of economic distress have been characterized also by public antipathy toward minority groups or foreign countries – attitudes that can help to fuel unrest, terrorism, or even war. For example, during the Great Depression, US President Herbert Hoover signed the 1930 Smoot-Hawley Tariff Act, intended to protect American workers and farmers from foreign competition. In the subsequent five years, global trade shrank by two-thirds. Within a decade, World War II had begun. To be sure, WWII, like World War I, was caused by a multitude of factors; there is no standard path to war. But there is reason to believe that high levels of inequality can play a significant role in stoking conflict. According to research by the economist Thomas Piketty, a spike in income inequality is often followed by a great crisis. Income inequality then declines for a while, before rising again, until a new peak – and a new disaster. Though causality has yet to be proven, given the limited number of data points, this correlation should not be taken lightly, especially with wealth and income inequality at historically high levels. Have you read? How to prevent World War 3 How countries have recovered from the financial crisis and other top economic stories of the week Four things not to do in an economic crisis This is all the more worrying in view of the numerous other factors stoking social unrest and diplomatic tension, including technological disruption, a record-breaking migration crisis, anxiety over globalization, political polarization, and rising nationalism. All are symptoms of failed policies that could turn out to be trigger points for a future crisis. Voters have good reason to be frustrated, but the emotionally appealing populists to whom they are increasingly giving their support are offering ill-advised solutions that will only make matters worse. For example, despite the world’s unprecedented interconnectedness, multilateralism is increasingly being eschewed, as countries – most notably, Donald Trump’s US – pursue unilateral, isolationist policies. Meanwhile, proxy wars are raging in Syria and Yemen. Against this background, we must take seriously the possibility that the next economic crisis could lead to a large-scale military confrontation. By the logic of the political scientist Samuel Huntington , considering such a scenario could help us avoid it, because it would force us to take action. In this case, the key will be for policymakers to pursue the structural reforms that they have long promised, while replacing finger-pointing and antagonism with a sensible and respectful global dialogue. The alternative may well be global conflagration.

#### **Economic collapse would be devastating, hurts the margins of society but also causes states to act irrationally**

Wealth Daily 18 ( Stock market and futures market newspaper, known for their predictive accuracy. Article quotes Gene Roddenberry. Surviving the Coming Economic Collapse, 11/13/18, https://www.wealthdaily.com/resources/surviving-the-coming-economic-collapse/51939)//LED

Surviving the Coming Economic Collapse Save Nuclear warfare is not necessary to cause a breakdown of our society. You take a large city like Los Angeles, New York, Chicago — their water supply comes from hundreds of miles away and any interruption of that, or food, or power for any period of time you're going to have riots in the streets. Our society is so fragile, so dependent on the interworking of things to provide us with the goods and services that you don't need nuclear warfare to fragment us anymore than the Romans needed it to cause their eventual downfall. — Gene Roddenberry While some may consider such a discussion a waste of time, more and more people are coming to the conclusion that preparations of some sort are warranted in our current troubled environment — on many fronts. Surviving Economic Collapse. How much preparation individuals are willing to do is usually in direct correlation to their belief that something catastrophic could happen, making life as we know it a much more difficult task. It is a proven fact throughout history that when disruptions of any kind occur, those who made even the smallest preparations typically fare much better than those who gave no thought at all in this regard. Today I want to share with you a list I have compiled of the things that could potentially happen — and that threaten our way of life in a small or large degree. There is no way to predict these things, but anyone with common sense can see that the possibility is likely we could experience one or more of these events at some point in the future... Any single event or combination of events could cause terrible and debilitating circumstances for a short or long period of time: Natural disasters such as hurricanes, floods, tornados, volcanic eruptions, solar flares, earthquakes, and other geophysical events Possibility of wars, nuclear wars, nuclear reactor meltdowns, and radiation fallout Financial meltdown (derivative, debt crisis, economic collapse and/or bond implosion) causing currencies to implode and governments to topple Problems with the exploration, delivery, or production of oil, the lifeblood of modern economies Spread of disease such as the Black Plague or a bird flu pandemic Power grid failure Political anarchy or revolution Racial strife or civil war Electromagnetic pulse event With any of these scenarios listed above (and there is a host of others I have probably not even thought about), you could have localized, national, or global unrest and even war for an indefinite period of time depending on the scope and duration of the event(s). An item that is not on the list — but could be equally devastating to individual families — is the loss of a job. Losing a job can be a catastrophic event if one is not properly prepared. Most families find themselves living paycheck to paycheck with little in the way of savings and almost nothing in the way of preparations. For years, I had brought up the issue of preparedness to a close friend of mine. When I first started talking about it, my friend and his wife basically blew me off... but I kept bringing the topic up. Eventually they thought it prudent to at least get some sort of food storage together. Their family was accustomed to an upper middle class income and living comfortably in suburbia with their three children... About a year after making their food preparations, the breadwinner of the family lost his job and ended up working a series of almost minimum wage jobs trying to make ends meet. He kept applying for better-paying jobs in his field of expertise — but no matter how qualified he was nobody was interested in hiring someone at his previous salary level or his age (late fifties). The family's lifestyle was devastated and they eventually lost their home... In a recent conversation with this friend, he told me that without their food storage, things would have been immeasurably more difficult. He thanked me for being a good friend and pushing the issue when he and his wife weren’t listening. The family is now living a greatly reduced lifestyle, but keeping their heads above water and continuing with their preparations. I share this story because on an individual basis, there is a host of things that can happen in which being prepared could make a huge difference. We often, as a people in general, terms take things for granted and think 'this' or 'that' will never happen to us. In addition to a major job loss due to a myriad of reasons, you could lose your health or the ability to do your job. Unfortunately, things of this nature are happening to more and more people every day. In fact, I'm certain all of us have been affected to some degree by similar stories of friends and relatives. Our Current State of Affairs The world in general seems afflicted on so many different fronts. When you look at the list above, any rational person could easily see one or more of these scenarios occur within their lifetime. Aside from the geophysical things that seem to be going haywire, and could be explained simply as the planet’s cycles, there are plenty of man-made catastrophes that loom on the horizon... Never has the planet had as many people as it does now. With increased population numbers, there is increased pressure for resources. This is a key point on why you want to stay invested in commodities of all kinds. More countries seek nuclear devices than ever before and recent advancements in technology make this much easier than any time before in history. Biological and chemical weapons are also much easier to manufacture — and are being stored by an increasing number of very scary countries. Oil markets are tighter than ever as demand from countries like China and India increases, but new supply cannot keep up with the increasing demand. The financial debacle of the world economies needs no introduction to my readers. In short, bad times — really bad times — for any number of reasons could and probably will be coming to a location near you. Unless you and your family take this possibility quite seriously, if and when something does happen, you could very well find yourself in some extremely difficult circumstances. Just look at the latest news coming out of Greece, as reported by Reuters, below... This is happening right now — and it’s only going to spread. When the political and economic systems of entire nations collapse the consequences are devastating. Earlier this year pharmacies and hospitals in Greece were unable to provide life saving medicines due to a shortages caused by a freeze in the flow of credit from manufacturers to distributors to patients. A collapse in the country’s economy has forced many Greeks to turn to black market barter economies and has left millions financially devastated, with no hope of finding an income stream for the foreseeable future. The credit system of the entire country is in shambles. So much so that reports are emerging about food shortages and hunger within the Greek prison system, suggesting that serious problems in the food delivery chain have begun to materialize. As Nigel Farage warned recently, we are beginning to see the rise of extreme political parties as a consequence of the total and utter desperation of the populace. Today the news gets even worse. Greece’s Regulatory Authority for Energy (RAE) announced an emergency meeting to deal with what can only be construed as a tell-tale sign that this crisis is very rapidly reaching critical mass and may spiral out of control in the very near future: Greece’s power regulator RAE told Reuters on Friday it was calling an emergency meeting next week to avert a collapse of the debt-stricken country’s electricity and natural gas system. “RAE is taking crisis initiatives throughout next week to avert the collapse of the natural gas and electricity system,” the regulator’s chief Nikos Vasilakos told Reuters. RAE took the decision after receiving a letter from Greece’s natural gas company DEPA, which threatened to cut supplies to electricity producers if they failed to settle their arrears with the company. You may have thought the financial collapse of 2008 was bad. That was just a warm-up. The main event is staring us in the face, and the whole of Europe has front-row seats. What is happening in Europe is just a precursor for what will eventually be coming to the United States... I personally witnessed what can happen within a very short period of time when food is no longer available to the public. I was in my early twenties, living in Paris, France. Because of an extended truckers' strike, the food stores were cleared out within 24 hours of the announcement. Within five days, normally law-abiding citizens took to the streets and began threatening anyone who had food... Those with no food quickly crossed the line of sanity and started desperately looking to take food from those who had it by any means necessary. Economic CollapseThese events were never properly covered by the news media (what a surprise!), but I saw firsthand how uncivilized a so-called "modern country" can become within a matter of days because of a lack of food. If I had not witnessed this myself, I probably would not believe this could happen so easily. And even as a strong young man, I found myself quite frightened at times before the trucks started rolling again. That particular truckers' strike lasted three weeks — but it left me with a lasting impression. The following are Items to Consider that I feel are prudent as you make your own preparations based on the problems that could potentially threaten our way of life. Each of the items below could fill a book... but my intent is to at least get you thinking about the most important things related to being prepared.

#### **Americans support and believe in the aff**

Matthews 18

Dylan Matthews is Senior Correspondent for Vox, Workers don’t have much say in corporations. Why not give them seats on the board?, Published by Vox 4/6/18, https://www.vox.com/2018/4/6/17086720/poll-corporate-board-democracy-worker-council-codetermination-union-labor)//LED

In March, Sen. Tammy Baldwin (D-WI) proposed a big idea to try to make the economy fairer: requiring public companies to let their workers directly elect one-third of the corporate board’s members. That might sound radical. But Americans largely support the idea. A poll of more than 3,300 American likely voters by Civis Analytics finds that a majority (53 percent) would support allowing employees at large companies to elect representatives to those companies’ boards of directors, thus giving employees a direct, democratic say in how the company is run. Americans want workers to hold seats on corporate boards Asked of likely voters: "In many countries, employees at large companies elect representatives to their firm's board of directors in order to advocate their interests and point of view to management. Democrats say this gives regular workers a greater say over how their companies are run and will increase wages, while Republicans claim that this makes companies less efficient and be bad for the economy. Would you support letting employees at large companies elect representatives to their firm's board of directors?" The idea is overwhelmingly supported by Democrats (71 percent to 10 percent opposed) and Democratic leaners (75 percent to 9 percent), with pluralities of both independents (37 percent to 14 percent, with 49 percent saying “don’t know) and Republican leaners (43 percent to 31 percent) supporting the idea as well. Self-identified Republicans only reject the idea very narrowly, 35 percent to 39 percent. The poll was conducted by Civis Analytics, a data science and polling firm formed by veterans of the 2012 Obama campaign, and its senior data scientist, David Shor, from February 15 to March 2. This proposal, requiring worker seats on corporate boards, is commonly referred to as “codetermination.” A number of European countries require worker representatives to be included in corporate boards, or for councils of workers to be consulted in appointing board members. Arguably the most aggressive and well-developed codetermination system is that of Germany. Typically, German companies have two boards: an executive board composed of the CEO and other senior executives, and a supervisory board representing both workers and shareholders, fulfilling a similar role to corporate boards in the US.

## NC

### Value/criterion

#### The value of this round is corporate profitability, best way to create stability in the world is through strong corporatee structures

#### Strong corporations and corporate structure and integral to the overall economy and competitiveness of the U.S

ATKINSON and LIND 18

Robert D. Atkinson is the founder and president of the Information Technology and Innovation Foundation, in Washington, D.C, Michael Lind is a co-founder of the New America Foundation and the author of numerous books, Is Big Business Really That Bad?, Published by The Atlantic April 2018, https://www.theatlantic.com/magazine/archive/2018/04/learning-to-love-big-business/554096/)//LED

As for the treatment of workers, here too perception and reality part ways. The depredations of a few job cutters have earned Big Business a reputation for heartless streamlining, but employment at large businesses is in fact steadier than at small businesses. In 2015, small enterprises were four times more likely to lay off their workers than large ones. Workers employed by large firms also earned more—on average, 54 percent more than workers at small companies. Companies with more than 500 employees offer 2.5 times more paid leave and insurance benefits and 3.9 times more in retirement benefits than workers at firms with fewer than 100 employees. Large firms are also more likely to be unionized, and they employ a greater share of women and minorities than small firms do, making Big Business an unlikely enemy of progressives. Big companies also create more net jobs. This will surely come as a surprise to many Americans, who have been handed down the hoary legend that small business is the engine of job creation. The origins of this misimpression began with David Birch, an MIT researcher, who in the late 1970s purported to show that, from 1969 to 1976, companies with 100 or fewer employees created more than 80 percent of all new jobs. A few economists have found similar results, but many others have criticized Birch’s methods and conclusions. The economist Catherine Armington found that, from 1976 to 1982, small firms were responsible for just 56 percent of new jobs, much closer to their share of total jobs in the U.S. Even Birch himself has acknowledged that his results rely on a series of assumptions very much open for debate. For example, he failed to account for the much higher rates at which small businesses destroy jobs shortly after creating them. Even if small companies aren’t creating an outsize share of jobs, don’t we rely on them to power American innovation—to outfox complacent corporations with the kind of irreverent thinking that can only occur while wearing a hoodie? Despite the much-mythologized genius in the garage, the tech revolution owes far more to teams of scientists and engineers working in well-funded corporate labs than to college dropouts tinkering at home. The business professors Anne Marie Knott and Carl Vieregger have discovered that large firms not only invest more in R&D than small firms, they get more innovation output per dollar invested. Brilliant entrepreneurs like Steve Jobs and Bill Gates are indispensable for technological progress. But much of the information technology that they commercialized had been developed in previous generations by big firms such as IBM and Xerox. Jobs and Gates stood on the shoulders of giants—and then became giants themselves. That’s the kind of small-business success story Americans should rally around. Alas, as the economists Erik Hurst and Benjamin Pugsley have found, most small businesses do not intend to grow or innovate. Most that manage to survive their fledgling years never employ more than a few workers. If the claims of the small-is-beautiful school are so at odds with the facts, how can we explain their popular appeal? The answer is that the cult of small business has been entwined in America’s self-conception since its founding. In his 1656 political tract, “The Commonwealth of Oceana,” the English theorist James Harrington argued that a constitutional republic could be sustained only in a society in which farmland was widely distributed among citizen farmers: “Equality of estates causeth equality of power and equality of power is the liberty not only of the commonwealth, but of every man,” he wrote. The colonists who rebelled against Britain and designed the United States were deeply influenced by this tradition of “producer republicanism”—to be truly free, they believed, a citizen must have economic independence, which at the time meant running a family farm or a small business. However dearly the Framers may have held the idea, it has long since been left behind by history. More than a century ago, most Americans became urban wage earners, not farmers or small-town shopkeepers and artisans; by World War II, just 20 percent of workers were self-employed, a figure that is down to 10 percent today. Working Americans face many challenges, but transforming them by the millions into shopkeepers and artisans is not the answer to improving their lot. In fact, today the richest regions in the United States and abroad are those in which self-employment is lowest—and the poorest are those with the most self-employed inhabitants. The reason is simple: As a rule, the smaller the firm, the lower the productivity level. Richest and fairest: Economies led by large firms also tend to have less income inequality. The anti-monopoly school identifies many genuine problems, ranging from low wages to the massive influence of money in politics. But the solution to low wages is not to break up big, productive firms that pay higher wages. Public policy should encourage start-ups that have the potential to scale up into dynamic national or global firms. Helping a robotics or biotech firm that can boost national productivity and competitiveness will benefit everyone. Why should Ashley and Justin get tax breaks and exemptions from regulations to help realize their dream of opening a brick-oven pizzeria? As for the corruption of politics by special interests, it is a real threat to democracy, and there’s no denying that Big Business buys influence in Washington. But K Street is also lined with trade associations and pressure groups representing small businesses and professionals. Of the top 16 business-funded political-action committees in 2016, five represented small business. Why single out corporations as the sole benefactors of the current system when the National Association of Realtors, the National Beer Wholesalers Association, and the National Automobile Dealers Association are busy advancing the interests of their members? The small-is-beautiful consensus is wrong. But we need not replace it with an equally simpleminded orthodoxy in favor of Big Business. A dynamic economy requires the interaction of firms of all sizes. Small firms play legitimate if diminished roles today, and always will. To flourish in the 21st century, we must learn again that big can be beautiful, too.

#### The criterion is utilitarianism, weigh the benefits versus the disadvantages to the plan as that is the best way to fairly judge

#### Impetus to prove benefit is on them, success is questionable

#### VW proves that it fails, no accountability

Bourne 18

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Worker representation on boards has been identified as exacerbating the problems seen at Volkswagen too. There, a CEO teamed up with worker representatives to protect jobs in inefficient plants, as a quid pro quo for support on other issues. The board ultimately failed to hold management accountable for the emissions scandal. Of course, scandals occur under all corporate governance systems. But this is indicative of the main impact of co‐​determination laws: they can prevent CEOs from making difficult, unpopular decisions for the company’s long‐​term benefit, while creating a new interest group resistant to reallocating capital to its most productive uses. Proponents of co‐​determination may talk in the abstract about employee‐​directors counteracting shareholder power for the public good. But the reality is that worker representatives become an interest group resistant to the innovation necessary for a dynamic economy. Given constant disruptive change drives improvements in living standards, worker representation on boards can actually dampen consideration of the long term, the opposite of the policy’s intention.

### Contention 1 is profitability

#### **Warren’s plan is distinct from Germany**

Dammann and Eidenmüller 20

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The U.S. proposals also differ from German codetermination law with respect to their impact on corporate boards. Part of the difference pertains to the general structure of boards. Germany has traditionally relied on a two-tier board structure, and German codetermination law only requires that one of the two boards, namely the supervisory board, include employee representatives. By contrast, U.S. corporations have a one-tier board, and the codetermination proposals that Senators Warren and Senators have put forth do not purport to change this structure. Moreover, it is important to note that the two U.S. proposals differ slightly from German law with respect to the number of employee representatives. The 1976 Codetermination Act allows employees to elect 50% of all board members, whereas Senator Warren’s plan calls for employees to elect 40% and Senator Sanders’s plan 45%.47

Destroys profits

Dammann and Eidenmüller 20

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In an event study, a certain period before the event, the so-called estimation window, is used to predict firms’ stock price returns during the so-called event window, which often includes the day of the event itself plus one or two days. By subtracting a firm’s predicted stock return from its actual stock return during the event window, one obtains a firm’s (cumulative) abnormal stock return. If the treatment group firms experience statistically significant abnormal returns relative to the treatment group firms, then, in the absence of confounding factors, it stands to reason that this difference is due to the event. Several studies have used the event-study methodology to explore the impact of codetermination on shareholder wealth. 57 In general, these studies have either found no statistically significant results,58 or they have found that introducing or extending parity codetermination is associated with statistically significant negative abnormal returns.59 However, whereas event studies are generally quite suitable to identify the shareholder wealth effects of legislation, they cannot necessarily answer the question of whether codetermination constitutes an efficient choice for German, let alone U.S. corporate law.

#### **Creates divided boards, hurting companies**

Dammann and Eidenmüller 20

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One of the core challenges of mandatory codetermination is that it guarantees divided loyalties within the board: the shareholder representatives know that they must please the shareholders to get reelected, whereas the worker representatives know that their reelection depends on keeping employees satisfied. These different perspectives can make it harder for boards to work constructively towards the same end. Skeptics may dismiss this reasoning by stressing the benefits of diverse boards. Boards, they may argue, can profit from a richer panoply of viewpoints, expertise and interests. However, this objection would misunderstand the argument we are making. We do not question the value of diversity. While a thorough discussion of the costs and benefits of board diversity would go beyond the scope of this article, we note that there exists a substantial body of theoretical and empirical scholarship suggesting that having directors with different experiences and viewpoints can, in principle, avoid problems like groupthink and thereby improve decision-making.82 However, the pertinent literature highlights the benefits of having people with different viewpoints and backgrounds work towards the same goal. By contrast, codetermination creates the risk that different directors pursue conflicting goals. In other words, we very much agree that diversity is helpful. Conflicting goals are what jeopardize the board’s effectiveness.8 The beneficiaries of a less functional board might be a corporation’s managers. If employee representatives and shareholder representatives on the board cannot agree on goals, strategies and/or supervisory measures, managers are likely to gain more leeway in pursuing self-interested actions—to the detriment of both shareholders and employees. Agency costs would likely rise. 84 The rise and fall of cumulative voting illustrates the importance of board collegiality.85 Cumulative voting can help minority shareholders elect some of their representatives to the board. Despite the potential salutary effect of minority shareholder representation on monitoring, 86 and even though minority and majority shareholders typically share the basic goal of maximizing shareholder wealth, practitioners viewed the resulting board composition as so detrimental to collegiality87 that state lawmakers and corporate charters have largely turned their backs on it.88 This modern practice finds empirical support in more recent empirical studies, which provide evidence that cumulative voting reduces firm value.89 Obviously, cumulative voting rules are very different from codetermination. However, the lesson from cumulative voting at the very least demonstrates that the issue of board collegiality needs to be taken seriously. Of course, the problem that mandatory codetermination may undermine board collegiality is not limited to the United States. Rather, it exists in Germany as well. However, the two-tier board structure of German corporations keeps the conflict between employee representatives and shareholder representatives out of the managing board. Thus, this conflict does not undermine the smooth functioning of day-to-day management.

#### **Crushes corporate governance and restructuring process**

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Mandatory codetermination might also have a significant impact on “bankruptcy governance,” complicating decision-making processes especially in a Chapter 11 restructuring in the US. The starting principle in both US and German corporate bankruptcy laws is creditor governance.102 Key decisions, such as the approval of a restructuring plan, require the consent of (a majority of) the creditors.103 Their money is on the line. As the new residual claimants on the distressed corporation’s income stream, creditors should have the decisive say on how the corporation’s assets are to be used post-bankruptcy. Codetermination on corporate boards complicates bankruptcy governance. On the one hand, one could argue that employee involvement in the strategic decisionmaking of a corporation is important especially in bankruptcy. After all, it is not only the creditors’ money that is on the line but also jobs. Difficult decisions on the future of the distressed firm should be put on a broad foundation, if possible. On the other hand, bankruptcy requires swift decision-making and action. Firms lose vale while subject to a bankruptcy process—day by day.104 Against this background, under German bankruptcy law, the codetermination scheme that applies outside bankruptcy does not apply in court-supervised bankruptcy proceedings. Normally, an insolvency administrator is appointed who has all the powers to manage the firm’s assets that—outside bankruptcy—would be exercised by the management and the supervisory board.105 This includes going concern sales. German bankruptcy law has Debtor-In-Possession (DIP) proceedings similar to the US.106 However, even in corporate restructurings these are rarely used. In the period from March 2012 to March 2017, DIP proceedings were running in less than 3.5% of all company insolvency proceedings.107 Hence, codetermination on corporate boards is practically irrelevant in German corporate restructurings, allowing the insolvency administrator to take swift decisions. This would be very different in US law and practice if the Sanders or the Warren proposals were adopted. Chapter 11 corporate restructurings are almost always DIP proceedings.108 Not even in the Enron bankruptcy was a trustee appointed. The consequence is simple: the governance system which applies outside of bankruptcy continues to apply in bankruptcy. With respect to codetermination, this means that the debtor’s decision-making process on proposing a restructuring plan would be fraught with difficult discussions between shareholder and employee representatives. This would surely be a significant economic cost of the codetermination regime were it introduced in the United States. Codetermination may also weaken the market for corporate control. The threat of hostile takeovers is an important mechanism to prevent managerial opportunism.109 However, mergers also come with the prospect of workforce reductions, which means that employee representatives are likely to oppose them. This is consistent with the experience in Germany, where codetermination is generally viewed as an obstacle to the market for corporate control.110 Of course, such opposition can be efficiency-enhancing to the extent that the merger’s benefits to the shareholders are outweighed by externalities that the merger imposes on the merging firms’ employees. However, we know of no empirical evidence showing that this is typically the case. More importantly, assuming that employee representatives seek to maximize their chances of reelection, there is no reason to believe that they will take into account the benefits accruing to shareholders when deciding whether to oppose a merger. Rather, as long as the merger threatens to reduce employment, a utility maximizing employee representative is likely to vote against it regardless of whether the benefits to the shareholders outweigh the costs to the employees. In principle, this conflict of interests exists in Germany as well as in the United States. However, there are compelling reasons to think that opposition to takeovers is much less of a problem in Germany. The main reason is that there have traditionally been very few hostile takeovers in Germany. A 2017 study that examined all German takeovers between 1981 and 2010 in which the acquirer was a public company identified only five hostile takeovers in total.111 The same study showed that the overall level of takeover activity was quite low. Between 1981 and 2010, there were 338 acquisitions in total; in 2010, the most recent year included in the study, the authors found a total of eight mergers.112 Of course, these numbers could be higher if it were not for codetermination. However, there are many other obstacles to the development of an active takeover market. For example, even though share ownership is now more dispersed in Germany than it was even twenty years ago, many public corporations still have shareholders with ownership stakes exceeding 25%.113 That makes hostile takeovers quite difficult. In other words, while Germany’s codetermination regime may render hostile takeovers more challenging, it is not clear that the number of hostile takeovers would be much higher in its absence. Herein lies a major difference between Germany and the United States. For example, between 1981 and 2010, the United States saw 60,244 mergers in which the acquirer and the target were publicly traded corporations. 114 The United States thus has a particularly vigorous market for corporate control and thus stands to lose much more from imposing codetermination.

### Case

#### **Crushes profits**

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Is such a romantic, abstract view of workers and their interests justified? It is certainly not borne out by evidence. Research in 2000 by Gary Gorton, a University of Pennsylvania economist at the time, and Federal Reserve Bank of St Louis economist Frank Schmid found German companies were 27pc less valuable due to co‐​determination laws. This did not represent some pure redistribution from shareholders to workers either. In part, it is because German companies are generally less efficient, finding it more difficult to adapt to changing market conditions. Indeed, a 1995–96 analysis of 46 studies on worker participation by economist Chris Doucouliagos found that while profit sharing and worker ownership can have positive effects on productivity, laws mandating worker representation on boards were actually a drag. Co‐​determination, in other words, leads to less productive companies and losses for pension funds and other shareholders. This should not surprise us. If workers on boards were beneficial to delivering long‐​term value, then we would surely already see more of them. There are no restrictions on such corporate governance structures arising in the US or UK. Their rarity implies companies see the prospect of worker representation as restrictive on beneficial decision making. And it’s easy to think why. Who represents workers under such legislation would be decided through some form of electoral process. At that stage, all the perverse incentives that arise using electoral politics as a means of decision making come into play.

#### Crushes innovation, workers won’t vote for certain things that benefit a company and the broader economy

Bourne 18

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Who represents workers under such legislation would be decided through some form of electoral process. At that stage, all the perverse incentives that arise using electoral politics as a means of decision making come into play. A major driver for self‐​interested worker representatives would be maximising their chances of re‐​election. That could bite when votes must be delivered on how cash flow is used. Employee‐​elected directors may opt to assure those worried about the solvency of the company pension plan that they will vote to shore it up, for example, rather than commit to investment in longer‐​term capital projects. They may choose to side with workers whose jobs are at risk should a plant be closed rather than commit to voting for broader pay rises elsewhere. Clearly, such decisions, though potentially bringing electoral support for the representative, may not be in the company’s long‐​term interest. Even if one could define a general interest for all workers for representatives to pursue, pursuing those decisions could hit the broader economy. Elected employee‐​directors would prioritise employee remuneration over share buybacks or dividend payments, for example. But, as my Cato colleague Derek Bonnet has explained, that would mean a smaller pool of capital available for other companies with profitable opportunities to grow. It is highly probable too that workers on boards would be far less likely to vote to invest in labour‐​saving technologies or R&D projects, particularly when the returns for such investment are highly uncertain or will occur far into the future. That is to say nothing of consumers – who are very unlikely to benefit from price reductions when other uses of cash flow are available for workers. Again, all this is not merely theoretical. In the former Yugoslavia, industrial democracy resulted in under‐​investment and slow growth. Worker representatives pushed for maximum pay, rather than new projects. When investment did take place, it tended to be to grow existing companies, rather than in new, more productive ventures.

## Block

#### **Don’t assume Germany is cross applicable, it’s not**

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But would codetermination work? The closest analogue to the proposals advanced by Senators Warren and Sanders is the German system of mandatory codetermination, which already allows employees of firms with more than 2,000 employees to elect half of the board members.14 In fact, Senator Bernie Sanders explicitly invokes German codetermination as a model, pointing out that his proposal is “similar to what happens under ‘employee co-determination’ in Germany, which long has had one of the most productive and successful economies in the world.”15 This Article therefore analyzes the prospects for codetermination in U.S. corporations, taking into account the German experience. We argue that while codetermination may work reasonably well in Germany, there are compelling reasons to think that it would be a poor fit for the United States. Drawing on the economic theory underlying codetermination, we show that many of the core benefits that Germany reaps from codetermination are much less likely to materialize in the United States.16 Additionally, the costs of codetermination would likely be much more substantial in the United States than in Germany.17 In sum, while mandatory codetermination may well be an efficient and desirable regime for Germany, the United States would be ill-served by following in Germany’s footsteps.

#### **Codetermination eviscerates modern corporate law precedent, incentivizing offshoring**

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One of the less obvious costs of codetermination lies in the need to reduce the flexibility of corporate law to prevent regulatory arbitrage. Corporations may seek to find some way around the mandatory codetermination rules, and thus lawmakers need to adopt additional mandatory rules to prevent the codetermination regime from being circumvented. This problem exists in both Germany and the United States, but the costs of adding mandatory law are likely to be much higher in the United States than they are in Germany. 1. Preventing Circumvention Regulatory arbitrage can occur in one of several ways. Corporations can reincorporate offshore, they can convert into domestic entities such as partnerships to which the codetermination rules do not apply, or they can amend their charters and bylaws in ways that minimize the impact of codetermination. We address these different approaches in turn. a) Reincorporation Firms seeking to avoid codetermination can (re)incorporate in a foreign jurisdiction that does not impose any codetermination requirement. The German experience with this problem is telling. Based on the so-called “Freedom of Establishment” as guaranteed by the Treaty on the Functioning of the European Union,115 German entrepreneurs are free to incorporate or reincorporate in another Member State, adopting a non-domestic corporate form.116 Even more importantly in our context, since 2004, corporations incorporated in one of the European Union (EU) Member States can reincorporate as a European Societas Europaea (SE), a European stock corporation. An SE is governed, in the first instance, by the rules of the European SE Regulation.117 In addition, the laws on stock corporations of the jurisdictions in which the SE is incorporated apply to the extent that the SE Regulation has gaps or permits this.118 Different from German law, an SE can have either a one-tier (administrative board) or two-tier board structure (management board and supervisory board).119 Issues of employee involvement in an SE, including employee representation on the board, are governed by a separate legal instrument, a European Directive.120 When an SE is formed, shareholder and employee representatives must negotiate the terms of employee involvement.121 Crucially, if these negotiations fail, the most stringent participation regime in place in one of the entities involved in forming the SE will be implemented in the governance structure of the SE.122 After a slow start, the SE has become very popular amongst European firms. As of March 21, 2020, 3,284 SEs existed in the EU.123 These comprise leading Eurozone companies such as Airbus, Allianz, BASF, E.ON, Fresenius LVMH Moët Hennessy Louis Vuitton, SAP, Schneider Electric and Unibail-Rodamco, but also many SMEs. As a corporate form, the SE is popular especially amongst German and Czech firms. As of December 31, 2017, 2,054 SEs had been established in the Czech Republic and 491 in Germany.124 Most of the Czech SEs are not operative, and the operative ones chose the SE form primarily to downsize the board.125 The key drivers for German SE formations are different. German firms reincorporate as SEs primarily to avoid board codetermination or mitigate its effects.126 If a firm reincorporates as an SE before it crosses the 500-employee threshold, it can avoid board codetermination altogether. If it reincorporates before it crosses the 2,000- employee threshold, it can freeze the level of codetermination at one third of the members of the supervisory board. And even if it already has more than 2,000 employees, it can downsize the (supervisory) board and achieve an international composition of the employee representatives on the board. The shareholders now have fewer and more diverse employee representatives to negotiate with, which is an advantage—the former can “divide and rule” (divide et impera). In summary, the possibility of reincorporating as an SE has been used by many German firms to avoid or mitigate the effects of domestic codetermination laws. Crucially, there is nothing that the German lawmaker can do about this development. European law is superior to Member States’ laws. In the United States, the danger that firms reincorporate in foreign jurisdictions exists as well, and the consequences are potentially worse. U.S. tax law already creates substantial incentives to incorporate offshore. The reason is that if a corporation is incorporated in the United States, it is deemed to be a U.S. resident for tax purposes.127 This means that, in principle, the corporation will have to pay taxes in the United States on its worldwide income.128 By contrast, if the corporation reincorporates in a foreign jurisdiction, the situation changes. The corporation will still have to pay taxes in the United States, but only on its U.S. income, not on its worldwide income.129 Accordingly, corporations that do business in multiple countries often find it cheaper to incorporate in a foreign lowtax jurisdiction, thereby lowering their U.S. tax burden.130 This opportunity for tax arbitrage has given rise to so-called “corporate inversions,” in which U.S. corporations merge into a foreign subsidiary, thereby shifting their place of incorporation abroad.131 Until now, corporate law has provided U.S. corporations with an important reason not to follow this approach: incorporating abroad means accepting a foreign jurisdiction’s corporate law, and many firms prefer U.S. corporate law, which offers enormous flexibility and legal certainty.132 However, if the United States were to enact a mandatory codetermination regime, this situation might well reverse. Rather than persuading U.S. firms to stay incorporated locally, such legislation could prompt them to reincorporate abroad in greater numbers than before. Moreover, the consequences would be more severe than in Europe. Not only would such firms escape the reach of corporate law, but they would also pay fewer taxes in the United States. Europe avoids the latter consequence due to a different approach to international taxation.133 To prevent corporations from avoiding codetermination by reincorporating abroad, federal law would likely have to provide that the U.S. rules on codetermination apply to all firms that are headquartered in the United States.

#### **Circumvention inevitable**

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Corporations seeking to avoid codetermination could also convert into different entity types. U.S. corporate law offers a variety of non-corporate entity types that offer limited liability, a large degree of flexibility regarding governance arrangements, and the option of becoming publicly traded. This particularly includes limited liability companies, partnerships, and business trusts. Currently, the use of these forms for publicly traded entities is the exception rather than the rule.134 For example, publicly traded LLCs and partnerships can mainly be found in the energy sector, where, under certain conditions, they offer the benefit of passthrough taxation.135 However, if federal law subjected corporations to codetermination while imposing no such requirement on other entity types, the popularity of non-corporate entities could skyrocket. Unlike Senator Sanders’s proposal, Senator Warren’s Accountable Capitalism Act partially addresses this problem in that it applies to limited liability companies as well as to corporations. However, neither proposal applies to limited liability partnerships or business trusts. Yet in order to prevent the rules on mandatory law from being circumvented, they would have to apply to such other entities as well.

#### Discourages positive risk taking

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Codetermination law also discourages certain types of risk-taking. This incentive can be troublesome for any country, but it promises to be particularly daunting for the United States. 1. Codetermination and Risk-Taking It is a well-established principle in corporate finance that, given efficient capital markets, a corporation seeking to maximize shareholder wealth should choose the most profitable investment, defined as the investment with the highest net present value, regardless of the investment-specific or firm-specific risk involved.145 The reason is that shareholders can easily eliminate investment- and firm-specific risks by diversifying their investment across firms.146 Hence, rational shareholders will be unwilling to accept lower profits in exchange for lower firm-specific risk. After all, why pay for a reduction in firm- or investment-specific risk by accepting lower profits if the shareholder themselves can eliminate such risks without incurring any costs by simple diversification? Employees, on the other hand, are in a very different situation. They cannot easily protect themselves against firm-specific risks. If the firm goes bankrupt, employees may lose their jobs. Moreover, labor markets are notoriously inefficient, preventing employees from easily finding new jobs. The reasons are myriad. For example, an employee may have invested heavily in firm-specific expertise that is without value to other firms. The employee may find it difficult to move because of their family. And of course, new employers may have insufficient information about new job applicants and may therefore refrain from offering them salaries that are in line with the value they are able to add. Moreover, whereas employees stand to lose much if a firm goes bankrupt, their upside from a particularly profitable investment is limited. If a firm is particularly profitable, the profits are reaped, first and foremost, by the shareholders, given that they are the residual claimants. Of course, working for a profitable firm has upsides. If a firm continues to be particularly profitable, employees may benefit in the form of higher wages or promotions. However, the key point is that a firm’s existing employees only stand to gain a fraction of the upside of risky business decisions. Given that employees suffer disproportionately if a firm goes bankrupt, yet stand to reap only a small fraction of the upside if the firm does particularly well, one cannot fault employees for caring about the risks inherent in the firm’s investments. Specifically, employees will want their firms to refrain from making investments that are so risky as to jeopardize the survival of the firm. Codetermination ensures that employees’ attitude towards risk also influences the decision-making process at the board level.147 Employee representatives who are seeking to get reelected will hardly want to jeopardize their prospects by agreeing to investments that workers oppose. Thus, employee representatives will generally try to prevent corporate boards from “betting the farm.” Empirical evidence is consistent with this narrative. Thus, it has been shown that firms in the United States on average face a higher probably of bankruptcy than firms in stakeholder countries such as Germany. 148 2. Extreme Risk-Taking as a U.S. Specialty Making investments that put an entire firm’s existence in jeopardy are not the only way of fostering innovation. Some firms specialize on incremental innovation that ultimately achieves the same goal but involves less risk. Moreover, large firms can spread their risk across many different investments. However, there is no question that firms focusing on high-risk-high-reward innovation have played a very substantial role in the world economy over the last decades. For example, Tesla’s Elon Musk is almost legendary for taking risks that could have spelled the end of the company. And many hugely successful firms are heavily dependent on a single product or service. Uber or Facebook are paradigmatic examples. Moreover, we are not arguing that all-or-nothing investments are the domain of the United States alone. However, it is worth noting that the United States economy has specialized, to some extent, on fostering firms that are willing to bet the farm. By this we mean that the United States has, over time, developed various institutional features that are complementary to extreme risk-taking at the firm level. One of these features is a very active environment for startups.149 The United States boasts a particularly large number of angel and venture capital investors that are skilled at evaluating, financing, and monitoring startup firms. Furthermore, the United States has the most developed capital market in the world and is thus able to quickly infuse new firms with massive amounts of capital.150 Moreover, the sheer size of the U.S. economy puts the United States in a particularly good position to weather the potential downside of high-risk investments at the firm level. For small countries, the loss of even a single firm can be devastating. For example, before its decline, the Finnish mobile phone producer Nokia contributed about four percent to the country’s total GDP.151 By contrast, the United States economy is large enough to deal with the collapse of even large firms. The implosion of Enron, for example, had tragic consequences for its employees, many of whom also owned Enron stock.152 However, Enron’s employees accounted for only a tiny fraction of the U.S. workforce.