Prof. Dr. iur. Jens Lowitzsch

Kelso Professorship of Comparative Law, East European Business Law and European Legal Policy, Faculty of Business Administration and Economics
Visitor address: Logenstraße 9-10, PG 202

The Capitalist Manifesto – Labour vs. capital?
- The relationship between factors of production against the background of technological change
- Three decades of decline of the labour share – Where are we today?
- Employee Stock Ownership Plans (ESOPs) & Sociedades Laborales - a business game: Business succession and labour market policies as a challenge for EU economic policy

Compact course / Blockseminar:
MES modules: ZB Wirtschaft, ZB Politik, ZB Recht, WPM 1, WPM 6

IBA modules: S-Modul, E-Modul

Dates / Termine:
Introduction Fri. 12 April 14-16h, Room HG 104;
1st part Fri./Sat. 5 & 6 July, 10-13h & 14-17h, Room PG 271;
2nd part Fri./Sat. 12 & 13 July, 10-13h & 14-17h, Room PG 271;
3rd part (Presentation of results) Fri. 19 July 10-13h & 14-17h, Room PG 271.

This course is a continuation of the seminars in English language from previous semesters; an introductory session at the beginning of the semester will give an overview to the topic.

Since the industrial revolution, productive capital in the form of machines and systems has assumed an ever more dominant role in the industrial production process in comparison to labour. As a result, the owners of these productive assets receive a growing share of market-sourced income, with an ever smaller proportion going to the owners of human labour power. The shift between factors of production in favour of capital is exacerbated by technological progress and its embodiment in automation. Recent academic work on the decline of the labour income share has pointed to the role of capital accumulation and capital-augmenting technical change, which has been strongly biased against the low-educated.

As early as 1958, the American corporate lawyer and merchant banker Louis O. Kelso presented a proposal for dealing with this problem, and an analysis of its fundamental causes, in his book **"The Capitalist Manifesto"**. He invented the prototype of the leveraged buyout to finance ownership of productive property for employees, later to be known as the Employee Stock Ownership Plan (ESOP).

"Reshoring" – bringing back the jobs?

Automation has unanticipated implications in respect to the (re-)location of production sites in the context of globalization. Large international companies, e.g., Apple, GE, IBM, General Motors, are moving some of their production facilities back to the United States. Patriotic sentiments or political considerations may have a role in this development but the fundamental drive behind decisions to "repatriate" jobs are economic. First, the labour part of manufacturing cost has become so small that the cost of labour is nolonger a significant factor. Second, transport costs outweigh the remaining advantages of low-labour-cost countries making production in high-labour-cost countries again profitable. Third, the cost of robots are (almost) the same everywhere. Such "reshoring" is expected, if at all, to boost employment mainly for high-quality, well-educated workers needed to install and maintain the machines and robots.

It should be stressed that substituting machine input for labour input is not deliberately intended to eliminate jobs. The purpose is to reduce costs. Less efficient machines are replaced by more efficient ones, production procedures are redesigned, new materials replace older ones – all for the purpose of lowering the costs of production. The catchphrase "man vs. machine" is misleading in that it assumes that human labour is still the main source of productive power. That is no longer true. Labour is a cost. Manufacture is driven by the need to reduce costs, in order to make products cheaper and more affordable, thereby increasing sales and profits. The consequences of this central purpose on the free market, employment, purchasing power, income distribution, etc., are all secondary effects, which have their own consequences. But it is wrong to assume that these consequences are intended. Cost is the target.

The elephant in the room

However, today we observe a peculiar disconnect between this phenomena and public discussion and interpretation of the social and economic effects as manifested in economic reports, observations, changes in corporate strategy, labour policy, legislative response, etc.

- On the one hand, the discussion of automation focuses almost entirely on its probable effects on labour employment while the micro- and macro-distributive effects of this shift in productive roles are barely mentioned.

- On the other hand, the discussion of rising inequality is focused almost entirely on issues of distributive justice, whereas the shift between labour and capital as income factors is ignored.

Thus the contradiction between a labouristic distribution of wealth and increasing capital concentration is the "elephant in the room" – an enormous subject almost entirely omitted from public discussion.

Focus: Business game -> ESOPs & Sociedades Laborales.

Currently business succession and labour market policies are a challenge for EU economic policy. Kelso's ESOP uses the borrowing power of the employer company to finance the purchase of shares in that company by its employees; the acquisition loan is repaid from the future earnings of the credit-financed shares. An ESOP usually involves a loan to an employee benefit trust, which acquires company stock and allocates it through periodic contributions to each employee's ESOP account. The loan may be serviced by payments from the company out of company profits or out of dividends paid on the stock held by the ESOP. Today there are 11,500 ESOPs with more than 10 million employee owners as plan participants in the U.S. -> In a business game the implementation of an ESOP and of the Spanish concept of " Sociedades Laborales" is simulated in order to explore the potential as well as the limits of practical implementation of Kelso's ideas today.

Annex: Stanislaw Lem excerpt from Memoirs of a Space Traveler

Further Reminiscences of Ijon Tichy, The 24th Voyage:

… "… Through the ages our inventors built machines that simplified work, and where in ancient times a hundred Drudgelings had bent their sweating backs, centuries later a few stood by a machine. Our scientists improved the machines, and the people rejoiced at this, but subsequent events showed how cruelly premature was that rejoicing. A certain learned constructor built the New Machines, devices so excellent that they could work quite independently, without supervision. And that was the beginning of the catastrophe. When the New Machines appeared in the factories, hordes of Drudgelings lost their jobs; and, receiving no salary, they faced starvation. . ."

"Excuse me, Phool," I asked, "but what became of the profits the factories made?"

"The profits," he replied, "went to the rightful owners, of course. Now, then, as I was saying, the threat of annihilation hung …" …

Compulsory reading before 1st seminar session:

Kelso, Louis O. / Adler, Mortimer, J. "The Capitalist Manifesto", Random House, New York, 1958; downloadable at: http://www.kelsoinstitute.org/download.html

Literature – register for dropbox: Kelso, Louis O. / Hetter, Patricia "Two-Factor Theory: The Economics of Reality", Vintage Books, Random House, New York, 1967.

Lem, Stanisław „Dzienniki gwiazdowe - Podróż dwudziesta czwarta Ijona Tichego" (The Star Diaries - The 24th Voyage of Ijon Tichy), Zbiór Sezam i inne opowiadania, 1954.

Jens Lowitzsch, Iraj Hashi et al. "Employee Financial Participation (EFP) in Companies' Proceeds" Study for the European Parliament Sept 2012.

Jens Lowitzsch et al. Financial Participation for a New Social Europe [DE / EN / FR / IT / PL / RU] Berlin/Rome 2008/09, 144 p.

Registration until 10 April 2013 under kelso-professorship@europa-uni.de.

Performance test and credits: ECTS: 6/9. Regular attendance; term paper; oral presentation; first draft of the term paper by 5 May 2013, finalized term paper by the end of the semester.