



Elizabeth Warren, European Corporatist

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It's easy to be grateful for small mercies. Senator Bernie Sanders is pushing radical, expensive government intrusions into health care and labor markets, in the form of Medicare for all and a federal jobs guarantee. So when Democrat Elizabeth Warren recently bucked socialist trends—declared “I love what markets do” and said “I am a capitalist to my bones”—it seemed a refreshing tonic to those of us who want an open, dynamic, free economy.

Alas, the senator from Massachusetts has unsurprisingly confirmed that she is no free marketeer. While she might want businesses to notionally be private entities, the “Accountable Capitalism Act” she unveiled last week represents pure, unadulterated European corporatism: a supposed partnership between business, labor, and government interests.

The Act would force all businesses with more than \$1 billion in revenue to adopt a federal charter of corporate citizenship. Companies would have to consider “the interests of all major corporate stakeholders—not only shareholders—in company decisions,” Warren wrote in the *Wall Street Journal*—as if they do not broadly do this already. A successful business must weigh up satisfying its employees to keep them happy and productive, respond to its competitors and consumer demands, pre-empt or react to ever-changing government policies, and consider long-term perceptions of their brand.

Warren's proposal would establish in the Commerce Department an Office of United States Corporations to review and grant charters for large entities, as well as refer entities the office finds in violation of the law to appropriate federal agencies for punishment. This office is an almighty and arbitrary Damocles sword, with the politicians that control it able to hold companies in breach of charter for anything and everything they are thought not to have considered.

As my colleague Jeff Miron has noted, honest companies will find themselves tied up in extensive regulation and never-ending stakeholder engagement, while those genuinely looking to

make a fast buck will take their chances. To say the Act would muddy the waters and create perverse incentives is an understatement.

As if this were not bad enough, the legislation requires workers to make up 40 percent of the membership of boards of directors, in an arrangement known as co-determination. Supporters of the bill suggest this will lead to better outcomes for workers and higher productivity. Yet the limited evidence available suggests quite the opposite.

Research from the year 2000 undertaken by then-University of Pennsylvania economist Gary Gorton and Federal Reserve Bank of St. Louis economist Frank Schmid found that German firms were 27 percent less valuable to their shareholders because of these laws. This does not represent some pure redistribution from shareholders to workers. At least in part, it represents less efficient companies, which find it more difficult to adapt and restructure.

Nor is this merely theoretical. A 1995-96 meta-analysis of 46 studies on worker participation by economist Chris Doucouliagos found that while profit sharing and worker ownership (which can occur in free markets) have positive effects on productivity, co-determination laws were a drag. This all means lower wages for employed workers and huge losses for pension funds and other shareholders

The specific problems that co-determination caused at Volkswagen during its corporate spying and fraud scandals are widely acknowledged. The CEO teamed up with worker representatives to protect jobs in inefficient plants, so as to obtain their support on other issues. The board failed to effectively hold management to account for the recent emissions scandal.

Scandals occur in all economic models, of course. The point is that co-determination arrangements can really warp incentives. And Warren's Act brings not just that, but the added pressure of politicians with their own agenda potentially weighing in, too.

This shouldn't surprise us. Warren has always been comfortable with cajoling business to achieve political ends. Yes, she has railed against corporate welfare and worried out loud about favors to special interests. But her actions, including support for the cronyist Export-Import Bank, her complaints about NAFTA and TPP, and her support for huge minimum wage increases, have shown her willingness to use the arbitrary hand of government, provided the businesses it touches adhere to her social and economic objectives.

Warren may say she loves what markets do, but her policy platform amounts to a host of strictures, regulations, and oversights by the state, which combined make the governance of business the business of government.

The most generous interpretation is she believes that business, workers, and governments can all pull in the same direction to deliver higher living standards. The likely reality would be companies as lapdogs to politicians, rewarded for fulfilling the arbitrary and ever-changing social objectives of our political leaders or punished when they demur. Such an environment will not produce a dynamic, innovative economy.

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