

**Transferring and Transforming Management Knowledge:
How American Management Theory Helped to Legitimize German Codetermination**

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Introduction

We have a very strange paradox at the heart of the study of German capitalism, which might also apply to the study of European capitalisms more generally. In the historical profession, one of the major themes in German history more narrowly is its Americanization, especially after 1945. In *Big Business and the Wealth of Nations*, Ulrich Wengenroth characterized the entire century of German business development as a series of successive waves of Americanization.¹ In his classic work on the *Americanisation of West German Industry* after 1945, the historian, Volker Berghahn, focused on the liberalizing effect of American-style antitrust legislation, which helped to block the tendency for German big business to manage markets through cartels; American-style oligopoly capitalism was introduced. Berghahn made this debate over this law a crucial signifier for the liberalization and Americanization of West German business more broadly.² Marie-Laure Djelic in *Exporting the American Model*, argued that “convergence in postwar Western Europe had essentially meant ‘Americanization’” and, notwithstanding differences, that the American system of industrial production was transferred despite resistances, obstacles, especially through cross-national transfer mechanisms such as the Marshall Plan.³ Harm G. Schröter, in his 20th century survey on the *Americanization of the European Economy*, wrote: “in the course of the twentieth century European society and

¹ Ulrich Wengenroth, “Germany: Competition Abroad—Cooperation at Home 1870-1990,” in *Big Business and the Wealth of Nations*, (eds.) Alfred D. Chandler, Jr.; Franco Amatori, Takashi Hikino (New York: Cambridge University Press, 1997), pp. 139-175.

² Volker R. Berghahn, *The Americanisation of West German Industry 1945-1973* (New York: Cambridge University Press, 1986). Jeffrey Fear, “Cartels,” *Oxford Handbook of Business History*, (eds.) Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 268-292. Yet, if one thinks comparatively most other continental European countries did not begin to crack down on cartels until the 1970s. If cartels are taken as one marker of organized capitalism or of a “non-liberal” economy, then most other European countries continued to be more organized and non-liberal than Germany.

economy became increasingly like American society and economy.”⁴ Berghahn, Djelic and Schröter are clear to stress that the transfer was partial, selective, and adaptive so that Germany/Europe remains distinctive but nonetheless a powerful Americanizing wind blew east from across the Atlantic. Djelic and Schröter broadly meant convergence of business practices and economic wellbeing. Victoria de Grazia went so far as to call this American wind, the “irresistible empire,” particularly led by mass consumption (rather than mass production), supermarkets, fast food, and American consumer culture.⁵ For German historiography at least, this Americanization or convergence to western democratic norms and economic modernization was also driven in part by explaining why Germany became so derailed in its *Sonderweg* (or “special path”) that led to the Third Reich of 1933-1945, yet managed to reform itself after 1945.⁶

Judging from the vast amount of literature written about the obvious impact of America on Germany, especially after 1945, one would think that the German business world would be a very familiar place to Americans. Yet at the end of this 120-odd year process, Germans still have a distinct variety of capitalism. Michel Albert famously called it the “Rhine model” of capitalism.⁷ After all this Americanization, how can this be?

What is remarkable and even stranger in light of the above historical literature is a large body of political science literature termed “Varieties of Capitalism” that tends to make Germany the stylized *opposite* of “Anglo-Saxon capitalism.” This “varieties of capitalism” literature was in part sparked by Albert’s contention that “Rhineland capitalism” was not only more humane but also more competitive over the long-run than short-term, *neo-americaine*, casino capitalism. In this literature, Germany is a “non-liberal,” “coordinated market economy,” an “organized

³ Marie-Laure Djelic, *Exporting the American Model: The Postwar Transformation of European Business* (Oxford: Oxford University Press, 1998).

⁴ Harm G. Schröter, *Americanization of the European Economy: A Compact Survey of American Economic Influence in Europe since the 1880s* (Berlin: Springer, 2005), quote from p. 205.

⁵ Victoria de Grazia, *Irresistible Empire: America’s Advance through 20th-Century Europe* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2005).

⁶ Classic texts are Ralf Dahrendorf, *Society and Democracy in Germany* (New York: Norton, 1967). Hans-Ulrich Wehler, *The German Empire 1871-1918* (Lexington Spa: Berg, 1985). David Blackbourn and Geoff Eley, *The Peculiarities of German History: Bourgeois Society and Politics in Nineteenth-Century Germany* (Oxford: Routledge, 1984).

⁷ Michel Albert, *Capitalism vs. Capitalism* (New York: Four Walls Eight Windows, 1993).

capitalism" *par excellence* relative to the liberal, market-oriented, individualistic capitalism of the U.S. After all this Americanizing, how can one even think of Germany as being the archetypal opposite of America? At minimum, we have a problem of non-communication between historians and political scientists. William Sewell recently reflected on the importance but inability of historians and social scientists to engage in a greater interdisciplinary dialogue, which is needed to understand capitalism.⁸ Indeed in 2006 Volker Berghahn (historian) and Sigurt Vitols (political scientist) organized a conference on the "German model" of capitalism and asked whether there was a distinct model at all.⁹

To be clear, not all historians accept this broad Americanization thesis. Mary Nolan, whose *Visions of Modernity* examined the transfer of Fordist and Taylorist ideas in the 1920s, tends to stress the partiality of the transfer, tends to view Americanization more as a field of discourse than a reality, and has recently become even more skeptical about the usefulness of the overall concept. At minimum, the "America" being transferred in the 1920s was not the same "America" transferred in the 1950s or 1990s.¹⁰ My own work on Thyssen tends to be quite skeptical. Americanization is a "concept too many" to paraphrase D.C. Coleman's comment on the theory of protoindustrialization. Unlike the concept of protoindustrialization, which has an enormous heuristic value for organizing research because of its intellectual hypotheses, the concept of Americanization offers little except a loose sense of convergence. The concept of Americanization ultimately obscures the process of cultural exchange and institutional translation (the subject today). Ideas from America clearly had impact, but a straightforward Americanization thesis obscures indigenous trajectories and continuities within German business. All that appears

⁸ William H. Sewell, Jr., *Logics of History: Social Theory and Social Transformation* (Chicago: University of Chicago Press, 2005).

⁹ Volker R. Berghahn und Sigurt Vitols (eds.), *Gibt es einen deutschen Kapitalismus? Tradition und globale Perspektiven der sozialen Marktwirtschaft* (Frankfurt/Main: Campus, 2006).

¹⁰ Mary Nolan, "'Varieties of Capitalism' and Versionen der Amerikanisierung," *Gibt es einen deutschen Kapitalismus? Tradition und globale Perspektiven der sozialen Marktwirtschaft*, (eds.) Volker R. Berghahn und Sigurt Vitols (Frankfurt/Main: Campus, 2006), 96-110. Mary Nolan, *Visions of Modernity: American Business and the Modernization of Germany* (New York: Oxford, 1994). Egbert Klautke, *Unbegrenzte Möglichkeiten: "Amerikanisierung" in Deutschland und Frankreich 1900-1933* (Wiesbaden: Franz Steiner, 2003). Klautke explicitly views it as a discourse or field of debate and notes how much it shifted between 1900-1933. Richard Kuisel, *Seducing the French: The Dilemmas of Americanization* (Berkeley: University of California Press, 1997). Kuisel sought to distinguish Americanization from modernization.

as “American” did not have American origins. Many institutional, professional, and organizational developments were true parallels, rather than imitations. That or ideas were transmuted or embedded in evolving developments so much that Americanization is the wrong word—possibly “Germanization” of American ideas. But that formulation also falls short.¹¹ The editors, Stefano Battilossi and Youssef Cassis on European banks tend to speak of an American challenge rather than Americanization; banks had to transform themselves especially on international markets, but they often remained distinct.¹² One can also see the slow creep of “Americanization” in quotation marks marking uncertainty with the term as with Susanne Hilger or Christian Kleinschmidt. Susanne Hilger stresses the selective adaptation process whereby “one cannot assume an Americanization of German industry in a fundamental sense.”¹³ Christian Kleinschmidt uses American and Japanese ideas more as “reference models” in a process of selective “perception of productivity” (*Der produktive Blick*) and as a process of contingent “re-importing” through organizational learning; “Americanization” in quotation marks was more a mental orientation and partial process than an overall reality.¹⁴ In an influential piece, Jonathan Zeitlin stressed piecemeal borrowing, very selective adaptation, partial reception and hybridization through an *active, creative reworking process* rather than of just “resistance” to American ideas.¹⁵ (The story about the transfer of American management theory to legitimize German codetermination I relate below highlights this process of creative reworking.) Finally, Werner Abelshauser in “cultural struggle” (*Kulturkampf*) finds largely an autonomous German tradition of capitalism that had its roots in the late 19th century in Imperial Germany, which as a “hothouse of postindustrial

¹¹ Jeffrey Fear, *Organizing Control: August Thyssen and the Construction of German Management* (Cambridge, Mass.: Harvard University Press, 2005).

¹² Stefano Battilossi and Youssef Cassis, *European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods* (Oxford: Oxford University Press, 2002).

¹³ Susanne Hilger, “Amerikanisierung” deutscher Unternehmen: Wettbewerbsstrategien und Unternehmenspolitik bei Henkel, Siemens und Daimler-Benz (1945/49-1975), quote from p. 282.

¹⁴ Christian Kleinschmidt, *Der produktive Blick: Wahrnehmung amerikanischer und japanischer Management- und Produktionsmethoden durch deutsche Unternehmer 1950-1985* (Berlin: Akademie Verlag, 2002).

¹⁵ Jonathan Zeitlin, “Introduction: Americanization and Its Limits: Reworking US Technology and Management in Post-War Europe and Japan, (ed.) Jonathan Zeitlin and Gary Herrigel, *Americanization and Its Limits: Reworking US Technology and Management in Post-War Europe and Japan* (Oxford: Oxford University Press, 2000), 1-50.

institutions” that still exist today; America had influence but the features of German capitalism were essentially “made in Germany.”¹⁶ (I will come back to Abelshauser’s thesis a bit later).

At its heart, we have a fundamental problem of narration. Broadly speaking we have three contesting narratives in the history of German capitalism. The first is the “special path” (*Sonderweg*) story of distorted modernization prior to 1933/45 whereby Germany’s speedy modernization was not matched by democratic modernization, which led to severe stresses in society and politics. A fundamentally illiberal polity and authoritarian mentality among its businessmen prior to 1945 was opened to liberalizing American ideas after defeat. The integration of labor through unions, collective bargaining, and codetermination/works councils, which was so contested prior to 1933 was a big portion of West Germany’s normalization beyond authoritarianism and class conflict. A second broad story, particularly associated with Werner Abelshauser or Wolfgang Streeck, is one of “non-liberal” continuities. Both find significant features of present-day capitalism present in the period prior to 1914 (discussed immediately below). Finally, an emerging potential transnational narrative is to make German capitalism more porous and open to foreign influences—as it clearly was. Both the above narratives presume a self-contained national economy, yet French (early 19th), British (mid-to-late 19th), and American influence (1920s, but esp. post 1945), leaving aside the globalizing and Europeanizing tendencies present since the 1980s all call into question an autonomous development.

For our purposes, codetermination (that is, labor representation on German boards of directors) plays a crucial role in each of these narratives. In the first narrative, codetermination proves that German business managed to escape its illiberal, authoritarian mindset and accept “democratization” of corporate life, let alone national political life. In the second, codetermination and the demand for “industrial democracy” had its roots in the class struggles of the late 19th and early 20th century. As many Americans (and Germans in the 1950s as we shall see) would probably point out, codetermination potentially violates property rights of owners from a

¹⁶ Werner Abelshauser, *Kulturkampf: Der deutsche Weg in die Neue Wirtschaft und die amerikanische Herausforderung* (Berlin: Kadmos Kulturverlag, 2003). Werner Abelshauser, *The Dynamics of German Industry: Germany’s Path toward the New Economy and the American Challenge* (New York: Berghahn Books, 2005).

shareholder value perspective.¹⁷ In this narrative, codetermination is a key way in which society has integrated labor into corporate life, introducing a “non-liberal” manner of organizing firms and solved certain agency problems for firms needing a core, loyal group of skilled workers. Codetermination and works councils represented a core tradition and claim of German labor unions for industrial democracy since the late 19th century. Indeed, the debates in the early 1990s about the European Social Charter whereby multinational firms were required to have works councils or the delayed introduction of the *Societas Europaea* because of the question of labor representation continue this struggle about how a European capitalism might look. Finally, in the third narrative, codetermination in Germany just looks unique in comparative perspective. Under conditions of globalization or Europeanization it might be consigned to the dustbin of history because no one outside of Germany understands how it works—to put it provocatively.

Codetermination is thus a great vantage point to discuss each of these three narratives in microcosm. In the first part of this paper, I would like to review the stress on “path dependency” and “non-liberal capitalism to introduce this influential “varieties of capitalism” perspective. But it establishes the theoretical base for discussing a very focused, archival-based story on Erich Potthoff. If Potthoff did not exist, he would have to be invented (as some say about codetermination itself). Potthoff played a crucial behind-the-scenes, but strong role in the formulation of early union politics, as an advisor to Hans Böckler, and particularly in his capacity as founding director of the Economic and Social Research Institute of the Hans-Böckler Foundation (*Wirtschaftswissenschaftliche Institut, WWI*) in Köln (now *Wirtschafts- und Sozialwissenschaftliche Institut (WSI) der Hans-Böckler-Stiftung*). Recently, the historian Karl Lauschke, who is an expert on codetermination and the union movement, has also stressed Potthoff’s unsung importance for the Social Democratic movement.¹⁸ However, here I would like

¹⁷ Michael Jensen and William Meckling, “Rights and Production Functions: An Application to Labor-Managed Firms and Codetermination,” *Journal of Business*, 52 (1979), 469-506. The classic retort against codetermination based on these new theories stemmed from Michael Jensen and William Meckling in 1979 (p. 474): “If codetermination is beneficial to both stockholders and labour, why do we need laws which force firms to engage in it? Surely, they would do so voluntarily. The fact that stockholders must be forced by law to accept codetermination is the best evidence we have they are adversely affected by it.”

¹⁸ Karl Lauschke, *Die halbe Macht: Mitbestimmung in der Eisen- und Stahlindustrie 1945 bis 1989* (Essen: Klartext Verlag, 2007).

to portray Potthoff was the intellectual father of codetermination as *management practice*, not economic democracy as originally propagated by Fritz Naphtali.¹⁹ Along with Karl Hax, a friend, and a prominent management theorist at the University of Frankfurt—who was also a member of the Mannesmann supervisory board (1952-1973), Potthoff helped legitimize codetermination in German management theory.²⁰ He did so, in part, by borrowing from American management theory. It was Erich Potthoff who integrated American management theory into longstanding demands by German labor for industrial democracy, helping to legitimize codetermination as a modern human resource and management practice that helps make firms work more effectively—in theory.

Thus, the Potthoff-codetermination story integrates all three larger narratives in one, but in reworked and unique ways. Ultimately, it is a story of creative (mis)appropriation that often occurs when ideas, practices, or firms move abroad. In its spirit, it is much like the story of Japan—borrowing Western models for its navy, army, central bank, postal system, police, education, and even western dress—but somehow managing to remain quite “Japanese.”²¹

Part I:
Codetermination in a Variety of “Non-liberal” Capitalism

Codetermination is indeed unique to German capitalism and one of its defining features. Codetermination as it exists today consists of four main types. First, most firms do not have labor representatives on their boards as they are too small, but they are required to have one in firms between 5 and 500 employees if their workers choose to want one. Such works councils are anchored in the constitution of the Federal Republic along with collective bargaining. Larger firms have both works councils (with which management must consult before making personnel decisions) and labor representatives on their boards of directors. The second popular form are

¹⁹ Fritz Naphtali, *Wirtschaftsdemokratie—Ihr Wesen, Weg und Ziel* (Frankfurt/Main: Europäischer Verlagsanstalt, 1966³ [1928]).

²⁰ On Karl Hax, see Adolf Moxter, “Karl Hax: His Work and Life as We See It Today,” *Schmalenbach Business Review*, Vol. 53 (October 2001), pp. 250-262.

those joint-stock and limited liability firms who are required to have one-third of their supervisory board members as representatives of labor. The third type—only introduced in 1976—are firms over 2000 employees, which are required to hold one-half their seats for labor representatives, so-called “parity representation.” In the event of a tie, the chair of the supervisory board holds the deciding vote. Finally, the fourth—and main subject of this story—is parity representation in coal and steel firms that are also required to have a Labor Director on the executive board. The Labor Director on the executive board was *the* key sticking point in the 1950s battle for codetermination. Unlike today, coal and steel represented the commanding heights of the economy in the 1950s. Structural changes in the economy have left this particular form of codetermination less important than it once was when it was the main source of strife (Part II).

Wolfgang Streeck and Werner Abelshauser, both of whom argued for strong continuities in German capitalism since the 19th century, differed quite dramatically in their assessment of codetermination’s and German capitalism’s future prospects. Streeck was generally pessimistic overall about the “prospects for German and Japanese capitalism” as local institutional arrangements may turn into “competitive liabilities” under the pressures of globalization; one of those local arrangements was codetermination.²² Streeck stressed Germany’s strength in “incremental innovation,” largely due to the higher degree of coordination needed to effect change, rather than swift reactions to the market. Labor representation was good for creating loyal workers and for the training system, but German firms were being increasingly found in niches of established industries, rather than in new industries with new job and value creation with disruptive, future-oriented technologies. For him, Germany’s lack of convergence to Anglo-American norms tended to become a competitive disadvantage. The complicated set of wage bargaining, already eroding under pressures of eastern reunification and globalization, and

²¹ D. Eleanor Westney, *Imitation and Innovation: The Transfer of Western Organizational Patterns in Meiji Japan* (Cambridge, Mass.: Harvard University Press, 1987).

²² Kozo Yamamura and Wolfgang Streeck (eds.), *The End of Diversity? Prospects for German and Japanese Capitalism* (Ithaca: Cornell University Press, 2003), 12-17, quote from p. 17. Wolfgang Streeck and Kozo Yamamura (eds.), *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison* (Ithaca: Cornell University Press, 2001).

codetermination that slowed decision-making would hamper Germany's prospects in the 21st century.

Streeck's fears were echoed in the business press. In 2005, *The Economist* wrote:

Germany's co-determination rules should go.... Co-determination has for decades been an important part of the overall system by which German companies have been run. The original reasoning was that involving labour in corporate decisions was a good way to avoid the industrial tensions that dogged neighbours such as Britain and France. But times have changed, and Germans worried about joblessness and low growth are now wondering whether co-determination has become too cosy, in effect blocking firms from making the decisions they need to meet tougher times.²³

The incoming and outgoing President of Germany's main business association stirred considerable domestic controversy when stated: "No one abroad understands German codetermination." The incoming President, Jürgen Thumann, viewed it as a competitive disadvantage because foreign investors shied away from investing in German firms because of labor representation, essentially helping to devalue firms in the eyes of the financial investors looking for shareholder value. President Michael Rogowski was even blunter: [Codetermination is] a "historical mistake." (*Irrtum der Geschichte*); Rogowski stressed its unique, not replicable, origins.²⁴

By contrast, codetermination took on a good deal of symbolic political weight for those on the left: "We would have to invent the Works Constitution Act [codetermination] if it did not exist."²⁵ It was one of the great political, symbolic, and practical achievements for the labor movement over the pre-1945 period. Werner Abelshausen stressed the continuing vitality of the German production regime for a "postindustrial" world, including the effectiveness of

²³ *The Economist*, July 16, 2005, p. 16.

²⁴ "Wechsel an der BDI-Spitze," n-tv.de, 29 Nov. 2004, www.n-tv.de/308665.html?pl=druck, accessed 9 Aug. 2007. "Mitbestimmung von Arbeitnehmern für Rogowski >Irrtum der Geschichte<," *Netzeitung.de*, www.netzeitung.de/servlets/page?section=784&item=308968, accessed 9 Aug. 2007. "Mitbestimmung Modernisieren," *Bericht der Kommission Mitbestimmung*, BDA/BDI, < www.bda-online.de/>, accessed 15 Aug. 2007.

²⁵ Interview with former personnel director of Henkel; DGB-Vorstand Dietmar Hexel, 15 Nov. 2004, quoted in *Tagesspiegel*, 18 Oct. 2000, p. 20, quoted in Ulrich Jürgens and Joachim Rupp, "The German System of Corporate Governance: Characteristics and Changes," *Wissenschaftszentrum Berlin für Sozialforschung Berlin Working Paper FS II 02-203* (May 2002), >skylla.wz-berlin.de/pdf/2002/ii02-203.pdf, accessed 15 June 2005, p. 16. Generally more positively, see Howard Gospel and Andrew Pendleton (eds.), *Corporate*

codetermination. For Abelshauser, codetermination not only helped to generate social peace (Germany had one of the fewest days lost to strikes), but also helped solve the agency problem problem for firms. Decisively, Abelshauser argues that codetermination was not mainly an institution to overcome class antagonism—and thus an outdated institution—but rather crucial for ensuring long-term cooperative industrial relations necessary to create high value-added production and a key institution to reduce transaction costs by reducing labor fluctuation, ensuring loyalty especially of skilled workers with key tacit knowledge of the production process (principal-agent problem), and motivating employees beyond contractual obligations (see the discussion of Erich Potthoff below who foreshadows Abelshauser’s arguments). For Abelshauser, codetermination was thus not an “anachronism,” but exceedingly well placed for 21st century knowledge workers; in this new world “trust” is better than expensive control and helps constitute the human and social capital for the firm.²⁶ Corporative and coordinated capitalism was a continuing advantage, at least in the sectors that had already made Germany such an economic powerhouse. Abelshauser stressed the robustness of stakeholding because of its stress on long-term human capital participation, rather than shareholder value—indeed that was the ongoing “cultural struggle” (*Kulturkampf*), a battle of values and ideas, not just of competitive advantage in the 21st century, but also between shareholder and stakeholder value, between Anglo-Saxon and “Rhineland” social market economy. Coming after both Streeck’s and Abelshauser’s books came out, the tremendous export figures generated by Germany as the world’s leading exporter after 2001 driven by the core industries of the Second Industrial Revolution might have bolstered Abelshauser’s case. Abelshauser, too, referred to the main text of the *Varieties of Capitalism* literature by Peter A. Hall and David Soskice, who also stressed continuing comparative advantage (at least in some industrial sectors).²⁷ Hall and Soskice argued that continuing

Governance and Labour Management: An International Comparison (Oxford: Oxford University Press, 2005).

²⁶ Abelshauser, *Kulturkampf*, pp. 142-

²⁷ Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001) is the central theoretical text, detailed more below. Richard Whitley’s business systems approach also used the phrase “varieties of capitalism” in *Divergent Capitalisms: The Social Structuring and Change of Business Systems* (Oxford: Oxford University Press,

institutional divergence is likely and desirable because of the enduring comparative advantage it conveys on the world economy, at least in certain key product markets where Germany excels (say high value-added machine engineering). In these areas, this continuing divergence is a source of comparative advantage in a new global division of labor. Certain countries due to their historical legacies will simply excel in certain areas and compete less effectively in others.

At the heart of the debate is the contrast between “liberal” or “liberal market economies” (LMEs) such as the U.S. and UK and “nonliberal,” “coordinated market economies” (CMEs) such as Germany or Japan.²⁸ Streeck and Yamamura update an older historical debate about Germany’s “special path” (*Sonderweg*) based on “organized capitalism” that made it deviate from the peaceful modernizing path of Great Britain where democracy and economic development proceeded hand-in-hand.²⁹ They distinguish Germany further as one of “solidarism,” which describes the dense web of corporatist associations in German capitalism that derived from and took inspiration from the premodern guild system.³⁰ For Streeck and Yamamura, German and Japanese capitalism are largely defined by long-term path-dependency that have a troubling future: “there is a question about how long the organizing principles of nonliberal capitalism in the two countries can continue to be instructive for its evolution—how long, in other words, the supply of path-dependent adjustments conforming to the basic patterns established about a hundred years ago can last.” They find an “impressive” capacity of both countries to defend and “restore internal coherence,” while at the same time they “incorporate and assimilate new elements,

1999). Bruno Amable finds these dichotomies particularly problematic. Bruno Amable, *The Diversity of Modern Capitalism* (Oxford: Oxford University Press, 2003).

²⁸ Daniel Friel, “The Phantom of a Liberal Market Economy: The Future of the German and Japanese ‘Sonderwege,’ H-Net Book Review, H-German@h-net.msu.edu (January 2006). As Daniel Friel noted, the liberal market economy has a “phantom” presence as 1) the trajectory of U.S. and UK capitalism is simply not discussed; 2) they are implicitly considered to be the normal way from which the non-liberal economies deviate apparently to their peril under conditions of globalization; and 3) are defined by what they are not: “nonliberal deviants.” The phrase is from Gregory Jackson, “The Origins of Nonliberal Corporate Governance in Germany and Japan,” *Origins of Nonliberal Capitalism*, p. 122.

²⁹ Classic texts are Ralf Dahrendorf, *Society and Democracy in Germany* (New York: Norton, 1967). Hans-Ulrich Wehler, *The German Empire 1871-1918* (Lexington Spa: Berg, 1985). David Blackbourn and Geoff Eley, *The Peculiarities of German History: Bourgeois Society and Politics in Nineteenth-Century Germany* (Oxford: Routledge, 1984).

³⁰ Streeck and Yamamura, *Origins of Nonliberal Capitalism*, 25-38. Japan generally followed a more “segmentalist” tradition clustering around large enterprises as social communities that derived from and took inspiration from the premodern *ie* or traditional family “house” ideals.

including ones originally derived from liberal and democratic contexts—thereby widening the repertoire of the two systems.” Despite noting the ruptures of two world wars for Germany and one for Japan as well as the constant borrowing of disparate elements, especially from America, their framework tends to rest on “lock-in effects” and “stickiness” based on long-term continuities. Apparently, the loss of two World Wars and American occupation were little match for recent globalization in forcing system change. Their methodological approach tends to view institutions as constraints or as equilibrium situations that limit available choices, rather than as resources (unlike Peter Hall or Kathleen Thelen).³¹ While they are aware that this path dependency was an active process of “social reproduction” and stress that the “structural and functional coherence—the “system integration”—of the two national models of embedded capitalism had to be continuously established, restored, redefined, and defended against all sorts of disorganizing forces,” Streeck and Yamamura ultimately stress continuity, integration, coherence over time (especially in *Origins*) rather than rupture, change, re-embedding in existing structures, and cross-national fertilization (hybridization), which many contributors emphasized in their companion book, *End of Diversity?*³²

Similarly, Abelshauser’s arguments rest on an impressive line of continuities from Imperial Germany, a “hothouse of *postindustrial institutions*” (*italics mine*):”

1877: Strict creditor laws--not changed until 1999
 1884: corporate governance (two-tiered board)—2001 Corporate Governance Code
 1884/1898: HGB accounting--until 2005 for large listed firms, no IFRS
 1892: introduction of limited liability company (GmbH)
 1850s: universal banks, interlocking directories (tight bank-industry relations)
 1880s: “three pillar structure”: large universal banks, savings banks, and cooperatives;
 1870s interest group or corporatist coordination (associations, Chambers of Commerce)

³¹ Peter A. Hall and Kathleen Thelen, “Institutional Change in Varieties of Capitalism, *Socio-Economic Review* 7 (2009), 7-34. A similar problem of defining institutions merely as constraints exists in the notion of organizational learning for individual businesses, see Jeffrey Fear, “Thinking Historically about Organizational Learning,” *Handbook of Organizational Learning*, (eds.) M. Dierkes, A. Berthoin Antal, J. Child, and I. Nonaka (Oxford: Oxford University Press, 2001), 162-191.

³² All quotes from Streeck and Yamamura, *Origins of Nonliberal Capitalism*, 31, 34-35. Similarly in *End of Diversity* (p. 2): “Most political-economic change is therefore seen as path dependent—with past institutional structures being the principal determinants of future ones. Important issues in the debate are how tightly coupled national institutional configurations are and how much space they leave for fundamental change, for example for convergence between previously different varieties of a capitalist market economy.”

1897: cartels or regulated competition affirmed--prohibited 1957
1896: Stock Exchange Act bans futures (derivatives not permitted until 1989)
1860s ff.: Corporate social welfare policies strong
1883 beginning of modern welfare state (Health Insurance of Workers Law, Accident Insurance Law of 1884, Old Age and Invalidity Insurance Law of 1889)
Prior to 1871: strong promotion of university research/technical colleges (Bismarck: "the country that has the schools, has the future)--i.e. "national innovation system"

Abelshauser also views the subsequent extension of the codetermination tradition as beginning (if not earlier), but formally with 1905 when, after significant strikes, Prussia legally anchored the first works councils in mining firms; prior to 1905 works councils were voluntary and found mostly in the machine tool industry. Variations of codetermination was extended after major conflicts in 1919-1922, 1951-1955 (the subject of Part II), and 1976) **[Slides: Codetermination: A "Historical Mistake" to Original Compromise?]**

Without denying that one can find clear continuities in spite of "all sorts of disorganizing forces," why is there more "system integration" and continuity than not? It is understandable if one is trying to find antecedents and to see how they evolved into present institutional configurations in any national variety of capitalism is structured today, but yet is this not writing history as teleology? Indeed, Streeck and Yamamura tend to find a distinct "direction and the target—the *telos*" of an evolutionary process that constrains any given society's overall direction.³³ Yet, if the story's endpoint were not the 1990s, but the 1920s (with near civil war class antagonism) or the 1950s with considerable efforts to absorb American influences and reconstruct the nation, or the 1960s or 1970s with radical cultural and economic upheavals, would we still find as much path dependency or system integration? Despite such undoubted continuities, the ruptures and changes of German history also need to be given their due.³⁴

For instance, Streeck and Yamamura term German capitalism as "solidaristic" defined as collective self-government through intermediary organizations (business associations, cartels),

³³ Streeck and Yamamura, *Origins of Nonliberal Capitalism*, 31.

³⁴ A example of Germany's long deviation with the "West," see Heinrich August Winkler, *Der Lange Weg nach Westen*, 2 Bänder (München: C.H. Beck, 2000). Contrast with Konrad H. Jarausch and Michael Geyer, *Shattered Past: Reconstructing German Histories* (Princeton: Princeton University Press, 2003).

yet the pre-1933 period was anything but solidaristic in terms of another dimension—class conflict. Why do corporatist continuities have precedence over a history of social conflict? Indeed, the “social partnership” or new “system integration” of the post-1945 (post-1973?) period was a learned, bumpy political process haunted by the devastating consequences of previous social un-solidarity. Similarly, the abolition of cartels in 1957 marks a real “liberal” turning point in the cartel politics of German business, yet why is this not considered a major discontinuity in nonliberal capitalism?³⁵ Here discontinuity in institutions is perhaps more important. One can also find antecedents for today’s codetermination in 1905, but viewing this as “continuity” slides over *enormous* conflicts about extending codetermination well into the mid-1970s (Part II). The stability and system coherence of the constellation of institutions of the 1990s might be more contingent than coherent or continuous. *If* there is “continuity,” it is one based on dramatic political choices whose outcome was always in doubt at specific points in time. The continuity was *created* by choices, not channeled by institutional constraints or path-dependency. In terms of codetermination, Part II goes into depth into these choices that were by no means foreordained.

The stress on continuities and path-dependent “lock-in” is particularly problematic in the case of one contribution by Gerhard Lehbruch in Streeck and Yamamura’s collection. Lehbruch argues that in Germany, the “hegemony” of a core discourse about embedding markets in managed structures occurred after the financial crash of 1873: “This new discourse emphasized social reform to check the socially disruptive consequences of markets for the fabric of society, and it served as a basis for the building of institutions to buffer individuals and social classes against risks they could not master on their own. The hegemony achieved by this

³⁵ Marie-Laure Djelic and Sigrid Quack, “Rethinking Path Dependency: The Crooked Path of Institutional Change in Post-War Germany,” *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, (eds.) Glenn Morgan, Richard Whitley, and Eli Moen (Oxford: Oxford University Press, 2005), 137-166. They make the point that while the financial system reconstructed itself in spite of attempts to break it up, competition policy radically changed.

discourse was the origin of a path-dependent process of institution building in which a close fit was achieved between the basis tenets of the discourse and the emerging institutional setting.”³⁶

There is no question that the crisis of the 1870s was an important watershed. Indeed, the evils of Anglo *Manchestertum* became an important rhetorical trope in the 19th century just as “Anglo-Saxon capitalism” or the “American challenge” has become today. The discourse about the virtues of “coordinated market economies” also reproduces a debate—a debate not necessarily a historical fact—about whether Germany had an “organized capitalism” in the late 19th century—a term first coined by Rudolf Hilferding to describe the coagulation of banking, industrial, and political power.³⁷ Is the “organized capitalism” of the 19th century, the same as the nonliberal or coordinated market economy of the post-1945, a variation thereof, or different? Alone the inclusion of labor in decision-making such as through codetermination would arguably make the “organized capitalisms” pre- and post-1945 very different from one another.³⁸ Even if one concedes some sort of market embedding-constraining-taming ideology or discourse at work at the broadest possible level, it is still very difficult to conflate the “hegemony” of this discourse in the economies of Imperial Germany, the Weimar Republic, Nazi Germany, and West Germany as all “mutations” on the theme of embedded, non-liberal capitalism, let alone somehow “path dependent” or fitting a single discourse with corresponding institutions in each of these time periods. Arguably, there was no “hegemony” precisely because the overall direction of the country was so contested; ruptures instead of continuities might be more important. Finally, in

³⁶ Gerhard Lehbruch, “The Institutional Embedding of Market Economies: The German ‘Model’ and its Impact on Japan,” *Origins of Nonliberal Capitalism*, 92.

³⁷ Rudolf Hilferding, *Das Finanzkapital: Eine Studie über die jüngste Entwicklung des Kapitalismus* (Wien: Wiener Volksbuchhandlung, 1910). In English, *Finance Capital: A Study in the Latest Phase of Capitalist Development* (London: Routledge & Kegan Paul, 1981).

³⁸ The array of ideas coalescing around German Historical School, which helped develop an alternative discourse to *Manchestertum* as an institutional approach, however, was also very influential in the United States, a “liberal” economy. Daniel T. Rodgers, *Atlantic Crossings: Social Politics in a Progressive Age* (Cambridge, Mass.: Belknap Press, 1998), 76-111. J.T. Kloppenberg, *Uncertain Victory: Social Democracy and Progressivism in European and American Thought 1870-1920* (New York: Oxford University Press, 1986). A.R. Schäfer, *American Progressives and German Social Reform, 1875-1920: Social Ethics, Moral Control, and the Regulatory State in a Transatlantic Context* (Stuttgart: Steiner Verlag, 2000). A.R. Schäfer, “German historicism, progressive social thought, and the interventionist state in the United States since the 1880s,” *Markets in Historical Context: Ideas and Politics in the Modern World*, (eds.) Mark Bevir and Frank Trentmann (Cambridge: Cambridge University Press, 2004), 145-169

the case of many ORDO-*liberals* and Ludwig Erhard, so important to West German economic history, why should they be placed in the nonliberal camp?

The term nonliberal simply effaces truly fundamental differences in the political economy of one country over time, let alone making it difficult to categorize and compare other countries.³⁹ As the great historian, Marc Bloch, warned of in his classic *Historians Craft*: “In any study, seeking the origins of a human activity, there lurks the same danger of confusing ancestry with explanation.” Finding continuities, which are often invented in the case of nations, only in retrospect constitute continuity when layers of intermediating choices and conflicts reinforced earlier decisions. It is less path-dependency than uneven, “crooked,” “path-generation” as Marie-Laure Djelic and Sigrid Quack express it.⁴⁰ The political decision to sanction “parity codetermination” in German coal and steel was one of the key founding moments of the West German state. It represents a line of continuity only in retrospect as it barely passed the legislature and then only with the dramatic personal intervention of the politically conservative, Konrad Adenauer. Passing parity codetermination for coal and steel was one of the founding moments of the Federal Republic of Germany and Erich Potthoff was there at its inception.

³⁹ A particularly sensitive approach to comparison across countries and *over time* can be found in Susanna Fellmann, Martin Jes Iversen, Hans Sjögren and Lars Thue (eds.), *Creating Nordic Capitalism: The Business History of a Competitive Periphery* (Basingstoke, Hampshire: Palgrave MacMillan, 2008).

⁴⁰ Marc Bloch, *Historians Craft*, (Manchester: Manchester University Press, 2004), 27. Eric Hobsbawm, *Invention of Tradition*. Marie-Laure Djelic and Sigrid Quack, “Rethinking Path Dependency: The Crooked Path of Institutional Change in Post-War Germany,” *Changing Capitalisms?: Internationalization, Institutional Change, and Systems of Economic Organization*, (eds.) Glenn Morgan, Richard Whitley, and Eli Moen (Oxford: Oxford University Press, 2005), 137-166. They note that despite American efforts to break up the German universal banks, they re-coalesced along similar pre-1945 lines, thus a continuity, but American efforts to push through anti-cartel legislation found success.

Part II:
Erich Potthoff, Legitimizing German Codetermination with American Management Theory

A unique moment in German postwar history helped generate enough momentum to introduce parity codetermination. It is one of the best-told stories in German political history so only the barest outlines are retold here.⁴¹

First, Germany was destroyed, bombed into ruins of rubble, and morally discredited. For most Germans, capitalism too was discredited, even for those on the Christian Democratic right. The 1947 Ahlen Program by the conservative Christian Democrats called for the nationalization of major industry, especially coal and steel. There was also a Catholic social moment, whereby rehabilitation, repentance, and restitution played a strong role on right. Big business was literally on the dock at Nuremberg as executives at Krupp, IG Farben, and the Vereinigte Stahlwerke (Fritz Thyssen) among others were accused of collaborating with Hitler and starting the war. Oriented toward American New Deal policies and to assure that Germany would never again be a military power, the Allies planned to dismantle, decartelize and deconcentrate big business. The French and Soviets wanted international control of the Ruhr. Persecuted by the Nazis, the Social Democrats alone had tremendous moral authority.

As after World War I, workers' councils took over the firms to protect their livelihoods and help rebuild. As many later argued, reconstruction already demanded workers' voice or

⁴¹ This essay was inspired by a long personal interview with Erich Potthoff a few months before he died, Author interview with Erich Potthoff, Düsseldorf, 24. März 2005. Subsequent research was undertaken at the Archiv der sozialen Demokratie der Friedrich Ebert Stiftung (AdsD FES) and at the Mannesmann-Archiv (MA). The author thanks the help of Christine Bobzien at the AdsD FES and Dr. Horst A. Wessel for his many years of support at the Mannesmann-Archiv. On the history of codetermination, see Gloria Müller, *Mitbestimmung in der Nachkriegszeit: Britische Besatzungsmacht, Unternehmer, Gewerkschaften* (Düsseldorf: Schwann, 1987), the historiography of codetermination is covered on S. 7-19. Hans-J. Teuteberg, *Geschichte der industriellen Mitbestimmung in Deutschland: Ursprünge und Entwicklung ihrer Vorläufer im Denken und in der Wirklichkeit des 19. Jahrhunderts* (Tübingen: J.C.B. Mohr (Paul Siebeck), 1961). Erich Potthoff, *Der Kampf um die Montan-Mitbestimmung* (Köln: Bund Verlag, 1957). Erich Potthoff, Otto Blume, and Helmut Duvernell, *Zwischenbilanz der Mitbestimmung* (Tübingen: J.C.B. Mohr (Paul Siebeck), 1962). Volker R. Berghahn, *The Americanisation of West German Industry 1945-1973* (New York: Cambridge, 1986). Gabriele Müller List, *Montanmitbestimmung* (Düsseldorf: Droste Verlag, 1984). Gabriele Müller-List, *Neubeginn bei Eisen und Stahl im Ruhrgebiet: Die Beziehungen zwischen Arbeitgebern und Arbeitnehmern in der nordrhein-westfälischen Eisen- und Stahlindustrie 1945-1948* (Düsseldorf: Droste Verlag, 1990). Gloria Müller, *Strukturwandel und Arbeitnehmerrechte: Die wirtschaftliche Mitbestimmung in der Eisen- und Stahlindustrie 1945-1975* (Essen: Klartext, 1991). Wolfgang Streeck and Norbert Kluge (Hg.), *Mitbestimmung in Deutschland: Tradition und Effizienz* (Frankfurt/Main: Campus, 1999). Werner

codetermination on the ground, in practice. However, the decision to introduce codetermination with formal labor representation occurred in December 1946 when the British zone commander (William Harris-Burland), Hans Böckler (the chief of the new unified unions), and Heinrich Dinkelbach (the German steel trustee and *de facto* director of the Vereinigte Stahlwerke) agreed to parity codetermination in Ruhr coal and steel firms. Industrialists were horrified, but powerless to stop it in 1946. Later they reminded just about everyone that codetermination was an occupation power *Diktat* and that Dinkelbach was a traitor to the cause. For most industrialists, deconcentration combined with codetermination made no sense. In 1954, Wilhelm Zangen of Mannesmann, for instance, blamed the Allies and Dinkelbach for codetermination, “whereby the Allies and Herr Dr. Dinkelbach were the leading pathfinders for a principally mistaken social system.”⁴² Dinkelbach not only defended codetermination (largely on grounds of Catholic social thought), but headed the planning to dismantle and deconcentrate the Ruhr coal and steel industry. Dinkelbach had even appointed Erich Potthoff as the main labor representative to Mannesmann, so that Zangen’s comments were not just a political one, but a personal one directed at Potthoff. Dinkelbach himself became one of the most controversial figures in early West German political history. Potthoff recalled “human warmth did not exactly stream toward him;” they thought him a collaborator or “lackey” of the occupation forces.⁴³ Elisabeth Haurand, who worked as Dinkelbach’s personal secretary, “experienced much bitterness.”⁴⁴ Hermann Reusch (director of the GHH in the 1950s) accused Dinkelbach of engaging in orgies at work.⁴⁵

In retrospect (2006), Erich Potthoff who had worked with Dinkelbach in the Steel Trustees Administration, thought that the central question facing Dinkelbach was: “how can socialization be

Plumpe, *Betriebliche Mitbestimmung in der Weimarer Republik: Fallstudien zum Ruhrbergbau und zur Chemischen Industrie* (München: R. Oldenbourg, 1999).

⁴² MA: M21.558 Zangen to Ernst Hellmut Vits, 12. April 1954

⁴³ Author interview with Erich Potthoff, Düsseldorf, 24. März 2005. *Die Neuordnung der Eisen- und Stahlindustrie im Gebiet der Bundesrepublik Deutschland: Ein Bericht der Stahltruhändlervereinigung* (München: C. H. Beck, 1954), S. 523-620. Opposing viewpoint, see K.H. Herchenröder, Joh. Schäfer, und Manfred Zapp, *Die Nachfolger der Ruhrkonzerne* (Düsseldorf: Econ-Verlag, 1953), S. 13-15.

⁴⁴ TKA: NDI/19 Haurand to Dinkelbach, 17 April 1950; letter of reference for Elisabeth Haurand, 26 July 1950.

⁴⁵ Wiesen, *West German Industry and the Challenge of the Nazi Past*, pp. 56-59. On the German right's rhetorical reaction toward dismantling, see, pp. 60-67.

combined with reasonable business economics.” According to Potthoff, Dinkelbach’s efforts have been “hushed up. He saved the German steel industry.”⁴⁶ Potthoff himself admired Dinkelbach. He later remarked that Dinkelbach “had the courage to join the Schmalenbach Society—one of the few.” (The Schmalenbach Society, still one of the most prestigious in Germany, was formed in the early 1930s to sustain Schmalenbach-inspired management writings once he was forced out of his chair position at the University of Cologne because of the Nazis.) Along with Schmalenbach, Dinkelbach also helped to promote the chartered accounting profession, a subject dear to Potthoff.⁴⁷

A decade after parity codetermination was introduced in 1957, Potthoff noted the dilemma: “It is—viewed historically—perhaps a disaster that codetermination was introduced in the wake of deconcentration. Thereby it came in an unforeseen way with the reputation and suspicion that it was hoisted upon [Germans] as a compulsory measure by the Allies as a revenge for the war, somewhat like the confiscations and dismantling.”⁴⁸ The combination of deconcentration and codetermination also confused the union movement because, on one hand, they restricted the influence of the old industrial elite; on the other hand, the policies also appeared as an Allied measure to destroy the German economy, their livelihoods. Dismantling confirmed those fears.

The Cold War changed the whole constellation of power once the U.S. altered course and decided to rebuild West Germany as an anti-communist bulwark. For that, they needed industry again. Especially with the French and Soviets, what to do with the armaments smithy of the Ruhr was one of the most contentious issues. For the Social Democrats, a unified neutral Germany and a nationalized coal and steel industry were one of their main demands, but the

⁴⁶ Author interview with Erich Potthoff, 24. März 2005. These developments are well told elsewhere. On codetermination’s origins inside the British Coal and Steel Board, see Müller, *Mitbestimmung in der Nachkriegszeit*, S. 125-145. Also Potthoff, *Kampf um die Montan-Mitbestimmung*, S. 31-50. Berghahn, *The Americanisation of West German Industry*. Müller-List, *Neubeginn bei Eisen und Stahl im Ruhrgebiet*. Müller, *Strukturwandel und Arbeitnehmerrechte*. On Dinkelbach, Jeffrey R. Fear, *Organizing Control: August Thyssen and the Construction of German Corporate Management* (Cambridge, Mass: Harvard University Press, 2005), S. 677-709. TKA: NDI/19 contains extensive correspondence between Dinkelbach and Haurand 1950.

⁴⁷ Author Interview with Erich Potthoff, 24. März, 2005. Fear, *Organizing Control*.

⁴⁸ Potthoff, *Kampf um die Montan-Mitbestimmung*, S. 49.

course of history began to move against them—and codetermination. When the Federal Republic of Germany came into being in 1949, its Basic Law or constitution, however, guaranteed the right of collective bargaining, reinstated the requirement of works councils for firms, and some form of employee voice in the firm. What sort of voice remained one of the most controversial questions with nationalization still on the negotiating table. It was here that Erich Potthoff became one of the main, highest profile voices for parity codetermination for German big business.

Between 1949-1951 one of the most controversial issues in Germany remained what to do with Ruhr coal and steel and what form of codetermination. While dismantling had slowed, Dinkelbach and Potthoff still worked on the breakup of German coal and steel into smaller firms. The postwar economic revival combined with a nascent production boom caused by the Korean War, which started in June 1950, which made German production that much more important for Allied efforts. The French too thought they were losing control over the Ruhr and Robert Schuman announced his dramatic plan for a European Coal and Steel Community in May 1950. Industrialists felt more confident and refused union demands for parity codetermination. At most, they were willing to accept one-third labor representation. The government draft of the codetermination law stated that only firm employees could join corporate supervisory boards, but unions rejected this stipulation. Invoking the rollback of union gains of the 1920s that helped lead to the collapse of the Weimar Republic and fearing the loss of codetermination already in place, a remarkable 95% of coal and steel workers voted for a strike in January 1951.⁴⁹ Chancellor Konrad Adenauer personally intervened in a series of direct discussions with the union leader, Hans Böckler. Adenauer threw his political weight behind parity codetermination in coal and steel a few days before workers were set to strike.

The 1951 coal and steel codetermination model (*Montanmitbestimmung*) required a parity model of labor representation on supervisory boards for coal and steel firms with 1,000 employees or more. It also stipulated an *Arbeitsdirektor* for the executive board. For Adenauer, codetermination was a key compromise as it largely took the issue of nationalization off the table

for coal and steel as well as found him support for western integration (against the Social Democratic demand for a neutral, unified Germany). On 21 May 1951, Parliament made the parity codetermination law, but it only applied to coal and steel firms; this only inflamed coal and steel industrialists, who felt they were sold out and made an exception. In the July 19, 1952 Works Constitution Act passed in Oct. 1952, labor only received *one-third* representation on supervisory boards for firms over 500 employees—with *no labor director* on the executive board. Works councils too were required, but the dissatisfaction on the left was palpable. Both the Social Democrats and communist voted *against* the Works Constitution Act. In a famous speech from 30 January 1951 regarding the first agreement but that could have applied to the second law, Böckler admitted that it “it does not correspond to the full desires of our workers,” but it was a beginning:

And to say this once again: The labor director (*Arbeitsdirektor*) that we send into the companies should not just be a better-paid works council director. No. He should have a good command of his field. And he should learn as much as the commercial director or technical director so that he is able to participate in the discussion in any case. It is a high standard for each and everyone [of them]. We cannot disregard this [goal].⁵⁰

Böckler could have been speaking about Erich Potthoff. At the height of these struggles Potthoff was named the labor representative to the supervisory board of Mannesmann; he was in fact the chair as representative of the Steel Trustees Administration. Given Potthoff’s network of union contacts reaching up to Böckler, his auditing and organizational expertise, and his political views on industrial deconcentration and codetermination, he made an ideal candidate for the newly combined Steel Trustees Administration headed by Heinrich Dinkelbach. Potthoff was the Steel Trustees Administration’s youngest member. Dinkelbach appointed him to the board of Mannesmann with one of the most unrepentant firm directors in West German industry, Wolfgang

⁴⁹ Müller List, *Montanmitbestimmung*, S. XXXVIII ff. Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 71-80. Volker R. Berghahn und Detlev Karsten, *Industrial Relations in West Germany* (Oxford: Berg, 1987).

⁵⁰ Quoted from Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 44. Potthoff, *Kampf um die Montan-Mitbestimmung*, S. 79-80.

Zangen. Mannesmann would try to show the coal and steel industry how to get out of the chains of parity codetermination.⁵¹

For Potthoff, then, the Mannesmann conflict also had personal dimensions. Potthoff had worked on deconcentrated Mannesmann firms' supervisory boards since 1948, working personally with director Wilhelm Zangen (1934-1957) for over four years. Potthoff was Mannesmann's first supervisory board chairman (1952-1953). To Potthoff, Mannesmann's attempt to eliminate parity codetermination violated the memory of the solidarity of the immediate postwar period, union support of Zangen's reappointment, as well as Potthoff's and Zangen's common effort to rebuild Mannesmann. As such, Mannesmann's legal maneuvering to slip out of parity codetermination and eliminate the *Arbeitsdirektor* was an intellectual, political, professional, and personal betrayal.

For Potthoff, Mannesmann's stance evoked the memory of the tragic failure of the Weimar Republic. For Social Democrats like Potthoff, they interpreted Mannesmann's maneuvering as the first stage of a new reactionary rollback of (social) democratic gains.⁵² In 1955, Potthoff sent *Ministerpräsident* Karl Arnold an early draft of his 1957 book:

If you can find the time to glance into the draft, you will have to agree with me how little the good years of reconstruction have informed the conventional wisdom learned from the difficult years. I feel it is a tragedy of German social history that we once again have not preserved continuity. I cannot help but have the impression that one would like to ignore the tendency to forget the good insights of the first postwar period, the reasons that led to the results of 1945 after the period of National Socialism, and therefore our political weaknesses.⁵³

New "centers of power" were forming that threatened to undercut democratic decision-making; Potthoff spoke of a "new feudalism."⁵⁴ He lamented that the Social Democrats and unions had

⁵¹ The basic narrative is well told. See Wessel, *Kontinuität im Wandel*, S. 279-282. MA: *Geschäftsbericht Mannesmann AG 1952/53*, S. 16-21. Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 45-52. Potthoff, "Angriff gegen die Montan-Mitbestimmung," *Gewerkschaftliche Monatshefte* (1955), S. 287-294.

⁵² Similarly Hans Böckler in 1946, see quote in Karl Lauschke, *Hans Böckler, Band 2: Gewerkschaftlicher Neubeginn 1945-1951* (Essen: Klartext, 2005), S. 79.

⁵³ AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0001: Potthoff to Karl Arnold, 11. Juli 1955.

⁵⁴ However, Arnold thought that Potthoff's view that "a new feudalism" would arise, was too "defeatist;" see AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0001, Arnold to Potthoff, 22. Juli 1955. AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0002: Potthoff to Leo Brandt, Ministerium für Wirtschaft

not exactly thrown their support behind codetermination (they voted against the *Betriebsverfassungsgesetz*). He criticized one Social Democrat, “that codetermination does not also mean co-responsibility,” an argument that Arnold thought might prove fatal for codetermination.

So who exactly was Erich Potthoff?

Potthoff was born in 1914 in Cologne in a working class neighborhood. His parents ran a small general store (*Kolonialwarenladen*).⁵⁵ He often tallied the credit list for the women who bought food recalling how the list of unpaid credits grew quite large. Potthoff was raised “social and democratic” in a “milieu” where one “could not think otherwise.” His school taught him Marxism instead of Greek and Latin; he remembered the frequent political parades on the streets giving Köln a “lively, political aura.” The great 1928 Ruhr Iron Struggle made a lasting political impression upon him; this memory fed into his interpretation of the Mannesmann codetermination conflict. He attended a reformed vocational school (*Realschule*) so that he received his *Abitur*, which allowed him to attend the Universität Köln between 1935 and 1941, the center of German business economics (*Betriebswirtschaftslehre*). In 1941 Potthoff received his doctorate for a dissertation on the legal foundation of private companies.⁵⁶

Between 1937 and 1946, Potthoff worked for Eugen Schmalenbach’s Rheinisch-Westfälischen Treuhand AG. In 1943 he received power-of-attorney for the firm. Schmalenbach was one of Germany’s foremost management and accounting theorists and arguably the founder of business economics (*Betriebswirtschaftslehre*, *BWL*), most famous for his theory of dynamic accounting for financial statements and scheme for cost accounting (*Kontenrahmen*). He became Schmalenbach’s personal assistant during those awful years. By the end of the war, the Schmalenbachs’ situation became so desperate that they carried poison capsules in case they

und Verkehr Nordrhein-Westfalen, 11. Juli 1955. Potthoff repeated the same message to Heinrich Dinkelbach, 12. Nov. 1953 (Signatur 0003); Hans W. Brose, 27. Dez. 1954 (Signatur 0019).

⁵⁵ Author Interview with Erich Potthoff, March 24, 2005. AdsD FES, WWI, Signatur 0035 Korrespondenz DGB/WWI March 1947-Dez. 1948, Lebenslauf Erich Potthoff, ca. 1948

⁵⁶ Erich Potthoff, *Die Gesellschaftsverträge der Offenen Handelsgesellschaft und Kommanditgesellschaft* (Köln: Dissertation, 1942). Erich Potthoff, Heinrich Zintzen, und Karl Halft, *Handbuch der Gesellschaftsverträge in Personalgesellschaften* (Köln: Westdeutscher Verlag, 1965³).

were arrested.⁵⁷ A small group of people saved the Schmalenbachs. Potthoff spoke of an “underground relationship” or a “discussion circle of emigration.”⁵⁸ Potthoff stressed how important it was in this dire time to have a “circle of acquaintances on whom I could rely. One has a completely different relationship to people under a totalitarian regime.”⁵⁹

Potthoff became Schmalenbach’s “most important liaison to the outside world.”⁶⁰ With Schmalenbach, Potthoff helped begin preliminary research for a number of planned works by Walter Krähe on corporate organization and by Willy Minz on accounting. These books were among the most important in the early 1950s.⁶¹ Schmalenbach’s *On the Organization of Big Business (Über Dienststellengliederung im Grossbetriebe)* appeared secretly through the Bergwerks-Gesellschaft Hibernia’s publishing house in 1941 as a sort of *samizdat* publication among Schmalenbach’s friends, but was first officially published in 1959. (Potthoff’s most important business obligation as *Prokurist* of Schmalenbach’s Treuhand AG was with Hibernia). After bombs destroyed their Cologne house and after 1943 when their son was born, Potthoff and his family lived in Schmalenbach’s home in Halver.⁶²

In Halver, Potthoff came into contact with Peter Wilhelm Haurand, a boyhood friend of Schmalenbach, an opponent of the regime, and a Catholic intellectual. After the war, Haurand briefly became famous for his speech “Towards a Philosophy of the Zero Hour and Self-Help”

⁵⁷ Potthoff’s career is outlined in Peter Eichhorn (Hg.), *Unternehmensverfassung in der privaten und öffentlichen Wirtschaft: Festschrift für Dr. Erich Potthoff zur Vollendung des 75. Lebensjahres* (Baden-Baden: Nomos Verlagsgesellschaft, 1989), S. 335-351. Also see Müller-List, *Neubeginn*, S. 109, 311. Also Kruk, Potthoff, and Sieben, *Eugen Schmalenbach*, S. 80-1, 162-3, 171-184. “Prof. Dr. Erich Potthoff Neunzig Jahre,” *DER BETRIEB* Heft 1-2, 9. Januar 2004, Editorial. Author’s Interview with Erich Potthoff, March 24, 2005.

⁵⁸ First quote from Author Interview with Erich Potthoff, March 24, 2005. The second quote stems from Potthoff in Max Kruk, Erich Potthoff, and Günter Sieben, *Eugen Schmalenbach: Der Mann—Sein Werk—Die Wirkung* (Hg.) Walter Cordes im Auftrag der Schmalenbach Stiftung (Stuttgart: Schäffer, 1984), S. 179; S. 150-188 covers these years in detail.

⁵⁹ Author interview with Erich Potthoff, March 24, 2005. Kruk, *Eugen Schmalenbach*, S. 184. Also Erich Potthoff, “Betriebswirtschaftslehre im Nationalsozialismus (1933-1945) bei politischer Gleichschaltung und staatlicher Wirtschaftlenkung,” in *Entwicklungen der Betriebswirtschaftslehre*, (Hg.) Eduard Gaugler und Richard Köhler (Stuttgart: Schäffer-Poeschel, 2002), S. 87-110.

⁶⁰ Kruk, *Eugen Schmalenbach*, S. 184.

⁶¹ AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0014: Korrespondenz übriges Ausland A-L Potthoff to Professor Metod Dular, Jugoslavia, 3. Juni 1953.

⁶² AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0016: Korrespondenz Professoren 1949-1956, Potthoff to Dr. Karl Hax, 17. Mai 1955. Kruk, “Leben und Wirken Schmalenbachs,” S. 184, 186. „Erich

(*Zur Philosophie des Nullpunktes und der Selbsthilfe*).⁶³ Haurand had a daughter, Elisabeth (Liesel), who spoke fluent English. At the end of the war, Elisabeth helped Potthoff arrange an automobile from the British to clear Schmalenbach's property of Russian prisoners-of-war. Elisabeth would later follow Potthoff to the Union's Economic Research Institute as his personal assistant. She worked for decades at the WWI organizing research projects and assembling statistical work, especially about the retail sector and consumption patterns.⁶⁴ After settling Schmalenbach's problems in Halver, Potthoff and his family returned to Köln. Schmalenbach returned to work trying to catch up on his lost life, while Potthoff's life took a decidedly new course.⁶⁵

Hans Böckler, the leader of the new unified Association of German Unions (*Deutsche Gewerkschaftsbund* or DGB), wanted unions to be treated as equal negotiation partners with employers in economic matters. For Böckler (and Potthoff), codetermination meant co-responsibility. That meant he needed union members to understand business and economy. For this reason, in 1946 Böckler started the Union's Economics Research Institute to research economic and social issues facing the labor movement. The institute became Böckler's "favorite child."⁶⁶

At thirty-two, Potthoff became its first business director (*Geschäftsführer*). Potthoff had come to the attention of Böckler through Viktor Agartz. Agartz was a chartered accountant who had worked for Schmalenbach's Treuhand AG. Wilhelm Deist, a close associate of Böckler, who

Potthoff, " *Erwartungen: Kritische Rückblicke der Kriegsgeneration* (Sonderdruck Ahrweiler Meerbusch: Günter Olzog, 1981), S. 1-6.

⁶³ "Wer war Peter Wilhelm Haurand" and his 1947 Cologne speech can be found at www.rappoltstein.de/web/historie/Chronik/A4.1c%20RAP%20Haurand.pdf. ThyssenKrupp Archiv (TKA): NDI/19 contains extensive correspondence between Heinrich Dinkelbach and Haurand in 1950.

⁶⁴ AdsD FES, WWI, Elisabeth Haurand Korrespondenz 1950-1964, Signatur 0101. TKA: NDI/19 Peter Wilhelm Haurand to Dinkelbach, 17 April 1950; letter of reference for Elisabeth Haurand, 26 July 1950. Potthoff had asked Elisabeth Haurand to follow him to the WWI in 1947, but her father persuaded her to work for Dinkelbach instead.

⁶⁵ Kruk, *Eugen Schmalenbach*, S. 184.

⁶⁶ Lauschke, *Hans Böckler*, S. 86-90, quote from S. 86. See Geleitwort, erste Tätigkeitsbericht des WWI, 1949, quoted in Heinz Markmann und Wolfgang Spieker (Hg.), *Wissenschaft für Arbeitnehmer und Gewerkschaften: Die Veröffentlichungen des Wirtschaftswissenschaftlichen Instituts/Wirtschafts- und Sozialwissenschaftlichen Instituts des Deutschen Gewerkschaftsbundes 1946 bis 1985* (Köln: Bund-Verlag, 1986), S. 8. From AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0034, Hans Böckler, Zum Geleit, 1949.

had also worked at the Treuhand AG. Deist would lead a special research office of the Union's Economic Research Institute and become a colleague with Potthoff in the Steel Trustees Administration (*Stahltreuhändervereinigung*). All three, Potthoff, Agartz, and Deist, had studied to become chartered accountants (*Wirtschaftsprüfer*) at the Universität Köln. This Schmalenbach-Cologne-accountancy connection was an important building block in Potthoff's career.

Potthoff built the Economics Research Institute into an all around economic information service for the German central union. In the beginning, Potthoff spent most of his time and effort establishing organizational, conference, or speaker arrangements. Potthoff focused on creating monthly reports of the Economics Research Institute for union officials.⁶⁷ The demand was so high that they began publishing them as *Economics Research Institute-Communiques* (*WWI-Mitteilungen*). Potthoff published innumerable articles on a range of corporate governance issues between 1950 and 1956.⁶⁸ Potthoff also published frequently in the Union's Monthly Journal (*Gewerkschaftliche Monatshefte*), the union's main academic journal. There, Potthoff supplied some of codetermination's most important defenses.⁶⁹

Potthoff helped found The Company (DER BETRIEB), which activated the other, more management-focused side of his personality. In 1947, Potthoff and Friedrich Vogel received the all-important license from the Allies to begin publishing the Düsseldorf-based *Handelsblatt*. In 1948, they started a weekly supplement, the influential *DER BETRIEB*. Oriented to practitioners, in *DER BETRIEB*, he concentrated more on senior management issues such as personnel

⁶⁷ Markmann/Spieker, *Wissenschaft für Arbeitnehmer*, S. 8-11; Lauschke, *Hans Böckler*, S. 84-90; AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0033-0038. AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0033 Potthoff to Böckler, 5. Januar 1948, Potthoff to Böckler, 23. Sept. 1947, Betr. Währungsreform; Potthoff to WWI, 6. Oct. 1948.

⁶⁸ Examples include Erich Potthoff, "Die wirtschaftliche Mitbestimmung der Arbeitnehmer in der Weimarer Republik," *WWI-Mitteilungen*, Jg. 3, N. 6/7 (1950), S. 12-16. *Ibid*, "Der Arbeitsdirektor," Jg. 3, N. 12 (1950), S. 10-16. *Ibid*, "Das Personalwesen in der Industrie," Jg. 4, N. 8 (1951), S. 7-12. *Ibid*, "Die Organisation der General Motors Corporation in USA," Jg. 5, N. 1 (1952), S. 14-19. *Ibid*, "Grundfragen der Rationalisierung," Jg. 5, N. 3 (1952), S. 49-57. *Ibid*, "Die Organisation der Du Pont de Nemours & Company in USA," Jg. 4, N. 3 (1952), S. 63-67. *Ibid*, "Mitbestimmung vor Gericht: Ein wirtschaftlicher Kommentar zum Mannesmann-Prozess," Jg. 7, N. 1 (1954), S. 1-7. *Ibid*, "Die 'grosse' Aktiengesellschaft," Jg. 7, N. 5 (1954), S. 93-99. *Ibid*, "Mitbestimmung und Unternehmungseinheit," Jg. 8, N. 2 (1955), S. 25-28.

⁶⁹ For instance, Erich Potthoff, "Wirtschaftliche Mitbestimmung im Betrieb," *Gewerkschaftliche Monatshefte*, Jg. 1, Heft 3 (März 1950), S. 97-102. The full array of articles is available at library.fes.de/gmh.

management, joint-stock company reform, management and decision-making theory, auditing, controlling, and finance. Potthoff's publications appeared until the late 1980s.⁷⁰

Potthoff helped to restart *Schmalenbach's Business Review* (then *Schmalenbach's Zeitschrift für betriebswirtschaftliche Forschung* (ZfbF) along with Karl Hax (soon professor at the University of Frankfurt), the new editor of *Schmalenbachs Business Review*.⁷¹ Potthoff especially worried that the Schmalenbach-Society would slowly "die off" (*aussterben*). Along with Schmalenbach and Hax, Potthoff thought that the Schmalenbach-Society needed to shift to a more managerial perspective partially inspired "by the teachings of numerous Anglo-Saxon articles," but one that focused on the three-fold "responsibility of management:" "first regarding manufacturing (machines), second regarding people, and the third regarding finance capital. I personally have the firm conviction that such a new perspective from the point of view of management would provide our business economies with an important impulse that has been missing for a long time."⁷²

In his own writings for the *ZfbF*, Potthoff did just that with a particular focus on senior management, personnel, corporate organization, and auditing. Potthoff was heavily involved with publishing three of the most important books on corporate management after the war, *Firm*

⁷⁰ See www.der-betrieb.de. The full name of the journal is *Der Betrieb: Wochenschrift für Betriebswirtschaft, Steuerrecht, Wirtschaftsrecht, Arbeitsrecht*. A sampling of Erich Potthoff in DER BETRIEB: "Unzureichende Organe der Geschäftspolitik," Jg. 5, N. 9 (27. Feb. 1952), S. 169-170. *Ibid*, "Gläserne Taschen und offene Türen im Betrieb," Jg. 6, N. 1 (7. Jan. 1953), S. 1-2. *Ibid*, "Organisationsrezepte für die 'Managerkrankheit'," Jg. 6, N. 25 (24. Juni 1953), S. 513-514. *Ibid*, "Modern management' und Betriebswirtschaftslehre," Jg. 8, n. 23 (8. Juni 1955), S. 537-539. *Ibid*, 'Wissenschaftliche Unternehmensentscheidungen," Jg. 12, N. 41 (14 Okt. 1959), S. 1117-1118. *Ibid*, "Warum keine Aktienrechts-Enquete," Jg. 13, Nr. 14 (6 April 1960), S. 389-390. *Ibid*, "Die Finanzfunktionen in der Unternehmensleitung," Jg. 17, Nr. 1 (3. Januar 1964), S. 1-2. *Ibid*, "Personalpolitik, Personalführung und Personalverwaltung," Jg. 18, Nr. 1 (8. Januar 1965), S. 1-3. *Ibid*, "Unternehmensentscheidungen in der Rationalisierungsphase," Jg. 20, Nr 8 (1967), S. 302-304. *Ibid*, "Zur Theorie und Praxis der Unternehmensführung," Jg. 24, Heft 45 (12. Nov. 1971), S. 2121-2126. *Ibid*, "Die Funktion des wirtschaftlichen Störungsgefühls: Eugen Schmalenbach wäre am 20. August 100 Jahre alt geworden," Jg. 26, Heft 33 (24 Aug. 1973), S. 1609-1613. *Ibid*, "Die Rolle des Rechnungswesens in der aktienrechtlichen Jahresabschlussprüfung," Jg. 30, Heft 39 (30 Sept. 1977), S. 805-1810. *Ibid*, "Plädoyer für die Allgemeine Betriebswirtschaftslehre im betriebswirtschaftlichen Studium," Jg. 35, Heft 2 (15 Jan. 1982), S. 53-54. *Ibid*, "Vielfalt und Ganzheitlichkeit des Controlling," Jg. 40, Heft 33 (14 Aug. 1987), S. 1649-1650. *Ibid*, "Gastkommentar: Bericht des Aufsichtsrats mit abschliessendem Überwachungsvermerk?," Jg. 42, Heft 13 (1989), S. 1.

⁷¹ AdsD FES, WWI/Erich Potthoff Korrespondenz Professoren 1949-1956, Signatur 0016: Hax an Dr. Minz, 14. Juli 1950 (Abschrift). Moxter, "Karl Hax." MA: M11.128 Potthoff to Firtz Gnoth of the Westdeutsche Mannesmannröhren AG, 29 Jan. 1951. AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0003: Potthoff to Direktor Walter Eppner, Hüttenwerk Huckingen AG, 20. Jan. 1951.

Organization, Corporate Konzern Organization, Corporate Finance (Unternehmungsorganisation, Konzern-Organisation, Finanzorganisation). Those books essentially outlined the advantages and disadvantages of functional versus multidivisionally organized firms based on the experiences of German firms since the 1920s.⁷³

Finally, after 1946 Potthoff became involved with the re-founding of the *Rationalisierungskuratorium der Deutschen Wirtschaft e.V.* (RKW), which now included union representatives; Potthoff remained active in RKW boards until 1980.⁷⁴ Potthoff urged that any desired rationalization measures consider the human factor more highly. He considered it his personal mission to overcome the negative perception that unions were against rationalization.⁷⁵

For Potthoff, the key for integrating the “human factor” into the firm more adeptly was through works councils and codetermination, which would modernize firm’s human resource practices. Unlike much Social Democratic thought about codetermination, which viewed it as a form of “industrial democracy”—essentially battering down the factory gates as a new form of industrial feudalism—Potthoff interpreted codetermination through Schmalenbach’s theories of the firm—as a personnel management practice.

⁷² AdsD FES, WWI/Erich Potthoff Korrespondenz Professoren 1949-1956, Signatur 0016: Potthoff to Karl Hax, Walter Krähe, Otto Löffler, Willy Minz, 6 Aug. 1951.

⁷³ Erich Potthoff, “Rechnungslegungsvorschriften bei Personalgesellschaften,” *ZfbF*, Jg. 34, Heft 6 (1940), S. 145-155. *Ibid.*, “Die Vertretung von ‘Kapital’ und ‘Arbeit’ in der Leitungsorganisation der Unternehmungen,” *ZfbF*, N. 7 (1950), S. 340-346. *Ibid.*, “Die Organisation des Personalwesens in der industriellen Unternehmung,” *ZfbF*, N. 12 (1950), S. 535-574. *Ibid.*, “Freie und gebundene Preise in betriebswirtschaftlicher Sicht,” *ZfbF*, N. 11 (1952), S. 497-509. *Ibid.*, “Die Leitungsorganisation deutscher Grossunternehmungen im Vergleich zum westlichen Ausland,” *ZfbF*, N. 7 (1956), S. 407-422. *Ibid.*, “Prüfung und Überwachung der Geschäftsführung,” *ZfbF*, Nr. 10-11 (1961), S. 563-580. Arbeitskreis Dr. Krähe der Schmalenbach-Gesellschaft, *Konzern-Organisation: Aufgaben- und Abteilungsgliederung im industriellen Unternehmungsverband* (Köln/Opladen: Westdeutscher Verlag, 1952), second edition 1964. *Ibid.*, *Unternehmungsorganisation: Aufgaben- und Abteilungsgliederung in der industriellen Unternehmung* (Köln/Opladen: Westdeutscher Verlag, 1950), fifth edition in 1985. *Ibid.*, *Finanzorganisation* (Köln/Opladen: Westdeutscher Verlag, 1964). A list of Potthoff’s publications can be found in his *Festschrift*, Eichhorn (Hg.) *Unternehmensverfassung*, pp. 346-351.

⁷⁴ AdsD FES, Potthoff and Rationalisierungs-Kuratorium der Deutschen Wirtschaft 1955-1956, Signatur 0455. “Schmalenbach, die Betriebswirtschaft und das RKW,” *RKW Magazin* (März 2005), >www.rkw.de/RKW/99_UeberRKW/Geschichte/MAG105_Schmalenbach.pdf<, accessed 15. Nov. 2007.

⁷⁵ AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956, Signatur 0002: Potthoff to DGB Bundesvorstand, 25. Sept. 1952; Potthoff to Rationalisierungs-Ausstellung 1953 Technisch-wissenschaftlicher Ausschuss Arbeitstab, 1. Okt. 1952. See his correspondence with Leo Brandt about the controversy regarding a Düsseldorf rationalization exhibition that, according to Potthoff, stressed too much Ludwig Erhard’s market economy, rather than rationalization and the human factor.

For Potthoff the *ownership* of the means of production was less meaningful than proper *management* to optimize the efficiency of firms. Proper *control* was essential to align corporate interests with that of society. How to define that control exactly was, of course, the question and the controversy. For Potthoff, codetermination was the key aspect of improving corporate effectiveness (good for the consumer first, then the businessman) and then combining it with social responsibility. Labor representation inside firms, particularly in questions of social or personnel management, would help the decision-making and efficiency of large firms that were bureaucratic anyway. Potthoff tended to stress how much capitalism was no longer just a question of founder-owners but of salaried managers, planning, and corporate bureaucracy.

Like Schmalenbach, Potthoff focused on the efficiency (*Wirtschaftlichkeit*) of the firm. While Schmalenbach tended to stop at an analysis of the firm, Potthoff linked the advantages of efficiency for delivering low prices to consumers to better their living standards. Potthoff had an implicit social Fordist conception of the economy so that if firms could produce goods more cheaply through economies of scale so that prices fell, ordinary people would reap the benefits of rising living standards. In one 1953 Economics Research Institute report, the institute criticized the proliferation of automobile types, which allegedly proved:

... that the 'free market economy' practiced today does not—as it is always claimed—cannot automatically guarantee the lowest possible price under the present conditions. Because the economic process in wide areas is not is not played under the rules of 'perfect' but rather those of 'imperfect' competition, every sharpening of competition does not lead to price reductions, but rather to a strong product differentiation and advertising—measures that raise costs, viewed from the point of view of the macroeconomy.⁷⁶

At the Economics Research Institute, Potthoff began engaging in ways of driving prices down through cooperative purchasing arrangements and consumer societies, though this took a backseat to codetermination issues until the late 1950s. From this angle, it is not surprising that Potthoff in 1957 moved on to the Research Institute for Consumer Economics of the Central Cooperative Association (*Forschungsstelle für Konsumwirtschaft, Zentralverband deutscher*

⁷⁶ AdsD FES, WWI/WSI Protokolle/Tätigkeitsberichte, Signatur 1001, Tätigkeitsbericht 1952 und 1953." The report referred to a study by K. Lenarz, "Zur Typenentwicklung in der westdeutschen Kraftfahrzeugindustrie," *WWI-Mitteilungen* (1952/5-6).

Konsumgenossenschaften e.V.) after leaving the Economics Research Institute. In 1957 Potthoff explained why he moved to Hamburg to Elisabeth Haurand: “We appear to have both found ourselves on the side for the struggle for the consumers. Codetermination another way.”⁷⁷ Rationalization of production fit with his goals for the cooperative consumer society. He explained in one letter:

You can see that the topic is somewhat different, but that my work, in which I have been engaged, is in principle continued. I am arriving with peculiar intensity on all questions of rationalization, in particular the rationalization of the consumer goods sector that is in the end of greater importance as that of the classical rationalization theme, for you the not unknown machine engineering and electrical industry. I see its importance in particular because everything in our economy must be done to improve this sector that directly and positively affects the consumer. This [goal] obviously is intimately connected with the rationalization of the intermediate production stages, so that there is obviously no direct contradictions.⁷⁸

On a trip to the United States with Heinrich Deist, Potthoff was amazed that so many Americans had televisions, although he was hardly impressed with the programs on the television. If televisions could be produced in a scale to reduce their prices, they had a special role to play. He urged to one banking director to open special lines of credit to aid the purchase of televisions. Potthoff advocated the creation of special purchasing agencies or cooperatives to generate mass demand; at the same time such consumer societies would be able to influence television programming in the interest of workers: “Codetermination another way.”⁷⁹

Potthoff’s intellectual anchoring in Schmalenbach’s thinking provided him with a unique perspective that made him invaluable to Böckler and the early union movement. His educational training and personal inclinations oriented him toward finding pragmatic solutions than his more ideological colleagues. In Agartz’s autobiographical “Calling to Account” (*Abrechnung*), he accused Potthoff of being “ideologically homeless and impressed by the world view of the

⁷⁷ AdsD FES, WWI, Korrespondenz DGB/WWI Feb. 1948-June 1949: Signatur 0044 Potthoff to DGB Vorstand, 23 März 1948, Betr. Zusammenkunft mit Vertretern des Handels. Elisabeth Haurand Korrespondenz 1950-1964 Signatur 0101 Korrespondenz Erich Potthoff, Forschungsstelle für Konsumwirtschaft, Zentralverband deutscher Konsumgenossenschaften e.V. 1957-1959 mit Elisabeth Haurand. Quote from letter Potthoff to Haurand, 4. Nov. 1957; Haurand to Potthoff, 27 Juli 1960.

⁷⁸ AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0002: Potthoff to Leo Brandt, Ministerium für Wirtschaft und Verkehr des Landes Nordrhein-Westfalen, 7. Sept. 1956

Catholic church.”⁸⁰ Indeed, Potthoff’s ability to articulate positive reforms integrating labor with more effective business organization did not lend itself to easy left-right characterizations. He did have many Catholic friends and colleagues, but was not indebted to Catholic thought.⁸¹ His working class upbringing and Catholicism did, however, teach him to put the human being in the center of economic life, but “that we need to discuss social questions with a warm heart, but with cold reasoning.”⁸² Potthoff wanted a scientific, objective basis to legitimize his politics and economics.⁸³

This managerial thinking and pragmatism gave him an ideological flexibility that made him part of the group in the 1950s (Heinrich Deist, Karl Schiller, Willy Brandt) that controversially moved the SPD away from socialization demands to affirming private property. Potthoff and Schiller edited a 1958 collection entitled *Principles of Modern Economic Policy (Grundfragen moderner Wirtschaftspolitik)* and were all members of the program commission for the famous 1959 Bad Godesberg conference that rejected Marxist expropriation of property.⁸⁴

⁷⁹ AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0001: Direktor Friedrich Simon, Bank für Gemeinwirtschaft Nordrhein-Westfalen, 12. Nov.1952.

⁸⁰ Hans Georg Hermann, *Verraten und Verkauft: Eine Abrechnung* (Frankfurt/Main: 1983), S. 114. This discussion confirms the insights of Lauschke, *Hans Böckler*, S. 86-90. Lauschke notes the influence of Schmalenbach on Potthoff. On his pragmatism, see Müller-List, *Montanmitbestimmung*, S. XXIV, F. 23.

⁸¹ Potthoff did have many close contacts with Catholic intellectuals such as Eberhard Welty in Köln or Karl Arnold in Düsseldorf. Potthoff built alliances with a network of Catholics who were calling for a new moral-social order that included socialization and codetermination. When Kardinal Josef Frings published in 1949 *Responsibility and Co-Responsibility in the Economy (Verantwortung und Mitverantwortung in der Wirtschaft)* after the Bochum Catholic Conference, Potthoff purchased the book and sent it to the DGB leadership because it showed “that the demands of the unions are not some sort of dogmatic leftovers, but rather are real necessities that correspond to our time.” Quoted in AdsD FES, WWI Korrespondenz WWI/DGB, Signatur 0040: Potthoff to Mathias Föcher, DGB Bundesvorstand, 31 Aug. 1949, 6 Sept. 1949. Josef Frings, *Verantwortung und Mitverantwortung in der Wirtschaft: Was sagt die katholische Soziallehre über Mitwirkung und Mitbestimmung?* (Köln: J.P. Bachem, 1949). “Mitbestimmung in Betrieb und Wirtschaft: 13 Grundsätze einer Schrift von Kardinal Josef Frings, *DER BETRIEB*, 11, Nr. 43 (26 Oct. 1949), S. 514.

⁸² AdsD FES, WWI Korrespondenz Institute, Signatur 0017 Potthoff to Helmut Schelsky, Akademie für Gemeinwirtschaft, 19 March 1951. Potthoff used a formulation coined by Dr. Christian Gasser of the Handelshochschule St. Gallen, Switzerland, who joined the Schmalenbach-Society. In the mid-1950s, Gasser worked for the Georg Fischer AG on its board. See their like-minded correspondence in Signatur 0014 Korrespondenz übriges Ausland A-L.

⁸³ AdsD FES, WWI Signatur 0021 WWI Korrespondenz (Potthoff) mit Institute, Korrespondenz Potthoff to Welty, quote from letter from Potthoff to Eberhard Welty, 11. Nov. 1953. Also AdsD FES, WWI Signatur 0021 WWI Korrespondenz (Potthoff) mit Institute, Korrespondenz Potthoff to Welty, Potthoff to Welty, 19 Dez. 1951.

⁸⁴ On Heinrich Deist, see Fritz Pudor (Hg.), *Lebensbilder aus dem Rheinisch-Westfälischen Industriegebiet: Jahrgang 1962-1967* (Baden-Baden: Nomos Verlagsgesellschaft 1977). Carlo Schmid, Karl Schiller, and Erich Potthoff (Hg.), *Grundfragen moderner Wirtschaftspolitik* (Frankfurt/Main: Europäische Verlagsanstalt,

One of the first intimations of Potthoff's thinking appears in a speech from the summer of 1946.⁸⁵ After discussing the numerous problems of food, goods, raw materials, the black market, all of which he called a result of "circulatory problems" (*Kreislaufstörungen*) he stated: "With the collapse of the National Socialist Regime, the capitalist economy has broken in its entirety. Therefore, the content of economic life must be given a new meaning and because of this, working people are the chosen class." Potthoff warned about the "present excessive concentration of economic power" through cartels, syndicates, and trusts; their private position of power had to be destroyed. Potthoff spoke of a "rectification or cleansing of big business" (*Konzernbereinigung*) and the decentralization of the economy into smaller units.

However, the last part of this speech complicated this apparently clear call for socialization. Potthoff reminded his audience that socialization did not necessarily mean "nationalization" (*Verstaatlichung*), but possibly "a cooperative regulation." Socialization of private property was inadequate if not conjoined with a democratization of the economy. Potthoff also retained two key features of a market economy: profits and "healthy prices," relative market prices bound by a standard of reasonableness and targeting. Potthoff hinted at a vague sort of wage pricing policy based on the priorities of the overall economy (reconstruction), but wages would still reflect performance (*Leistungslohn*) containing elements of an overarching but not individualized wage framework (*Lohnrahmen*), market prices, and collective bargaining through unions—in brief: a managed market economy based on the prioritized needs of the whole. In another speech, Potthoff in 1946 spoke of a "state-led market order," some sort of mixed, regulated economy.⁸⁶ Political and economic democracy was important to establish those overall priorities, that is, codetermination (*Mitbestimmung*).

1958). „Mitglieder der Programmkommission für das Godesberger Programm (1959), archiv.spd.de, accessed February 21, 2007.

⁸⁵ AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0033 "Rede Dr. Potthoff" (undated, Sommer 1946). This was probably the same or a similar speech given to the Gewerkschaftskonferenz, 21-23 August 1946, see Lauschke, *Hans Böckler*, S. 88, fn. 77.

⁸⁶ Potthoff gave another speech with similar themes to the 2. Tagung des gewerkschaftlichen Zonenausschusses, 30 Mai-1. Juni 1946, DGB-Archiv, 5/DGAC 1, Bl. 57-93, quoted in Lauschke, *Hans Böckler*, S. 87, fn. 87.

Correctly or incorrectly, Potthoff transferred Schmalenbach's ideas for managing large firms onto the overall economy. Schmalenbach was skeptical that large firms could produce efficiently without some form of internal price mechanism that mimicked markets (relative prices) and without a healthy degree of decentralized decision-making. Echoing Joseph Schumpeter, whose *Kapitalismus, Sozialismus, und Demokratie* first appeared in German in 1946, Schmalenbach and Potthoff thought that a market economy was running aground on the very bureaucracies created by capitalist enterprises themselves driven by their huge fixed costs, an argument harkening back to Schmalenbach's controversial 1928 speech. While Schmalenbach stressed managed decentralization and pretial (internal, market-oriented) pricing, at the time Potthoff placed greater faith in regulation with proper management and a balance of social interests. Potthoff concluded one article:

Because of the force of active market intervention, price is no longer the self-equilibrating regulator of supply and demand, but is rather influenced by firms, which is exactly why a governance control is necessary to guarantee an optimal solution for the general economy. Corporate policy/strategy is therefore a subset of economic policy, while inversely, economic policy can only be effective if it is congruent with corporate policy/strategy.⁸⁷

In a 1953 letter to Zangen, director of Mannesmann, Potthoff linked rationalization, higher wages, and the necessity to coordinate an economy, even through properly managed cartels:

...properly managed cartels: "You will find it interesting, that I express my doubts in the article that our economy will be in the position to meet the necessary measures needed to rationalize, that is, in the sense of simplifying types. From my conclusion, you'll see that I see wage raises as a necessary measure of self-help, because our market economy is not in the position of bring forward rationalization in the correct way and distributing the profits from rationalization in an appropriate manner to all participants.

In this regards, I would like to remind you of another article written by me.... You read the manuscript already. There I characterize cartels and similar arrangements as a self-help measure for the economy. It appears to me particularly important how the defects of our economic order can be corrected through self-help actions of various sorts. The state now has the task to leave

⁸⁷ The clearest statement of Potthoff's logic is Erich Potthoff, "Freie und gebundene Preise in betriebswirtschaftlicher Sicht," *ZfbF*, v. 4, Nr. 11 (1952), S. 497-509, final quote from S. 509. Eugen Schmalenbach, "Die Betriebswirtschaftslehre an der Schwelle der neuen Wirtschaftsverfassung", *Zeitschrift für handelswissenschaftliche Forschung* (*ZfbF*), Heft 5 (1928), pp. 241-251. Eugen Schmalenbach, *Pretiale Wirtschaftslenkung*, Band 1: *Die optimale Geltungszahl* and Band 2: *Pretiale Lenkung des Betriebes* (Bremen: W. Dorn, 1948). Eugen Schmalenbach, *Der Freien Wirtschaft zum Gedächtnis* (Köln: Westdeutscher Verlag, 1949). Joseph A. Schumpeter, *Kapitalismus, Sozialismus, und Demokratie* (Stuttgart: UTB, 1946), first published in English in 1942. On Schumpeter, see Thomas K. McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (Cambridge, MA: Belknap Press, 2007).

such arrangements to themselves, or actively intervene in the economy to eliminate the existing defects of our market system to achieve the required conditions. We can differ in opinion about the various means, but there should be no difference of opinion about the necessity to do so—at least according to me.⁸⁸

To be clear, in the late 1940s Potthoff favored the socialization of big business in line with the political program of the Association of German Unions, but the thrust of his arguments lay more in the direction of public control as supervision and regulation, rather than in property relations. In order to manage such an economy, Potthoff stressed the necessity for an “essentially expanded publicity of economic policy and economic practice in public administration, economy, and finance through statistics, extensive financial reporting and other appropriate measures.”⁸⁹ Spoken like the auditor he became in the second half of his life. But the key for balancing claims in society, in managed cartels, or in individual firms was codetermination.

As evidenced by his immense correspondence with myriad sociologists and industrial relations experts across the world, Potthoff thought more like an academic, empirical sociologist than a Catholic social intellectual. Through the Union’s Economics Research Institute, Potthoff began to assemble an industrial sociology research group led by Theo Pirker to carry out “computerized” (*hollerithiert*) opinion surveys of 10,000 workers in nine different steel companies, including Mannesmann.⁹⁰ The Economics Research Institute collected literature on industrial relations, particularly from Britain and America, especially in the field of sociology. One of the key links in this knowledge transfer went through the newly re-founded Frankfurter School around people such as Theodor Adorno or Max Horkheimer, who worked specifically on the

⁸⁸ Potthoff referred to his “Freie und gebundene Preise” article. MA: M 11.164 Korrespondenz Zangen, Rösler, Potthoff 1952-1956, Potthoff to Zangen, 26. Feb. 1953. Also Erich Potthoff, “Massnahmen der betrieblichen Rationalisierung,” *Gewerkschaftliche Monatshefte*, Jg. 4, Nr. 2 (1953), S. 91-97.

⁸⁹ AdsD FES, WWI Korrespondenz WWI/DGB, Signatur 0040: “Langfristiges Wirtschaftsprogramm des Deutschen Gewerkschaftsbundes (Vorschlag des Wirtschaftspolitischen Hauptausschusses),” undated (1949). Erich Potthoff, “Prüfung und Überwachung der Geschäftsführung,” *ZfbF*, Jg. 13, Nr. 10-11 (1961), S. 563-580. Erich Potthoff und Karl Trescher, *Das Aufsichtsratsmitglied: Ein Handbuch der Aufgaben, Rechte und Pflichten* (Stuttgart: Schäffer-Poeschel, 2003) sums these concerns.

⁹⁰ Examples include *Der Neue Betrieb: Studienkreis für sozialwirtschaftliche Betriebsformen*, eV., Walter Scheel to Potthoff, 15.4.1953. See the wealth of material in AdsD FES, WWI Erich Potthoff Korrespondenz mit Instituten Signatur 0003, 0012-0013, 0017, 0018, 0026-0027, 00361-0365, 0039. Potthoff helped a young doctoral student, Hans Jürgen Teuteberg, in his research on the history of codetermination, see

Mannesmann case and industrial relations/sociology in general.⁹¹ Potthoff was a key liaison. The Frankfurter School also represented a crucial moment in the transatlantic exchange of ideas that was fruitful for bringing European intellectual thought to America such as critical theory, then bringing their experience of America (not always positive) back to Europe such as with positivist empirical sociology with its statistical techniques.⁹² Potthoff stressed how much German management theory had to catch up with the British and Americans particularly in the field of industrial relations and personnel management; he gravitated toward the human relations school of management.

Potthoff's most controversial yet most essential concept was that of the personnel manager or labor director (*Arbeitsdirektor*), a labor representative on the executive board. Potthoff did not conceive the *Arbeitsdirektor* as the long arm of the unions, nor as a representative of company employees, *but as a modern personnel manager with executive functions*. This conception was wholly different from standard Social Democratic "industrial democracy." This conception of the *Arbeitsdirektor* derived both from the Schmalenbach management thinking and from America. Peter Drucker's, *Concept of the Corporation*, with its ability to think about integrating labor somehow into decision-making through the management structure of the firm particularly impressed Potthoff.⁹³

Signatur 0010 St-U, Potthoff to Hans Jürgen Teuteberg, 23. Juni. 1955. Teuteberg, *Geschichte der industriellen Mitbestimmung in Deutschland*.

⁹¹ Mannesmann Archive (MA) M21.558: "Betriebsklima und Mitbestimmung," Professor Dr. Max Horkheimer, Leiter des Instituts für Sozialforschung an der Universität Frankfurt, *Deutschen Zeitung und Wirtschaftszeitung* (Nr. 14, 19.2.1955), "Menschen im Grossbetrieb," "überarbeitete Fassung seines Vortrags auf der Mannesmann-Konzerntagung. Frankfurter Beiträge zur Soziologie, *Betriebsklima: Eine industriesoziologische Untersuchung aus dem Ruhrgebiet*, (Hg.) Theodor W. Adorno und Walter Dirks, Bd. 3 (Frankfurt/Main: Europäische Verlagsanstalt, 1955). Horst A. Wessel, "Soziologische Forschung und Alltagserfahrung in einem Industrieunternehmen: ein Forschungsprojekt des Frankfurter Instituts für Sozialforschung für die Mannesmann AG in den 1950er-Jahren," *Geschichte im Westen*, Jg. 17 (2002), 76-94.

⁹² Thomas Wheatland, *The Frankfurt School in Exile* (Minneapolis: University of Minnesota Press, 2009), esp. 191-.

⁹³ AdsD FES, WWI Korrespondenz Institute Signatur 0017, Potthoff to Helmut Schelsky, Akademie der Gemeinwirtschaft, 18. Dez.1950. Peter Drucker's, *Concept of the Corporation* (New York: John Day and Co., 1946).

For Potthoff, it was essential that modern personnel management overcome the depersonalization caused by the division of labor inside the modern bureaucratic, large firm.⁹⁴ The complexity of big business required an expert in industrial relations just as other executives specialized in commercial, sales, or engineering. Potthoff turned against the “patriarchal corporate constitution” guided by a vision of family, particularly associated with both religions (so clearly distancing himself from Catholic thinking) and especially DINTA, the proto-Nazi management approach of the 1920s and 1930s built around the notion of the authoritarian “factory community.” He also criticized American scientific management approaches stemming from Taylor as well as the military-style authoritarian line concept that German mining companies were particularly fond of. Instead, Potthoff turned more to the psychological insights of American and British industrial sociology: “While in Anglo-Saxon countries the functions of personnel management is accepted as a matter of course and moreover its most important tasks have been defined, one views in Germany with a certain amount of mistrust.... It is precisely in this personnel policy and the leadership of personnel where the labor direct must be active in supervising, advising, coordinating, and educating.”⁹⁵

Potthoff made the *Arbeitsdirektor* responsible for human resource policies (training, recruiting, working hours), personnel leadership (“In the end it depends on it whether the economic performance of a corporation can be optimally constructed.”), and personnel administration (day to day affairs such as hiring and firing, law, wage scales, housing, cafeteria, etc.) Enhancing personnel policy would only make the firm work more efficiently, effectively, “optimally.” Potthoff highlighted that American and British firms already had personnel directors or someone exclusively responsible for industrial relations at the executive level. Most American universities or business schools had professors of personnel management. Unlike Britain and the U.S., dealing with “social questions of the everyday” was always politicized in Germany. Quoting

⁹⁴ Key early texts are Erich Potthoff, “Der Arbeitsdirektor,” *WWI-Mitteilungen*, Jg. 3, Nr. 12 (1950), S. 10-16, quote from 10. *Ibid*, “Die Organisation des Personalwesens in der industriellen Unternehmung,” *ZfbF*, Jg. 2, Heft 12 (1950), S. 555-574. *Ibid*, “Die Vertretung von ‘Kapital’ und ‘Arbeit’ in der Leitungsorganisation der Unternehmungen,” *ZfbF*, Jg. 2, Heft 7 (1950), S. 340-346.

⁹⁵ Potthoff, “Der Arbeitsdirektor,” S. 16.

principles espoused in one standard American personnel management textbook, Potthoff stressed that there were three “M”s of management: material, money, and men. The more the specialization of labor and functions inside large firms grew, the more need for personnel management: “It must hold true to draw the corresponding conclusions in the area of personnel management so that the ‘labor director’ not only has a correct place in government administration, but also in the direction of the corporation.”⁹⁶ Firms needed to construct different organizational ways of ensuring “different forms of advising (*Mitberatung*) and codetermination (*Mitbestimmung*)”.⁹⁷

According to Potthoff, firms as a social entity needed an *Arbeitsdirektor* that the company’s employees trusted, so he argued, the *Arbeitsdirektor* would generally emerge from the ranks of the company itself. The *Arbeitsdirektor* would *not* become a “union official” as industrialists and the press characterized the position. To one British official (written in English), the *Arbeitsdirektor* “is a delegate of the Aufsichtsrat [supervisory board] as well as his other colleagues. He is, therefore, not a direct delegate of the Trade Unions although he shall have their full confidence and shall act as an expert in labour and management matters.” Without parity codetermination, an *Arbeitsdirektor* would operate “in a vacuum.”⁹⁸ Unlike many union officials, Potthoff’s vision of labor representation was a depoliticized executive director for personnel affairs, a position that would help manage the firm alongside other executive functions. The *Arbeitsdirektor* would coordinate the internal social affairs of the firm with the regulations and needs of the outer world. The basic premise was German (the executive personnel director for firms should stem from labor), but the inspiration as an executive director as a specific staff function stemmed from America. Why not have a labor representative on the board for personnel issues, if the main interest of workers is in personnel matters?

⁹⁶ Potthoff, “Die Organisation des Personalwesens,” S. 574. Potthoff quoted Walter Dill Scott, Robert C. Clothier, William R. Spiegel, *Personnel Management: Principles, Practices and Point of View* (New York 1949, 4th edition) and cites Dale Yoder, *Personnel Management and Industrial Relations* (1949, 3rd edition).

⁹⁷ Potthoff, “Der Arbeitsdirektor,” S. 12.

⁹⁸ AdsD FES, WWI Korrespondenz übriges Ausland M-Z Signatur 0015: Potthoff to Lloyd White, Special Adviser-Labor Attache, Office of Labor Affairs HICOG, 29. Nov. 1951. Second quote from Potthoff, “Der Arbeitsdirektor,” S. 16.

Most German industrialists were not convinced. However Potthoff tried, the exact role of the *Arbeitsdirektor* remained a broad sketch, caught in the cross cutting interests of company employees, unions, and corporate management. The role of the *Arbeitsdirektor* was inherently ambiguous because it *could* act more as a representative of the labor (possibly union-centric rather than firm-centric), corporate management (possibly leading to accusations of being coopted), or the firm's employees (possibly leading to tensions between company employees' interests and unions as a whole—a classic problem of the council (*Räte*) movement).

However ambiguous its role, the *Arbeitsdirektor* was for Potthoff crucial for making codetermination work for the good of employees, the firm, and ultimately the consumer/ordinary worker.⁹⁹ Codetermination in firms and in all economic planning institutions (private, public, or cooperative) was the decisive organizational requirement to align firm behavior with that of the whole economy:

It does not appear correct to me to take lightly the significance of parity codetermination on the supervisory board. The 'inner power' of unions might only be so great if it is not cast into its proper organizational form. It seems to me to be principally indispensable to insist on parity codetermination of the supervisory board.¹⁰⁰

With this logic of codetermination, the *Arbeitsdirektor*, and deconcentration of economic power as his core principles, thus Mannesmann's attempt to slip out from under parity codetermination and the *Arbeitsdirektor* struck to the heart of Potthoff's imagined new social order.

Simultaneously Potthoff worked to incorporate the latest American organizational theory into his thinking. He wrote articles on the organization of General Motors, Du Pont de Nemours, U.S. Steel, Firestone, General Food (sending him a speech on "Policies and principles of Decentralised Management"), and attempted to make contact with Adam Opel. He contacted American consulates, the American Management Association (who sent him a copy of Standard Oil's "Management Guide" book), International Metal Workers Federation, Textile Workers Union

⁹⁹ On the early debates and position of the *Arbeitsdirektor*, see Karl Lauschke, *IG Metall Zweigbüro des Ruhr*, Abschnitt 2: "Die Arbeitsdirektoren im Spannungsfeld der Interessen," (unpublished manuscript).

¹⁰⁰ AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0033: Potthoff to Werner Hansen, 31 Okt. 1946.

of America, United Steelworkers of America, American sociologist and political scientists at Chicago, Columbia, and Princeton, including Heinz Hartmann of Princeton University, who would later write on the German style of management, and the Harvard Business School. Potthoff's purpose was two-fold. First to examine exactly how personnel functions were integrated into these American firms, particularly in their staff and executive functions. Second, he examined their formal organizational structures for ideas for German business, particularly their executive functions and for comparative corporate governance. Here Potthoff obviously became acquainted with the multidivisional form. The irony of this project will not be lost on those who study business history as these are exactly the same firms that Alfred D. Chandler examined to write his famous book on *Strategy and Structure*, which stressed the importance of the multidivisional structure. Potthoff's reading also found its way into the Krähe Management circle of the Schmalenbach Society, which had been working on similar ideas about decentralizing the functional (authoritarian) firm and introduce more market-oriented pricing. These ideas too were not just transferred from America, but grew out of their own experiences—for instance in the Vereinigte Stahlwerke (U.S. Steel of Germany) where many of the Krähe Management circle had worked.¹⁰¹

By the early 1950s, Erich Potthoff worked at the highest levels of national politics and was one of the highest profile advocates of codetermination. The Mannesmann controversy, which nearly brought down Adenauer's coalition government in the mid-1950s made Potthoff's profile even higher. It was during this controversy that Potthoff's arguments about the importance of codetermination as a management function became even clearer. Despite Mannesmann's public explanations about why they were reorganizing the firm, it was clear internally that the

¹⁰¹ Erich Potthoff, "Die Organisation der General Motors Corporation in USA," WWI, Jg. 5, N. 1 (1952), S. 14-19. *Ibid.*, "Die Organisation der Du Pont de Nemours & Company in USA," Jg. 4, N. 3 (1952), S. 63-67. *Ibid.*, "Die US Steel Corporation in der amerikanischen Eisen- und Stahlindustrie," WWI Jg. 5, Nr. 5/6, S. 110-116. AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0001: Potthoff to Friedrich Simon, 22. April 1952; Signatur 0007: Potthoff/Haurand to Dr. W.G. Behrens (Verkaufsleitung) of Adam Opel AG, Rüsselheim, Vorstand der Opel-Werke AG, 15 März 1952; Signatur 0013 Potthoff to Sam Broers, President Firestone International Company, Division of Firestone Tire & Rubber Co., (Akron Ohio), July 18, 1952; Potthoff to Mr. Harris, Messrs. General Food Corporation, Dept. of Public Relations, 24. June 1952. Fear, *Organizing Control*.

reorganization was designed as an “elastic defense of the union demand,” that is, as a defense against parity codetermination.

As historian Horst A. Wessel noted, Mannesmann was the first German steel firm to finish being deconcentrated, the first to reconcentrate, and the first to form a holding company. Each step entailed new precedents; each stepped threatened parity codetermination in one manner or another.¹⁰²

The great Mannesmann-controversy began with ambiguities in the codetermination law(s). Legally, it was not clear whether the parity codetermination for coal and steel or the new 1952 Works Constitution Act applied to the new Mannesmann holding company. A holding company was not officially in the coal or steel business, but an administrative-legal entity. Potthoff noted that with the inevitable reconcentration of German coal and steel into larger companies, this landmark case might quickly eliminate parity codetermination and the labor director on the executive board altogether. Most of the traditional firms in coal and steel, moreover, reconstituted themselves with remarkable alacrity and resiliency. Potthoff warned about how much the old families were able to regain controlling blocks of shares, which he felt a threat to the democratic structures of the new Federal Republic.¹⁰³

Crucially, because of Allied trusteeship, the former owners of the old firms (*Konzerne*) did not yet have any rights regarding the liquidation of their old firms nor in the deconcentration process. Therefore, they did not officially agree to any of the changes made by the Steel Trustees Administration, unions, or interim management presently in charge. The first general assembly in which Mannesmann shareholders had a voice did not occur until 26 June 1953. Not until, 25 August 1953 did the Allies and the Steel Trustees Administration officially declare the trustee relationship at an end. At this juncture, Oswald Rösler of the Deutsche Bank replaced

¹⁰² Horst A. Wessel, *Kontinuität im Wandel: 100 Jahre Mannesmann 1890-1990* (Düsseldorf: Mohndruck, 1990), S. 279-283.

¹⁰³ Erich Potthoff, “Die Wirtschaftliche Machtstruktur der Bundesrepublik,” *Grundfragen Moderner Wirtschaftspolitik*, pp. 78-85.

Potthoff as chair of the supervisory board; the Deutsche Bank had been the traditional *Hausbank* of Mannesmann since the 1890s.¹⁰⁴

In April 1953 Mannesmann asked its works councils to vote their representatives to the supervisory board according to the 1952 Works Constitution Act—so one-third representation rather than one-half. After a contentious shareholders meeting in June 1953, a majority compromised in the interest of moving forward by voting ten labor representatives to the supervisory board according to the Works Constitution Act, including Hax, who would later become one of the most important figures in German management theory. In case parity codetermination applied (to be determined in the future), they nominated an additional five members, one of whom was Potthoff. According to Potthoff's view of that fateful June 1953 meeting, participants on both sides including Zangen and Rösler had tacitly agreed to parity codetermination for the holding company: "Decisive for the board was thereby the moral commitment deriving from the previously mentioned agreement, irregardless of its legal sustainability (*Durchschlagskraft*)." Only at the last minute did the "solution of the double vote" emerge. Potthoff reminded Zangen how much the unions had supported re-linking coal and steel through the holding arrangement when the Allies did not want to permit it.¹⁰⁵

What happened next, for Potthof, was a personal and moral betrayal.

Supported by Zangen and Mannesmann management, a minority of shareholders protested the compromise. A prominent association for shareholder protection (*Wertpapierschutz-Vereinigung*) backed their case. On 21 December 1953, the Düsseldorf district court ruled that the 1952 Works Constitution Act applied to the holding company. This prompted Potthoff to write an immediate retort in the Economic Research Institute's journal that argued that the Mannesmann complex was "technically, economically, and organizationally a

¹⁰⁴ Potthoff remained chair of the supervisory board of the subsidiary, Westdeutsche Mannesmannröhren-Werke AG (after October 1954: Mannesmannröhren-Werke AG) between 1950-1957 and of the Hüttenwerke Huckingen AG between 1950-1952. Rösler replaced Potthoff as chair of the supervisory board of the Hüttenwerke Huckingen AG after April 1952; Potthoff remained vice-chair until 1958. In October 1958, Mannesmann AG folded the subsidiaries into a single firm as divisions, eliminating these boards.

¹⁰⁵ MA: M11.164 Potthoff to Zangen, 16 Dez. 1953. MA: M21.558 Mitbestimmung bei der Holding 1953-54 Pinckernelle to Zangen, 2. April 1953. In an internal letter, Pinckernelle also noted the contradiction between the law and the tacit moral agreement made.

unified entity. Codetermination can therefore not be bracketed out of this level [in the holding] without calling into question the foundation of the interlocking nature of the corporation.” Because of corporate law (*Organschaftsverhältnis*), the subsidiaries were obligated to follow the decrees of the administrative holding company.¹⁰⁶

The Mannesmann case became so controversial that it threatened the ruling coalition of the liberal party (FDP) and the Christian Democrats (CDU) because the FDP drew the line that codetermination was a violation of shareholder rights. Sharp words by Hermann Reusch of the GHH in January 1955, called parity codetermination “a brutal extortion by the unions.” Workers immediately called a warning strike that threatened to undermine political peace just as West Germany was regaining full sovereignty.

In 1954, Mannesmann’s legal counsel Geissler internally outlined potential solutions within the holding company. The easiest but politically most unimaginable solution would be to extend the 1952 Works Constitution Act (one-third labor representation) to the coal and steel industry so that it was no longer an exceptional case. The next solution would be to form a single legally unified corporation because it eliminated the issue of a controlling firm over its legally independent subsidiaries (the Mannesmann solution of 1958), but at the moment the government was still required to carry out Allied decentralization decrees and it created legal difficulties in the company statutes. The most preferable solution, “the most elastic defense against the union demand,” lay in changing the corporate statutes (*Organschaftsverträge*) to limit the freedom of the subsidiaries.¹⁰⁷

Not until 7 June 1956 did Parliament pass a “supplemental law on codetermination” regarding holding companies (*Mitbestimmungsergänzungsgesetz*, the so-called “Holding-Novelle” or “Lex Mannesmann”). An enterprise had to earn at least half of its revenues in coal and steel to have parity codetermination applied to it.

¹⁰⁶ Erich Potthoff, “Mitbestimmung vor Gericht: ein wirtschaftlicher Kommentar zum Mannesmann-Prozess,” *WWI-Mitteilungen*, (Jan. 1954), S. 1-6.

¹⁰⁷ MA: M21.558 Mitbestimmung bei der Holding 1953-54: Geissler to Pohle, 12. Feb. 1954.

Yet again ambiguity reigned. Mannesmann insisted that over half of its revenues were not in coal and steel, but rather in the finishing industry (pipes). Unions and management called for independent audits through the Deutsche Treuhand-Gesellschaft, but their estimates disagreed depending whether pipe manufacturing belonged to the finishing industry or the steel industry. After another round of negotiations, unions and management compromised, accepted by shareholders on 29 June 1957. Mannesmann's holding company and its main pipe manufacturing subsidiary retained parity codetermination, but shareholder representatives retained the tie-breaking 21st man (Rösler). The chair of the supervisory board would be a shareholder representative (Zangen) with a vice-chair held by labor (Hax). Executive board members of the holding company, Mannesmann AG, occupied the chair of the supervisory boards in its subsidiaries.

Peace did not last long. As a result of changes in tax law, Zangen fused all the subsidiary companies (thereby eliminating parity codetermination and the individual *Arbeitsdirektoren* in the subsidiaries) into one large firm. This Mannesmann maneuver created another precedent: if independent firms merged into a larger company would workers in the integrated firm still have codetermination as a division inside a firm? The fusion also opened the question whether parity codetermination in coal and steel applied to a firm whose objective was producing pipes or whether the clarified holding company law applied since Mannesmann was no longer a holding company. Unions protested this concentration of power as a sort of "social dismantling." To avoid further conflict, unions eventually nominated a judge as an outsider and 21st person, which kept parity codetermination applicable to Mannesmann.¹⁰⁸

This huge corporate and political controversy had personal and professional dimensions for Potthoff. The two sides of his personality: managerial thinking or co-responsibility (*Mitverantwortung*) plus social democratic engagement (*Mitbestimmung*) contradicted one

¹⁰⁸ MA: M21.558 *Mitbestimmung bei der Holding 1953-54: "Aushöhlung der Mitbestimmung," Westfälische Rundschau*, 6. Jan. 1954; "Ernster Konfliktstoff," *FAZ*, 16. Jan. 1954. M 21.555 Lohnkampf und Streikdrohung 1955, 1958: DGB Informationsdienst 17. Jan. 1955; Delegiertenversammlung der IG Bergbau, 19. Jan. 1955. "Der Streik im Ruhrgebiet," 22. Jan. 1955. M21.550 Dr. G. Geisseler, Mannesmann-Streit, 11. Jan. 1965. MA: M21.558: Bundesverband der deutschen Industrie (Berg) to

another. Potthoff (later Hax) used the supervisory board to promote transparency, management's fiduciary responsibility, and oversight—so protecting shareholder interests, yet they also advocated labor representation that made them seem as part of the union movement, making the executive board wary of them. On one hand, as supervisory board members they agreed to await the verdict of the judicial process; on the other hand, they felt that the court decision was wrong, a means of slipping out from parity codetermination.¹⁰⁹

Co-Responsibility or Mitverantwortung:

In terms of management, Potthoff and Zangen found much common ground, especially in regards organizational, auditing, and supervisory board matters. Potthoff worked together with Zangen worked to establish procedures for publishing Mannesmann's financial statements, one of Potthoff's fields of expertise. Potthoff wanted clearer guidelines for consolidated financial statements.¹¹⁰ He also made suggestions to the 1952 annual report to highlight the importance of Mannesmann for rebuilding the overall economy.¹¹¹ Potthoff suggested to Zangen that they change auditing companies annually so that the auditors did not get too close to individuals in the firm. For reasons of transparency, Potthoff wanted executives to report the directorships or chairs they occupied in other firms. Potthoff and Zangen agreed that the holding company should take over as little of the day-to-day work to maintain a strategic overview; the Schmalenbach-Krähe circle ideas fed into these recommendations.¹¹²

Potthoff urged more transparency, which irritated Zangen, because Potthoff questioned management's exclusive control over investment decisions (in theory the supervisory board had to approve them by law) or depreciation schedules. At one point, Zangen noted that Potthoff did not agree with his suggestions regarding investment:

Bundeskanzler Adenauer, 27. Jan. 1954. Wessel, *Kontinuität im Wandel*, S. 280-282. Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 47-48

¹⁰⁹ MA: M21.559 Zangen und Winkhaus to Erich Potthoff, 27. April 1954, 10 Mai 1954.

¹¹⁰ MA: M11.164 Potthoff to Vorstand Mannesmann, 7. Feb. 1953.

¹¹¹ MA: M11.164 Potthoff to Vorstand Mannesmann, 8. April 1953.

¹¹² MA: M11.164 Zangen Notizen über Besprechungen mit E. Potthoff, 4. Sept. 1952, 8 Juli 1952, 10. Juli 1952; Potthoff to Zangen, 7 Feb. 1953. See also M11.164 to Prok. Hoffmann, 17. Juli 1953 with Potthoff's, "Unzureichende Organe der Geschäftspolitik," 27. Feb. 1952.

He [Potthoff] says that Mannesmann is exemplary in its entrepreneurial performance embodied by particular people—as we also hear from the public, but that it exhibits shortcomings in its organization. I replied to Herr Potthoff that shortcomings in our organization are not known to me. It is much more important to me to honor the foundational principle of the free market economy, namely to act entrepreneurially and plan less.

Potthoff advocated a formal, internal auditing committee (*Bilanzkommission*) to review the accounts before management finalized the report, in particular regarding the accounts of the individual subsidiaries. Potthoff insisted that the board not be limited to reviewing the final report. It was impossible to truly analyze the financial statements and management report if they were first presented at the same time in one meeting. The supervisory board was simply confronted with a *fait accompli*. At another juncture, Potthoff wrote Hax complaining about Mannesmann's "manipulation" of depreciation schedules, which were simply presented to the board: "Once again you see with this example how impossible the organization of the Mannesmann concern is." Zangen bridled at this supervisory board activism.¹¹³ Insightfully, Potthoff stressed that the term "Aktionär" (shareholder) better meant shareholder (*Anteilseigner*, one who signs on to a share) rather than owner (*Eigentümer*) because the shareholder hardly had a chance to influence the direction of the firm. The supervisory board played a key role in protecting shareholders from too much managerial discretion. This distinction played a key role in his arguments justifying codetermination as a check on management, rather than on shareholders.¹¹⁴ Obviously, Zangen disagreed.

Codetermination or Mitbestimmung:

Potthoff and Zangen never saw eye-to-eye about the role of the labor director (*Arbeitsdirektor*), no matter how much Potthoff tried to make it a respectable management function. Potthoff conceived the *Arbeitsdirektor* as a modern "personnel director" inside "top management" (phrased *in English*). Potthoff stressed "the political circumstances mislead viewing the labor director too much as an institution and too little in its functions. Personnel and

¹¹³ MA: M11.164 Potthoff to O. Rösler, 11 Sept. 1954; Potthoff to Zangen, 1 Okt. 1954. AdsD FES, WWI/Erich Potthoff Korrespondenz Professoren, Signatur 0016: Potthoff to Karl Hax, 24 Mai 1956.

¹¹⁴ MA: M11.164 Potthoff to Vorstand Mannesmann, 8. April 1953.

social issues as a function are inextricably entwined with the work of the corporation.” But Zangen scribbled comments on the margin: “delegates of the unions.” When Potthoff noted that executives felt themselves responsible towards shareholders, the *Arbeitsdirektor* felt responsible towards labor, thereby creating a balance on the board. By contrast, Zangen stressed the “dependency” of the *Arbeitsdirektor* on unions.¹¹⁵ In the same measure Zangen was opposed to it, Potthoff felt the Mannesmann holding company had to have parity codetermination because of the nature of joint-stock company law (*Organschaftsvertrag*); a subsidiary with parity codetermination would have no “true self-responsibility or autonomy” because the holding could simply order it to do what it wanted.¹¹⁶ To Hax, Potthoff objected to Zangen’s attempt to recentralize power in the holding, which would restore “the old managerial freedom that it possessed before 1945” and “would reorder itself in the old centrally organized manner” with a large executive board, subsidiaries with no decision-making capacity, and with an all-powerful chairman:

[Zangen and other CEOs] simply do not want to accustom themselves not only to decree, but also to persuade. It is naturally much easier to issue orders from the top, which have to be followed by subordinates, instead of explaining and discussing corporate policy with the executive boards of the subsidiaries.

Zangen’s recentralization of powers in the holding not only contradicted most of the management principles advocated by Potthoff, the Krähe Circle, and Schmalenbach, but also demonstrated “that with the first best opportunity to freely organize itself, [Mannesmann] took the opportunity to torpedo long-proven measures such as codetermination in a more or less elegant manner.”¹¹⁷

Dr. Albert Kohlitz, Mannesmann’s *Arbeitsdirektor*, bore the brunt of the problems. Kohlitz wanted a clear written set of statutes governing the executive board. Zangen refused. Kohlitz complained about “overlapping responsibilities and interventions, which equate with a change in the original division of labor in the corporation.” He objected to Zangen’s unilateral decision-making, especially when it affected the social policy of Mannesmann. He felt passed over or

¹¹⁵ MA: M11.164 Presse- und Informationsdienst aus Wirtschaft und Politik to Zangen, 3. Dez. 1954. It sent the article, Erich Potthoff, “Der Arbeitsdirektor im Vorstand,” *Bergbau und Wirtschaft*, 15. Nov. 1954.

¹¹⁶ MA: M11.164 Potthoff to Zangen, 1 Okt. 1954.

¹¹⁷ AdsD FES, WWI/Potthoff Korrespondenz, Signatur 0016: Potthoff to Karl Hax, 1 April 1954 (2 letters).

uninformed. In theory, Köhlitz was an executive director. Hax was also skeptical about Zangen's desire to be named to each supervisory board of Mannesmann subsidiaries, which would turn their supervisory boards into a "pure decoration." The greater centralization of power into the holding, while moving the holding away from parity codetermination, was simply a "sabotage of the principle of codetermination."¹¹⁸

Zangen made his view clear in a private letter to Ernst Hellmut Vits, chair of the executive board for the Vereinigten Glanzstoff-Fabriken AG. Vits had delivered a confidential speech against codetermination, with which Zangen mostly agreed. Vits softened, however, at the end of his talk, stating that the *Arbeitsdirektor* was a "double-edged sword;" his own experiences with the *Arbeitsdirektor* were actually "not unsatisfactory." Zangen answered: "I find that my experience with the labor director has not run satisfactory so far. Precisely because the labor director is still a labor representative in the supervisory board—that is: of the union—he still needs its appointment and reappointment approved, therefore he cannot be characterized as a full-fledged member of the executive board."¹¹⁹

Mannesmann's legal adviser, Dr. Geissler, viewed the *Arbeitsdirektor* an "adversary" of management inside the executive board rather than a full-fledged member. At the time, the appointment of the *Arbeitsdirektor* depended on a majority of the *labor* representatives on the supervisory board, which discredited the position for them. Mannesmann executives debated whether making the *Arbeitsdirektor* dependent on the majority of all the supervisory board members would make the position a normal executive one, but this did not change their basic stance.¹²⁰ Given this resistance and implacable "union identity" of the *Arbeitsdirektor*, Potthoff's

¹¹⁸ MA: M11.164 Köhlitz to Rösler, 18. Jan. 1955. AdsD FES, WWI/Potthoff Korrespondenz, Signatur 0016: Hax to Potthoff, 19. Dez. 1953; Potthoff to Hax, 1 April 1954.

¹¹⁹ MA: M 21.558 Mitbestimmung bei der Holding 1953-54: Vortrag von Dr. Ernst Hellmut Vits in Zürich am 8. Juni. 1953, Vertraulich! Nicht für die Pressen bestimmt! "Das Mitbestimmungsrecht der Belegschaften in Deutschland; Zangen to Vits, 12. April 1954.

¹²⁰ MA: M21.558 Mitbestimmung bei der Holding 1953-54: "Das Mitbestimmungsrecht in der Stahlholding (für den "Betriebsberater" bestimmter Aufsatz, ca 1953), Dr. Pohle, Dr. Bender, Streng Vertraulich; "Die besondere Stellung des Arbeitsdirektors in den Unternehmen, did dem Mitbestimmungsgesetz Kohle/Eisen unterliegen," 7 Okt. 1953, Geissler; Pohle to Geissler, 2. Okt. 1953; Bundesvereinigung der deutschen Arbeitgeberverbände to Bundestagsabgeordneten Direktor Dr. Pohle, 27. Okt. 1953, Betr. Beteiligung der Arbeitnehmer im Aufsichtsrat, Niederschrift über die Sitzung des gemeinsamen Arbeitskreises am 7. Okt. 1953—"Persönlich!"; Potthoff to Pohle, 4. Nov. 1953;

attempts to legitimize it for practicing executives in functional or managerial terms were hopeless. Still, in terms of management theory and for the future of the Federal Republic, it pointed the way to the future.

Potthoff thought these developments, this rollback, were so dangerous, so frustrating that he penned a book on the history of codetermination. *The Struggle for Codetermination in Coal and Steel (Der Kampf um die Montan-Mitbestimmung)*. The book's genesis and arguments owed much to his Mannesmann experience. He argued for broadened codetermined legislation that would move beyond extraordinary, stopgap legislation and stave off the recurrent skirmishes.¹²¹ Arguably these demands were not met until the 1976 extension of codetermination. Growing out of a series of articles in the monthly union journal, the *Gewerkschaftliche Monatshefte*, the book was designed to counter common historical falsehoods. Potthoff argued: "The democratization (*Mitpersönlichung*) of shareholding and codetermination require new forms of representation in corporate boards. Codetermination laws are in no way structurally or legally contradictory. Just the opposite, they are the first measures to measure up to the sociological changes in economy and society."¹²² Potthoff ended his book with this plea:

This survey about the development of parity codetermination in coal and steel demonstrates how much a genuine new order in the economy was begun [...]. The necessary democratization is a process that encompasses every economic and social institutions and correspondingly takes on many varied forms. *Parity codetermination in coal and steel* after the Second World War is a demonstrable example of how to solve the problems of big business in the private economy. This retrospective of its short history has tried to show that it is a *significant beginning*, which must be developed further on the basis of practical and theoretical knowledge (p. 150; italics Potthoff's).

It also represented an example of Potthoff's lifelong tendency to use solid scholarship (*Wissenschaft*) in the name of engagement for progressive causes.

The book not only represented his return to business and academia rather than active political life, but also a fundamental shift in thinking about codetermination. In the 1950s, Potthoff's reasoning significantly overlapped with that of the Social Democratic and union

¹²¹ Potthoff, *Kampf um die Montan-Mitbestimmung*. *Ibid.*, "Mitbestimmung vor Gericht."

¹²² AdsD FES), WWI, Signatur 1001 "Entwurf eines Tätigkeitsberichtes des WWI für 1954 bis Mitte 1956."

movement: economic democracy, individual's "rights from work;" firms as social as well as economic entities, the growing threat of economic concentration, and the ongoing separation of ownership and control.¹²³ The functionalist approach remained politically subordinate to the social justice side. Codetermination would act as a countervailing power to big business. He attacked the ORDO-liberal (free-market) school represented by Ludwig Erhard or Franz Böhm that complex modern economies were already "mixed economies" with a good deal of state intervention, ownership, and planning. Potthoff thought that ORDO-liberals derived their worldview from a simplified, theoretical model of a market economy to which politics and society should conform, rather than the other way around. With a black-or-white view choice between a market economy or a planned economy, they left no room for a mixed economy, which would not fail just because it was mixed.

To the criticism that codetermination limited entrepreneurial freedom, Potthoff argued that firms were already "co-determined" by law, administration, taxes, tariffs, subsidies, price supports, and even by cartels formed by entrepreneurs themselves. To the sensitive issue whether codetermination violated property rights, Potthoff argued that codetermination did not violate ownership rights as the supervisory board of firms already had many non-shareholders in it, especially banks. Because of the increasing separation of ownership and control in firms or because of bank proxy voting, third parties *already* represented shareholders. Potthoff found this argument particularly ironic as business executives often marshalled activist minority shareholders as evidence number one against codetermination, but minority owners barely had any voice in their own shareholders' meetings. As a former supervisory board chairman himself and one of his friends still on the board of Mannesmann, Potthoff knew! Salaried managers decided strategy for the firm so that codetermination hardly violated property rights, but they did check executive control rights.¹²⁴

¹²³ Quotes from Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 146-147. Erich Potthoff, "Die Wirtschaftliche Machtstruktur der Bundesrepublik," *Grundfragen moderner Wirtschaftspolitik*, S. 89. See Deist's case for codetermination in the same volume, "Wirtschaftsdemokratie," S. 195-226.

¹²⁴ Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 118-120, 140-144.

Such arguments were largely in tune with the times, but Potthoff increasingly derived his defense of codetermination on organizational behavior or management grounds. Again these arguments found preliminary focus in early defenses of codetermination in articles. In the 1957 book, Potthoff focused on the necessary self-initiative and performance contributions of employees. Almost every job in a firm entailed to varying degrees some “sense of responsibility,” initiative, motivation, and self-organizing capacity that contributed to the success of the firm. Just as in a democracy, everyone had the right to voice as self-determined individuals, at work everyone had the right to develop their own capacities and range of responsibilities. Wages or salaries did not capture the extra value-added of thinking and breathing human beings at work. Potthoff came close to theorizing important notions of consent, initiative, and legitimacy that permits any organization to work effectively without every rule spelled out or waiting for permission of superiors.¹²⁵ It is essentially Abelshausen’s argument (Part I) that codetermination helped solve potential agency and legitimacy problems for firms in a positive, efficient way.

Potthoff began to move beyond the dogmatic, programmatic demands of unions as well as purely market-oriented business logic by stressing how much a “social-oriented management policy” (*Betriebspolitik*) would improve management and performance of the firm itself in the interest of mass production and consumption itself. By taking into consideration the total sum of needs, codetermination might better clarify corporate strategy (*Unternehmungspolitik*) permitting firms to work more optimally and help distinguish between short-term profitability versus long-term economic development.¹²⁶ Again many modern theorists have not stated it better.

Returning to academia, Potthoff published two books in the early 1970s, entitled *Company Personnel Management (Betriebliches Personalwesen)* and *Personnel Management in the Corporation (Personelle Unternehmungsorganisation)*.¹²⁷ They extended Potthoff’s insight

¹²⁵ Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 119. Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 54. On the organizational theoretical importance of “consent,” see Robert F. Freeland, *The Struggle for Control of the Modern Corporation: Organizational Change at General Motors, 1924–1970* (Cambridge: Cambridge University Press, 2001).

¹²⁶ Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 124-127, quotes from S. 145.

¹²⁷ Erich Potthoff, *Betriebliches Personalwesen* (Berlin: de Gruyter Verlag, 1974) and *Personelle Unternehmungsorganisation* (Berlin: de Gruyter Verlag, 1977).

that codetermination would make for better personnel management. They offered a more depoliticized, de-ideologized vision of codetermination as a constituent component of corporate human resource and social policy. Overall Potthoff's arguments represent a shift in the legitimization strategies found more broadly, which first linked the arrangement to economic democracy and social solidarity (1950s), then to more effective human resource policies (1960s-1970s), and finally to productivity gains and functional efficiency (1980s to present) built on new institutional economic theory (see his own *Festschrift*).

Just after finishing his *Struggle for Codetermination in Coal and Steel* in 1957, Potthoff left the Economics Research Institute and entered the second phase of his life, which centered on his management-oriented side. Between 1957 and 1962, he moved to Hamburg to become director of research for the Central Association for German Cooperative Societies (*Zentralverbandes Deutscher Konsumgenossenschaften*). As noted, a sort of codetermination for consumers. In 1958, he passed his exams to become a chartered public account. He was then nominated to be chief executive of the *Wirtschaftsberatung AG (WIBERA)* and held this position until he retired in 1979.

Potthoff remained active in academia. At the University of Cologne he offered courses on corporate personnel issues and the management of public corporations. In 1963, he was offered Schmalenbach's professorial chair at Cologne, but turned them down because of bad timing at WIBERA. Potthoff continued to be active in the Schmalenbach Society, serving as its president between 1968 and 1974, in the national rationalization committee, and served as president of the Institute of German Chartered Accountants (*Institut deutscher Wirtschaftsprüfer*) between 1968 and 1976. In 1984 he helped publish the main biography of Schmalenbach's life. He continued to publish a number of handbooks that remain standard reference books today. With Karl Trescher, in 1986 they published a book on controlling in personnel management. In 1993 they jointly published a reference work on the activities, rights, and duties of corporate supervisory boards, which is still the standard handbook today. Potthoff had essentially begun this work began during his time at the Economic Research Institute when the unions began preparing a

handbook for labor representatives on supervisory boards so that they would better understand their role.¹²⁸

As the saying goes regarding codetermination itself: if Potthoff did not exist, he would have to be invented. Potthoff possessed a unique set of skills that made him invaluable to the union movement, academics, and practicing managers. The Mannesmann codetermination conflict gave Potthoff his highest public profile, but his broader set of interests revolved around corporate governance issues: controlling, auditing, human resource or personnel management, organizational theory, and auditing. At heart, Potthoff was interested in the Anglicized term “corporate governance” that Germans have imported as a catchphrase since the 1990s, yet he had been working on this area since the mid-1950s. It was above all Potthoff who transmuted depoliticized, functional American ideas of personnel management to help legitimize the very German institution of codetermination in terms that are used even today by many practicing executives and labor representatives in Germany. To be clear, it was not Potthoff who singlehandedly convinced everyone—many are still not convinced, but he helped provide the language, partially inspired by America (textbooks no less!), that helped move it beyond the class antagonistic rhetoric of social justice.

Conclusion

What does the Potthoff codetermination story tell us about the larger narratives of German history? First, much the story of the Frankfurt School whose ideas and practices were enhanced by a cross-Atlantic connection, which fertilized American academia with Weber and Freud and rejuvenated Continental ideas with empirical rigor, the codetermination story has some strange American connections. Potthoff was inspired by both American management theory and American organizational models (as was Alfred D. Chandler), but he took something else from them. Something rather unexpected and applied it in novel ways. Better known examples such

¹²⁸ Erich Potthoff und Karl Trescher, *Controlling in der Personalwirtschaft* (Berlin: De Gruyter, 1986). Erich Potthoff und Karl Trescher, *Das Aufsichtsratsmitglied: Ein Handbuch der Aufgaben, Rechte und Pflichten* (Stuttgart: Schäffer-Poeschel Verlag, 2003⁶ [1993]). AdsD FES Signatur 0039 Korrespondenz DGB/WWI 22. Sept. 1950-17 Juli 1952: Potthoff to Erich Bührig, Bundesvorstand des DGB, 1. Feb. 1952.

as Walter Gropius or Mies van der Rohe (architecture/design), Joseph Schumpeter (economics), or Billy Wilder, Ernst Lubitsch, Friedrich Murnau, Fritz Lang to Marlene Dietrich (Hollywood) show how much the so-called American model was transformed by this exchange. (If you think about it, one of the quintessential American movies of the 20th century, *Casablanca*, actually only has one American star in it, Humphrey Bogart's Rick). I think this says something about the international transfer of knowledge as creative (mis)appropriation. It was certainly not an "Americanization" process as a one-way wind, but rather as a sort of rivulet of ideas that soaked through German culture in strange fashions. More like a seeping roof-leak than a gusty wind.

Potthoff was also conscious of using best practices and ideas to justify causes that he felt strongly in. Here a creative confluence of very German Schmalenbach ideas and American management practices helped to create something truly hybrid rather than a mere imitation. It also tends to confirm Jonathan Zeitlin's notion of hybridity and active, creative re-working of ideas across borders or Christian Kleinschmidt's notion of "re-importing." Although I would not accept this formulation at face value, one could just as well call this borrowing from the U.S. the Germanization of (some, very selective) American techniques filtered through a conscious, engaged perception, rather than straightforward Americanization. Here we see a potential story of Americanization essentially turned into its opposite German codetermination, which was clearly "made in Germany."

Throughout this story we can see codetermination winning by the skin of its teeth or losing by the skin of its teeth. The continuity about voice and representation in German business history is visible only in retrospect, not at any given time. It is simply not a line of continuity, but an active process of building institutions on collective wishes and desires. In non-economic terms, the awful shattered political and personal past of Germany means that the past was always a process of restoration and reconstruction, not a given. Codetermination was hardly a "tradition" dating back to the 19th century, although antecedents are there, but a very modern institution—arguably truly extended only by 1976 but symbolically tied to the founding of the Federal Republic of Germany. Touching codetermination is more than revamping corporate governance but asking questions about the foundations of the Federal Republic of Germany. In

addition, it is not clear what codetermination would mean in practice: Would labor be coopted by management? Would labor be merely the long arm of the union? (Zangen certainly thought so)? Or would labor merely represent local firm interests? Considerable ambiguity in the position itself exists. Making it work effectively does not lie only in the institutional arrangement but in the comportment of the actors and learning to use the institution effectively—if one wants to have it at all.

Finally, this story means that we cannot and should not view nations or national political economies as as autonomous containers as even the most 'German' story of codetermination has American influences and the most American stories such as Hollywood also has deep European/German roots. (For instance, the German Historical School was very influential in the American progressive movement.) The dichotomy of national capitalisms cannot be upheld at least over time as it creates a binary opposition in theory where one should probably not exist. We need a new narrative.